

NORTHEAST OHIO REGIONAL SEWER DISTRICT
A POLITICAL SUBDIVISION OF THE
STATE OF OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2001

SUBMITTED BY:
FINANCE DEPARTMENT



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
Columbus, Ohio 43215

Telephone 614-466-4514
800-282-0370

Facsimile 614-728-7398
www.auditor.state.oh.us

The Board of Trustees
Northeast Ohio Regional Sewer District

We have reviewed the Independent Auditor's Report of the Northeast Ohio Regional Sewer District, Cuyahoga County, prepared by Ciuni & Panichi Inc, for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northeast Ohio Regional Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

June 19, 2002

This Page is Intentionally Left Blank.



I. INTRODUCTORY SECTION

NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

DECEMBER 31, 2001

TABLE OF CONTENTS

	PAGE
I. INTRODUCTORY SECTION	
TITLE PAGE.....	I-1
TABLE OF CONTENTS.....	I-3
LETTER OF TRANSMITTAL	I-5
CERTIFICATE OF ACHIEVEMENT.....	I-20
DISTRICT OFFICIALS	I-21
TABLE OF ORGANIZATION.....	I-22
 II. FINANCIAL SECTION	
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	II-1
FINANCIAL STATEMENTS	
BALANCE SHEETS	II-4
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS	II-6
STATEMENTS OF CASH FLOWS.....	II-7
NOTES TO FINANCIAL STATEMENTS	II-9
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUE AND EXPENSES - BUDGET TO ACTUAL	II-26
SCHEDULE OF OPERATING EXPENSES - BUDGET TO ACTUAL	II-27
 III. STATISTICAL SECTION (UNAUDITED)	
OPERATING REVENUE AND OTHER INCOME BY TYPE - LAST TEN YEARS	III-2
OPERATING EXPENSES BY TYPE - LAST TEN YEARS	III-4
RATIO OF ANNUAL DEBT SERVICE FOR BONDED DEBT TO TOTAL OPERATING EXPENSES AND TOTAL OPERATING REVENUE - LAST TEN YEARS.....	III-6

III. STATISTICAL SECTION (UNAUDITED) (continued)

COMMUNITIES SERVED BY THE DISTRICT AND
ESTIMATED POPULATION SERVED. III-7
LARGEST CUSTOMERS OF THE DISTRICT III-8
MISCELLANEOUS OPERATING STATISTICS - LAST TEN YEARS III-10
CUMULATIVE ASSET GROWTH - LAST TEN YEARS..... III-12
CONTINUING DISCLOSURE REQUIREMENTS
SEWER CUSTOMERS AND USAGE
HISTORICAL NUMBER OF CUSTOMER ACCOUNTS -
LAST TEN YEARS III-14
ANNUAL METERED BILLING QUANTITIES -
LAST TEN YEARS III-16
SUMMARY OF REVENUES, EXPENSES, DEBT SERVICE
AND DEBT SERVICE COVERAGE - LAST TEN YEARS..... III-18
SEWAGE SERVICE RATES - RATE HISTORY III-20
CAPITAL IMPROVEMENT PROGRAM - USES AND SOURCES
OF FUNDS - FOR THE YEARS ENDED DECEMBER 31,
2002 THROUGH 2006 III-21



Northeast Ohio Regional Sewer District

3826 Euclid Avenue · Cleveland, OH 44115-2504 · (216) 881-6600 · FAX: (216) 881-8018

May 6, 2002

To the Board of Trustees and Citizens Served by
the Northeast Ohio Regional Sewer District

The Comprehensive Annual Financial Report of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2001, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial and statistical. The introductory section, which is unaudited, includes this letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association for the year ended December 31, 2000, a list of the District's principal officials and a table of organization. The financial section includes the 2001 financial statements and supplemental schedules, as well as the independent auditors' report thereon. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis that is helpful in performing trend analyses.

The District is required to undergo an annual audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Information related to this Single Audit, including a schedule of expenditures of federal awards and the independent auditors' report on compliance with requirements applicable to each major federal award program and internal control over compliance, is included in a separately issued Single Audit report.

Included in the accompanying financial statements are all accounts of the Northeast Ohio Regional Sewer District. For accounting purposes, the District is accounted for as a single enterprise fund. The reporting entity is described in Note A to the audited financial statements.

The District is an independent political subdivision of and organized under the laws of the State of Ohio, specifically Chapter 6119 of the Ohio Revised Code. Originally named the Cleveland Regional Sewer District, it was created in 1972 for the purpose of assuming the operation and management of certain wastewater collection, treatment and disposal facilities

Cleveland metropolitan area. Prior to 1972, these facilities were owned and operated by the City of Cleveland.

Included at the end of the Statistical Section is a section titled "Continuing Disclosure Requirements". The schedules in this section are in addition to those required by the Government Finance Officers Association and are presented under the terms of the Continuing Disclosure Agreement required in conjunction with the issuance of the Series 1995 Wastewater Improvement Revenue Refunding Bonds of the District.

The District's service area covers approximately 355 square miles. The District encompasses 97% of the City of Cleveland and all or portions of 58 suburban communities in Cuyahoga and Summit Counties. The area contains a residential service population in excess of one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District treats the greatest amount of wastewater in the State of Ohio.

ECONOMIC CONDITION AND OUTLOOK

The economic environment in which the District operates is effected by the same events as the rest of the nation. Revenue is not expected to increase in 2002. The region is not dominated by any single industry; this diversity contributes to the relative stability of employment. The city of Cleveland ranks 8th among cities with Fortune 500 company headquarters. There are seven Fortune 500 companies in Cleveland and nine in the District's service area. Major industries with headquarters or divisions located in the District's service area or in close proximity include automotive manufacturers; industrial equipment, metals, paints and coatings producers; office supply retailer; insurance; and banking services. Major employers in the area also include federal, state and local government agencies, health care providers, public schools and financial service providers. In recent years there has been a significant shift from manufacturing to a service and information based economy.

The area has experienced an increase in travel and tourism. Statistics have not yet been released by the Convention & Visitors Bureau of Greater Cleveland for the number of leisure visitors to Cuyahoga County in 2001, however the number in 2000 was 9.0 million, which is an 11.1% increase over the 8.1 million in 1999 and a 105% increase over the 4.4 million in 1994. The Bureau received 410,406 visitor information requests in 2001 compared to 256,328 in 2000 and 186,731 in 1999. Travel and tourism contributed approximately \$3.5 billion and 67,438 jobs to the economy of the area in 2000.

The unemployment rate in December 2001 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 5.3% was 0.5% higher than the seasonally adjusted rate for the State of Ohio and 0.5% lower than the national rate. The county had an employed labor force of approximately 648,800 as of December 2001, which was about 12,900 less than the prior year. Although the City of Cleveland and Cuyahoga County have experienced an outward migration of residents to neighboring suburbs and counties, the presence of corporate, cultural and entertainment facilities continues to attract

visitors and commuters to the area. The service area of the District has remained stable, and can be readily expanded in the future, as opportunities arise.

MAJOR INITIATIVES

For the Year

Administrative Headquarters Expansion Project

Friday, May 11, 2001 marked a new beginning for downtown District employees, as ground was broken for the new Administration office building at the corner of East 40th Street and Euclid Avenue. The George J. McMonagle Building groundbreaking ceremony united yesterday and today as past and present employees, Board members and Judge George J. McMonagle himself were in attendance. McMonagle, who passed away in February 2002, was the respected lawyer and judge who established the Cleveland Regional Sewer District (the District's original name) by court order in 1972.

The District purchased the two buildings at 3940 and 3950 Euclid Avenue at the southwest corner of East 40th Street and Euclid Avenue, adjacent to the present District Administration building at 3826 Euclid Avenue. These buildings were acquired to accommodate the Engineering, Operations Administration and Planning departments, currently located in a separate rented facility, as well as the District Administration and Support departments.

During 2001, demolition work was done on both buildings. The 3950 Euclid Avenue building is being refurbished and the 3940 Euclid Avenue building was completely demolished and is being replaced with a fully integrated addition to the west of the 3950 Euclid Avenue building. As of April 2002, the structural steel at 3940 Euclid is 90% complete, rough mechanical and plumbing in the 3950 building is near 95% complete, and the stud walls on all four floors are 90% complete. Approximately \$3.7 million of the total \$19.6 million contract has been billed. June 2003 is the expected completion date for the facility.

Rate Study

The results of a rate study conducted during 2001 indicated the District's current sewer charge rates used for years 2000 and 2001 are sufficient to fund operating and capital costs for one more year, therefore there are no rate increases for the year 2002. This is attributed to the District's effort to streamline plant operations including the Plant Competitiveness Initiative, thus reducing costs.

As the District continues to provide wastewater transportation and treatment at standards higher than those set by the Environmental Protection Agency, there are some factors beyond the District's control that may contribute to higher charges in the future: decreasing water consumption, inflation, and future mandatory federal programs. The District expanded its rate study to determine if increases will be necessary for 2003 through 2006. Public meetings were held in 2002 to address study findings. The District anticipates a rate increase will be

necessary due to two major factors. First, the District must finance the construction for \$495 million in capital projects between 2002 and 2006, the majority of which are mandated by the U.S. Environmental Protection Agency. Second, the District must meet existing debt service requirements for past capital improvement projects. When the federal construction grants program ended in 1991, the District sought and obtained low interest loans to finance construction projects. The District is now facing higher debt service payments as more projects approach completion.

2001 Awards

The Association of Metropolitan Sewerage Agencies (AMSA) recognized the District's outstanding accomplishments with five awards in 2001. The Southerly and Westerly Wastewater Treatment Plants received AMSA Gold Awards for one year without any National Pollutant Discharge Elimination System (NPDES) permit violations. A Silver Award went to the Easterly Treatment Plant for just one permit violation in 2001. AMSA's Public Information and Education Award in the Video category honored the District's educational program, "Uncovering Cleveland's Sewer System", and a stream restoration project along Big Creek's Chevrolet Branch, "Reversing Stream Bank Erosion", earned the AMSA 2001 Public Service Award.

For their exemplary safety records, the District's Westerly plant and Sewer Systems Maintenance and Operation department each received the Ohio Water Environment Association (OWEA) Safety Award; it was Westerly's fourth consecutive recognition, and Maintenance and Operation's first.

For the Future

Organizational Restructuring

Four departments are in transition, changing the way they operate to make the District function more effectively. As of December 13, 2001, Human Resources became Employee Resources (ER), and a new Senior Staff position, Director of Employee Resources, was added. The reorganization will provide better services to its customers, District employees. The process will take approximately one year, and will include expansion of department services to include Payroll; Employee Benefits; Health, Safety, Security, Emergency Preparedness and Workers' Compensation; Recruiting, Hiring, Job Analysis and Temporary Staffing; Organizational and Employee Development Services; and Employee Records and Other Services. Job titles will be reduced, but classifications within job titles will be created to allow for employee development and advancement.

The new position of Director of Information Technology (IT) was also added at the Senior Staff level. The transition within IT is intended to provide better user support through training, technical expertise, more employee involvement, and enhanced project management to the end user, the employee. In terms of services provided, a change from infrastructure issues to user application support and data management will occur during 2002. Much of IT's infrastructure support will be outsourced, allowing the department to focus more attention on

information management rather than troubleshooting and hardware support. Teams of programmers, trainers and user groups will enhance end-user support services. Outsourcers will provide standard desktop services. It will begin offering new services such as personal training and user-group coordination to maximize the use of technology.

Budget centers located at the Environmental Maintenance Service Center (EMSC) have been grouped into two divisions: Environmental Services and Maintenance Services. Environmental Services consists of Analytical Services and Water Quality and Industrial Surveillance; Maintenance Services consists of Sewer Maintenance and Control, Inventory Control, Vehicle Maintenance and Building Maintenance. The divisions are made up of the departments with a similar focus. Each division has an administrative structure similar to the Wastewater Treatment Plants with a superintendent and, for Maintenance Services, an assistant superintendent. The intent is to increase communication with the wastewater facilities, retain knowledge within each group of budget centers, and better establish succession plans within the divisions.

EMSC has been operating as two divisions since Board approval last November. The superintendent positions were filled and Building Maintenance has been reclassified under the Maintenance Services division.

The Finance and Accounting departments were combined into one department – Finance – to better align the former departments' major functions and responsibilities. An Assistant Director of Finance position will be profiled and posted in the future. Job titles within the department have been reduced, but there will be more classifications created within each title to allow for employee development. The Finance reorganization parallels the work ER is doing to establish definitive paths for employee advancement.

These efforts are not the only reorganization to occur. The Legal department changed its method of operation January 1, 2002. Plant operations continue to evolve as a result of the Competitiveness Initiative, and management is intent on developing ways to harness employee knowledge and experience as more individuals approach retirement.

Easterly CSO Facilities Plan

The District completed a major study of the Easterly combined sewer area on the east side of Cleveland and its eastern suburbs. The goal of the study was to develop a facilities plan for sewer system improvements that would meet Ohio Environmental Protection Agency requirements for control for combined sewer overflows (CSOs) and reduce pollution levels, particularly bacteria, in the local rivers and Lake Erie.

Combined sewers carry wastewater from homes and businesses, as well as storm water runoff from rooftops and streets. In dry weather, wastewater is directed to the wastewater treatment plant for processing to remove pollutants. During rainstorms, storm water flows into the same sewer pipes, creating a combined flow. The combined sewers are designed to overflow into nearby waterways when the combined volume exceeds the capacity of the pipes. The points at

which these flows enter the waterways are known as CSO outfalls. There are 47 CSOs in the Easterly service area.

The facilities plan process, which involved extensive data collection, development of CSO control options, evaluation of numerous alternative technologies and public involvement, is complete. The result is the recommended CSO control plan that includes new sewers, storage facilities and improvements to existing wastewater pumping facilities.

The recommended plan is comprised of a storage tunnel network for the majority of the service area, and satellite storage facilities in the Flats area to address CSOs overflowing into the Cuyahoga River that could not be cost-effectively connected to the tunnel system. The plan also calls for a series of new sewers and regulator modifications necessary to reach the four overflow per year control goal, as well as pump station improvements to enhance the operation of the existing Easterly collection system.

The tunnel system will receive CSO from smaller consolidation sewers that capture and convey overflows from the existing outfall pipes to tunnel drop structures. These tunnels will capture and store the overflow that would otherwise discharge to Lake Erie, Doan Brook, Green Creek, Dugway Brook, Shaw Brook, Nine Mile Creek and Euclid Creek. This captured CSO will be returned to the Easterly Wastewater Treatment Plant through a pump station that will empty the tunnels into the treatment plant headworks after each storm event. The network of tunnels will be capable of storing up to 152 million gallons of CSO in a single event.

The Cuyahoga River CSO outfalls located on the East Bank of the Flats will be controlled by storage facilities and upgraded pump stations that can send CSO to an existing interceptor for conveyance to the Wastewater Treatment Plant.

The Easterly District CSO Control Plan will comply with CSO requirements, improve water quality and provide the best fit with current District facility operations. During a typical year of rainfall, approximately 2.55 billion gallons of CSOs are discharged to Lake Erie and seven receiving streams from the 47 permitted outfalls located throughout the Easterly service area. With implementation of this plan, it is estimated that over 2 billion gallons a year of additional CSO volume will be captured for treatment. The estimated cost of the proposed plan is \$521 million. Work will begin a few years in the future, and will span several years, along with improvement plans for other locations in the District service area.

Southerly CSO Project Update

The District concluded a study of its Southerly combined sewer area in 2001, intended to develop a facilities plan for system improvements that would reduce pollution levels in Lake Erie and meet Ohio EPA requirements for combined sewer overflow (CSO) control. According to study results, Southerly's current system captures 80% of combined sewage generated annually; however, approximately 1.65 billion gallons of CSO reach receiving waters from 30 permitted outfalls. A recommended control plan — which includes two main storage tunnel systems, a

dewatering pump station, a satellite storage tank, and several other miscellaneous modifications and improvements — has been submitted to the EPA for review. The estimated cost of the proposed plan, one that would capture and treat an additional 1.2 billion gallons of CSO annually, is \$371 million.

Westerly CSO Phase II Facilities Planning (Early Action Projects)

Upon the District's completion of its Westerly service area combined sewer study in December of 1999, the Ohio EPA approved the District's recommendations for Westerly system CSO improvements and work began on several early action, or Priority I, projects. Modifications to District-owned regulator RR-7 near Lorain Road and Rocky River Drive, which involved the removal of a dry-weather outlet restriction, were completed in October at a cost of \$3,039. One month later, the District also completed construction of a drop pipe connection to the Northwest Interceptor near Westpark Avenue and Rocky River Drive for an as-bid cost of \$504,960.

FINANCIAL INFORMATION

Internal Control

Management of the District is responsible for establishing and maintaining an internal control structure designed to protect District assets from loss, theft or misuse and to compile adequate accounting data to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state financial assistance, the District is also responsible for establishing an adequate internal control structure to monitor and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and external auditors.

As part of the District's Single Audit, described earlier, tests were made by the District's external auditors of its internal control structure and compliance with applicable laws and regulations, including those related to federal financial assistance programs. Although this testing is not sufficient to support a separate opinion on the District's internal control system or its overall compliance with laws and regulations related to federal financial assistance programs, the audit for the year ended December 31, 2001 disclosed no material internal control weaknesses or material violations of laws and regulations.

Budgetary Control

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of the year to which they apply. Until the final budgets are adopted, but before the fiscal year begins, the Board of Trustees may adopt a temporary appropriation for the first three months of the year. The level of budgetary control for the District's operation and maintenance expenses is on a budget center line item basis. The capital budget consists of major and minor capital expenditures. An annual capital plan prepared by the District's Engineering Department is the basis for the major capital budget appropriations, which constitute most of the capital budget. The capital plan outlines the estimated cost by project. These projects are already authorized or to be considered by the Board of Trustees. Approval of the budgets by the Board of Trustees does not in itself authorize expenses for operations and maintenance or expenditures for capital projects. Requests for capital project expenditures must be approved by the Board of Trustees and/ or the Executive Director, as appropriate, and require certification of availability of funds by the Director of Finance. Board approval is required for all purchases of goods and services that exceed \$15,000. This applies to both operating and capital activity.

The section of the Ohio Revised Code under which the District is organized grants it the power to raise revenues through taxes on property within its service area. With that power comes the responsibility for preparing a Tax Budget, which has to be submitted to the County Auditor's Tax Commission so it can determine how to allocate tax revenues. Because the District did not, and planned not to, levy any taxes, it petitioned the Ohio Attorney General in 1977 for an exemption from that budget submittal. The Attorney General ruled that such budgets were unnecessary. In 1999, the Ohio Auditor of State requested that the current Attorney General revisit the 1977 opinion. The Attorney General reversed the 1977 opinion, which action was upheld upon administrative appeal by the District, therefore, the District files an annual Tax Budget even though it levies no taxes.

Revenues and Expenses

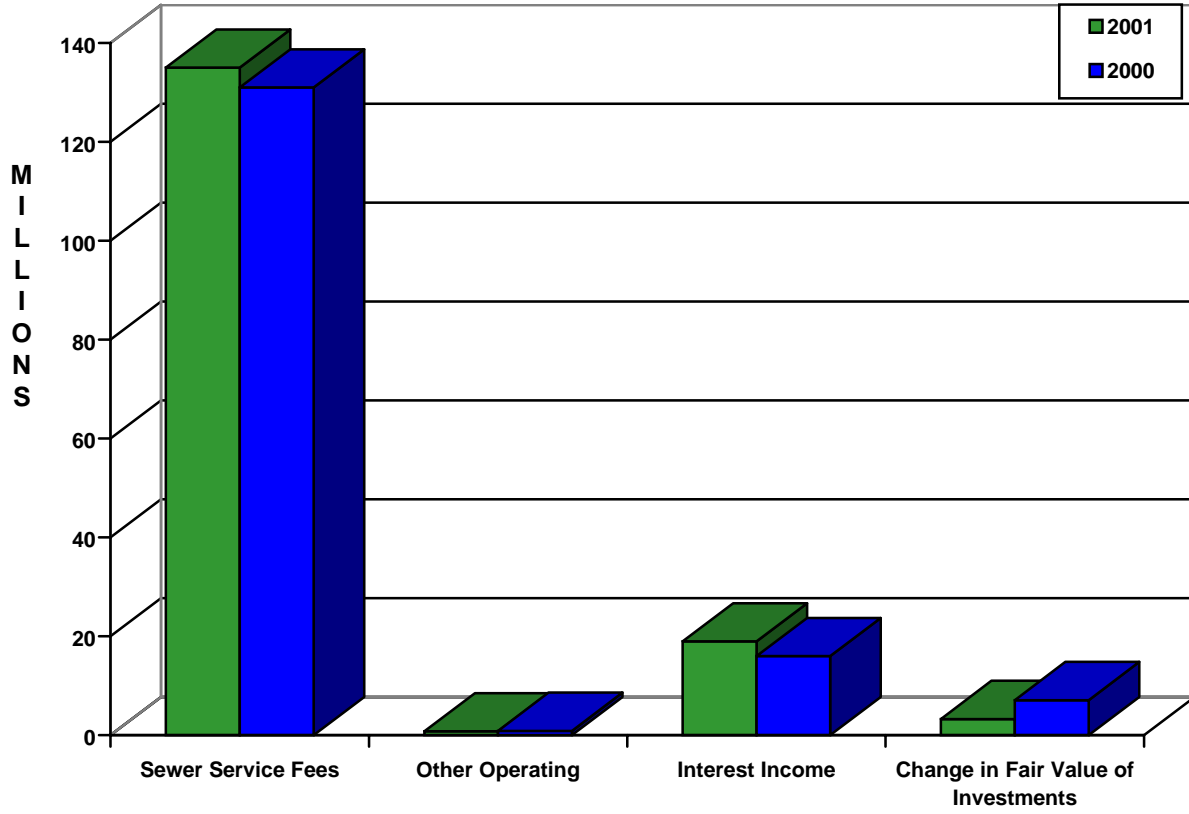
The following schedules summarize revenues and expenses for years 2001 and 2000 and increases or decreases from year to year.

COMPARATIVE REVENUE SCHEDULE

	2001		2000		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percent
<u>Operating Revenue</u>						
Sewer Service Fees	\$ 133,807,562	85.5%	\$ 130,391,654	84.4%	\$ 3,415,908	2.6%
Other Operating Revenue	805,196	0.5%	939,179	0.6%	(133,983)	-14.3%
Total Operating Revenue	<u>134,612,758</u>	<u>86.0%</u>	<u>131,330,833</u>	<u>85.0%</u>	<u>3,281,925</u>	<u>2.5%</u>
<u>Non-operating Revenue</u>						
Interest Income	18,580,276	11.9%	15,980,457	10.4%	2,599,819	16.3%
Change in Fair Value of Investments	3,331,519	2.1%	7,125,918	4.6%	(3,794,399)	-53.2%
Total Non-operating Revenue	<u>21,911,795</u>	<u>14.0%</u>	<u>23,106,375</u>	<u>15.0%</u>	<u>(1,194,580)</u>	<u>-5.2%</u>
Total Revenue	<u>\$ 156,524,553</u>	<u>100.0%</u>	<u>\$ 154,437,208</u>	<u>100.0%</u>	<u>\$ 2,087,345</u>	<u>1.4%</u>

Total revenue for 2001 increased \$2,087,345 or 1.4% compared to 2000. This was due mainly to an increase in unbilled Cleveland Sewer Service Fees. Sewer Service Fees for billed accounts decreased marginally due to a reduction in overall consumption. Interest income increased \$2,599,819 due to higher investment balances. The change in fair value of investments of \$3,331,519 is due to fluctuations between the market value and the acquisition price of investments in government securities. Since the District holds its investments to maturity, these differences will eventually reverse and there will be no cumulative effect on retained earnings.

COMPARISON OF 2001/2000 REVENUE



COMPARATIVE EXPENSE SCHEDULE

	2001		2000		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percent
<u>Operating Expenses</u>						
Salaries and Benefits	\$ 31,421,586	28.0%	\$ 31,089,330	29.2%	\$ 332,256	1.1%
Depreciation	31,495,906	28.0%	30,320,517	28.4%	1,175,389	3.9%
Utilities	15,454,158	13.7%	13,931,089	13.0%	1,523,069	10.9%
Contractual and Professional	10,759,907	9.6%	10,431,643	9.8%	328,264	3.1%
Materials and Supplies	4,140,926	3.7%	5,419,783	5.1%	(1,278,857)	-23.6%
Repairs and Maintenance	3,641,665	3.2%	1,722,805	1.6%	1,918,860	111.4%
Miscellaneous	410,628	0.4%	352,457	0.3%	58,171	16.5%
Capitalized Labor, Fringes & Indirect Construction Costs	(3,096,585)	-2.8%	(3,053,217)	-2.9%	(43,368)	1.4%
<u>Total Operating Expenses</u>	<u>94,228,191</u>	<u>83.8%</u>	<u>90,214,407</u>	<u>84.5%</u>	<u>4,013,784</u>	<u>4.4%</u>
<u>Non-Operating Expenses</u>						
Interest Expense	17,443,676	15.5%	16,486,676	15.4%	957,000	5.8%
Loss on Equipment Disposals	768,357	0.7%	74,682	0.1%	693,675	928.8%
<u>Total Non-Operating Expenses</u>	<u>18,212,033</u>	<u>16.2%</u>	<u>16,561,358</u>	<u>15.5%</u>	<u>1,650,675</u>	<u>10.0%</u>
<u>Total Expenses</u>	<u>\$ 112,440,224</u>	<u>100.0%</u>	<u>\$ 106,775,765</u>	<u>100.0%</u>	<u>\$ 5,664,459</u>	<u>5.3%</u>

Salaries and Benefits increased \$332,256. Salaries increased \$755,341, an increase of 3%, mainly as a result of the general wage increase. Benefits decreased by \$423,085 due to lower health care insurance premiums and workers' compensation claims, offset by higher Public Employees Retirement System (PERS) expense.

Utilities increased \$1,523,069 mainly due to higher natural gas rates. Gas increased by \$1,325,483, electricity by \$314,810 and communications increased by \$5,564. These increases were offset by a reduction of \$122,787 in water.

Contractual and Professional increased \$328,264 due to the following. Collection fees increased \$108,582 due mainly to an increase in the fee charged by the City of Cleveland; Ash hauling increased \$122,211 due to the ash lagoon clean up at Southerly in 2001. Training costs were up by \$150,614 for maintenance staff training. General professional services decreased \$130,600, due mainly to a decrease of \$237,476 in Legal for outside legal counsel, offset by other increases and decreases.

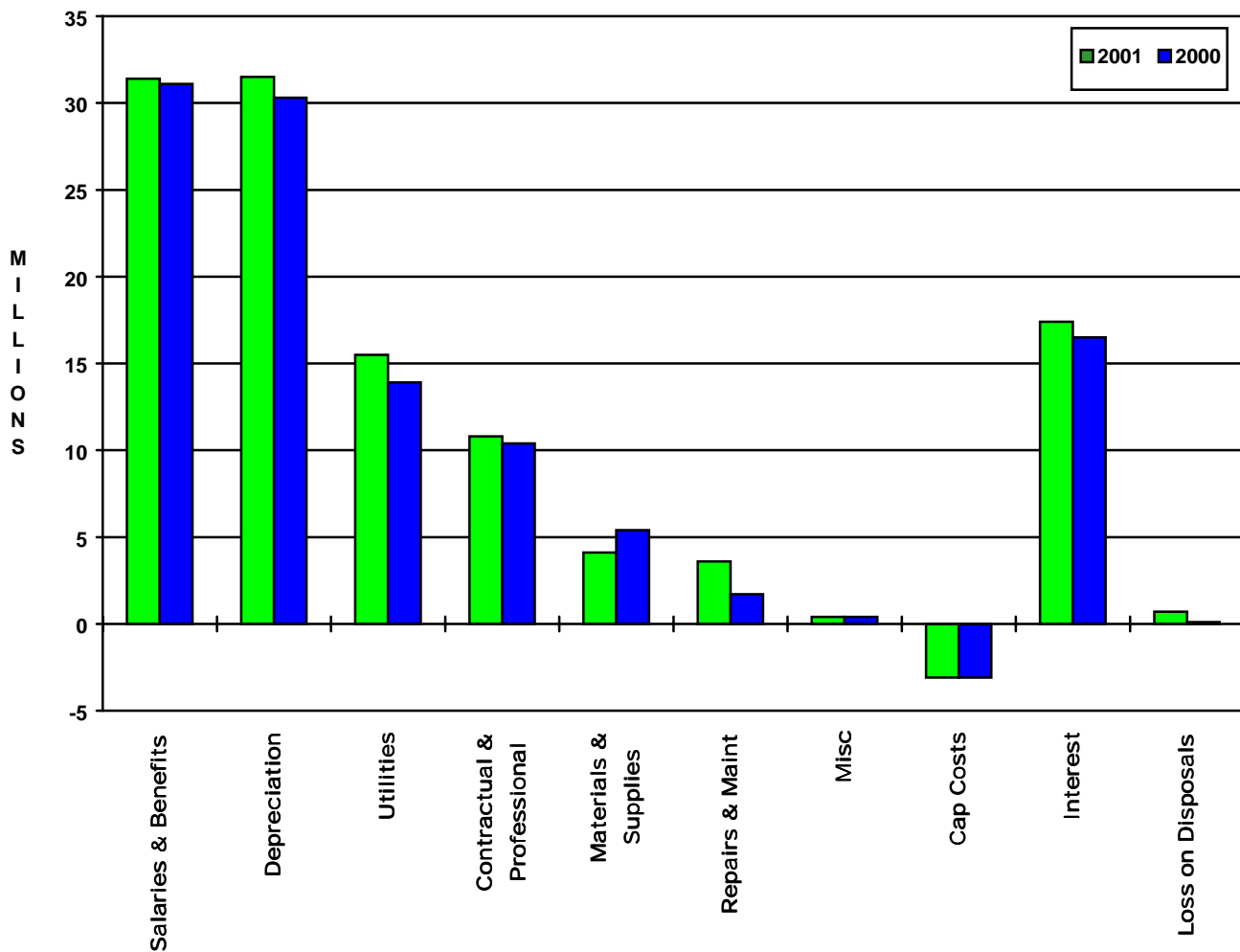
The decrease of \$1,278,857 in Materials and Supplies is due to non-recurring charges in the year for 2000 disposal of items that became obsolete because of changes in plant process.

Repairs and Maintenance increased \$1,918,860 due mainly to repairs at the Southerly plant to storage tanks in the amount of \$1,377,844. Other major items include repairs at Wastewater Treatment Plants to electrical substations, boilers, settling tanks, centrifuges, pumps and other equipment. In addition, other repairs were made at the Environmental Maintenance Service Center to laboratory facilities and heating, ventilation and air conditioning systems. Also included in Repairs and Maintenance are emergency road and sewer repairs.

Interest expense was \$957,000 higher in 2001 primarily due to greater outstanding debt balances on the Ohio Water Development Authority Loans.

The Loss on Equipment Disposals increased \$693,675 due mainly to the loss on disposal of flow monitors in the amount of \$563,931.

COMPARISON OF 2001/2000 EXPENSES



Debt Administration

At year-end, the District had bonded debt outstanding of \$79,775,000. The debt net of applicable unamortized discounts, issue costs and refunding costs is \$75,382,356. The District also has obtained loans through the State of Ohio Water Pollution Control Loan Fund (WPCLF) and through the Ohio Water Development Authority (OWDA). As of December 31, 2001, the outstanding loan balances were \$296,459,289 with the WPCLF and \$4,579,536 with the OWDA. Outstanding revenue bonds of the District are rated AAA by Standard & Poor's and Aaa by Moody's rating agencies. Note D to the audited financial statements includes schedules of debt outstanding and future debt service requirements.

In prior years, the District refinanced bonded debt that was outstanding at the time. These legal defeasance transactions resulted in funds being deposited with escrow agents who invested them in U.S. Treasury obligations which, together with the income earned on such investments, will be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the refunding transactions.

The 2001 activity in the debt principal accounts was as follows:

	<u>Balance Jan. 1, 2001</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Balance Dec. 31, 2001</u>
Wastewater Improvement Revenue Refunding Bonds, Series 1995	\$83,220,000		(\$3,445,000)	\$79,775,000
Ohio Water Development Authority Loans	8,243,532		(3,663,996)	4,579,536
Water Pollution Control Loans	267,148,458	\$41,632,715	(12,321,884)	296,459,289
Other	<u>27,862</u>		<u>(15,100)</u>	<u>12,762</u>
Total Debt	<u>\$358,639,852</u>	<u>\$41,632,715</u>	<u>(\$19,445,980)</u>	<u>\$380,826,587</u>

Cash Management

The District currently invests in only three major types of instruments: obligations issued or backed by the United States Government; the STAROhio Fund; and bank or savings and loan non-negotiable certificates of deposit. A portion of the District's investment portfolio is comprised of securities with longer maturity terms (three to five years) to more accurately match the time when the funds will be utilized and to take advantage of higher interest rates.

In determining portfolio performance and value, marketable securities are periodically compared to market. The District has not incurred any realized loss in the portfolio since

securities are held to maturity, at which time the anticipated return is received. At December 31, 2001, the District's investment portfolio, at cost, of \$314,160,284, including \$1,983,436 in the Debt Service Account for the Series 1995 Bonds and excluding accrued interest, had a market value of \$322,244,049.

Risk Management

The District maintains an insurance reserve to account for and finance its uninsured risks of property damage. The District is self-insured for workers' compensation and purchases commercial insurance for liability and other specific types of coverage. Note J to the audited financial statements discloses information about risk management.

INDEPENDENT AUDIT

The Ohio Revised Code requires the Auditor of State to perform biennial audits of the District. In addition, the District's Bond Resolution requires annual financial audits. Both these requirements are being met, with the approval of the Auditor of State, by the engagement of independent certified public accountants by the District. The opinion of Ciuni & Panichi, Inc., the District's independent auditors, on the financial statements and supplementary information is included on page II-1 of this report.

AWARDS

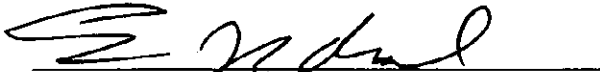
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Northeast Ohio Regional Sewer District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2000. This was the sixth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.


ACKNOWLEDGMENTS

The preparation of this comprehensive annual financial report on a timely basis was made possible by the dedicated service of the Finance Department staff as well as other District departments. We would also like to thank the Board of Trustees, for, without their support, the preparation of this report would not have been possible.

Respectfully submitted,



Erwin J. Odeal
Executive Director



F. Michael Bucci
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Northeast Ohio Regional Sewer District

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2000

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy Druwe
President

Jeffrey L. Essler
Executive Director

DISTRICT OFFICIALS

DECEMBER 31, 2001

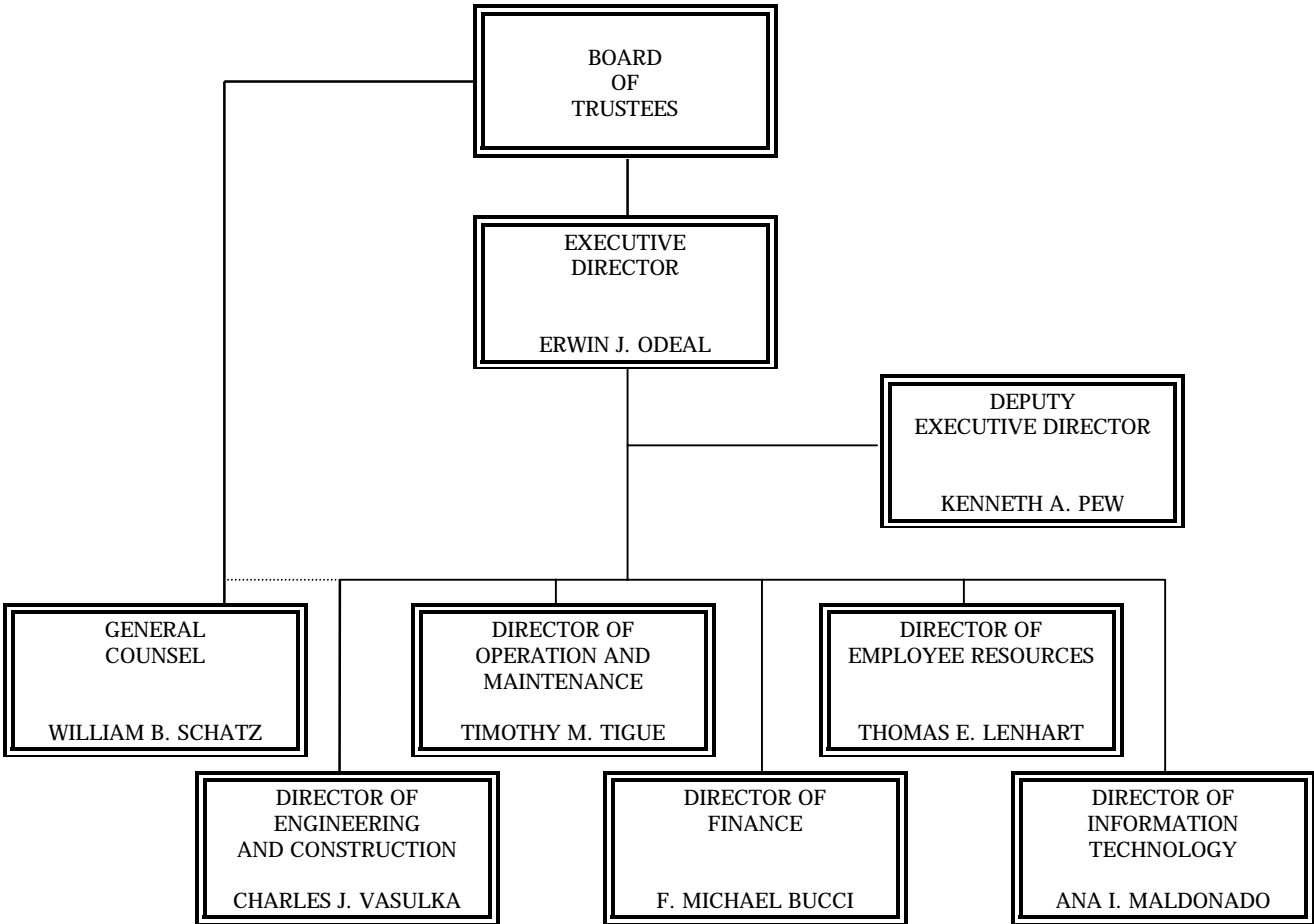
Board of Trustees

Mayor Gerald M. Boldt.....	President
Mayor Thomas J. Longo.....	Vice President
Michael L. Nelson, Sr.	Secretary
Andrew T. Ungar	Member
Sheila J. Kelly	Member
Darnell Brown.....	Member
Gary W. Starr.....	Member

Senior Staff

Erwin J. Odeal.....	Executive Director
Kenneth A. Pew	Deputy Executive Director
William B. Schatz.....	General Counsel
Charles J. Vasulka	Director of Engineering and Construction
Timothy M. Tigue	Director of Operation and Maintenance
F. Michael Bucci.....	Director of Finance
Thomas E. Lenhart	Director of Employee Resources
Ana I. Maldonado.....	Director of Information Technology

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
TABLE OF ORGANIZATION
DECEMBER 31, 2001**



<u>NUMBER OF EMPLOYEES BY DEPARTMENT</u>	
DISTRICT ADMINISTRATION	74
OPERATION AND MAINTENANCE	389
ENGINEERING AND CONSTRUCTION	48
FINANCE	33
LEGAL	<u>10</u>
TOTAL EMPLOYEES	<u>554</u>

II. FINANCIAL SECTION

Independent Auditors' Report

The Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the accompanying financial statements of the Northeast Ohio Regional Sewer District, as of and for the year ended December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the Northeast Ohio Regional Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Northeast Ohio Regional Sewer District as of December 31, 2000, were audited by other auditors whose report dated April 23, 2001 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Ohio Regional Sewer District, as of December 31, 2001, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the basic financial statements, the Northeast Ohio Regional Sewer District adopted the provisions of Governmental Accounting Standards Board Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions* as of December 31, 2001. This results in a change to the Northeast Ohio Regional Sewer District's method of accounting for certain nonexchange revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2002 on our consideration of the Northeast Ohio Regional Sewer District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Northeast Ohio Regional Sewer District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We did not audit the introductory and statistical sections as listed in the table of contents, and therefore, express no opinion thereon.

A handwritten signature in cursive script, appearing to read "C. P. Cantor".

Cleveland, Ohio
April 19, 2002



NORTHEAST OHIO REGIONAL SEWER DISTRICT

Balance Sheets

December 31, 2001 and 2000

	<u>Assets</u>	
	<u>2001</u>	<u>2000</u>
Property, Plant and Equipment:		
Interceptor Sewer Lines	\$ 557,960,724	\$ 548,742,386
Buildings, Structures and Improvements	546,084,950	553,959,407
Sewage Treatment and Other Equipment	<u>233,030,500</u>	<u>219,576,275</u>
	1,337,076,174	1,322,278,068
Less Accumulated Depreciation	<u>421,549,869</u>	<u>392,673,618</u>
	915,526,305	929,604,450
Land	3,808,718	3,805,718
Construction In Progress	<u>221,222,930</u>	<u>154,960,206</u>
Net Property, Plant and Equipment	1,140,557,953	1,088,370,374
Unamortized Deferred Debt Expense	4,392,644	5,032,831
Construction Funds (Note 3)	254,347,846	243,563,716
Revenue Bond Debt Service Deposit (Note 3)	1,985,810	1,997,788
Current Assets:		
Cash	333,788	346,238
Short-Term Investments	70,555,105	66,068,942
Sewage Service Fees Receivable, Less Allowance For Doubtful Accounts Of \$6,488,000 in 2001 and \$5,567,000 in 2000 (Note 2)	53,102,223	49,701,487
Receivables From Federal and State Agencies	8,253,221	3,189,849
Inventory, Prepaid Expenses and Other	<u>7,794,417</u>	<u>7,990,878</u>
Total Current Assets	<u>140,038,754</u>	<u>127,297,394</u>
Total Assets	\$ <u>1,541,323,007</u>	\$ <u>1,466,262,103</u>

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Balance Sheets

December 31, 2001 and 2000

Equity and Liabilities

	<u>2001</u>	<u>2000</u>
Equity:		
Retained Earnings	\$ 778,337,842	\$ 724,602,954
Contributions in Aid of Construction, Net	<u>357,348,537</u>	<u>363,621,143</u>
Total Equity	<u>1,135,686,379</u>	<u>1,088,224,097</u>
Long-Term Debt, Net of Current Maturities (Note 4)	359,637,349	338,678,329
Current Liabilities:		
Accounts Payable	5,282,072	4,286,766
Construction Contracts Payable	8,336,089	4,645,659
Accrued Interest	5,930,815	6,068,643
Other Accrued Liabilities	3,683,409	3,387,279
Retainages on Construction Contracts	1,577,656	1,009,807
Current Maturities of Long-Term Debt (Note 4)	<u>21,189,238</u>	<u>19,961,523</u>
Total Current Liabilities	<u>45,999,279</u>	<u>39,359,677</u>
Total Equity and Liabilities	\$ <u>1,541,323,007</u>	\$ <u>1,466,262,103</u>

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Revenues, Expenses and Changes in Retained Earnings

For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating Revenue	\$ 134,612,758	\$ 131,330,833
Operating Expenses:		
Operations	44,550,323	44,184,205
Maintenance	18,181,962	15,709,685
Depreciation	<u>31,495,906</u>	<u>30,320,517</u>
Total Operating Expenses	<u>94,228,191</u>	<u>90,214,407</u>
Operating Income	40,384,567	41,116,426
Non-Operating Revenues (Expenses):		
Interest Income	18,580,276	15,980,457
Increase (Decrease) in Fair Value of Investments, Net	3,331,519	7,125,918
Loss on Disposals of Equipment	(768,357)	(74,682)
Interest on Long-Term Debt	<u>(17,443,676)</u>	<u>(16,486,676)</u>
Total Non-Operating Revenues (Expenses)	<u>3,699,762</u>	<u>6,545,017</u>
Net Income	44,084,329	47,661,443
Depreciation Related to Assets Purchased From Contributions in Aid of Construction	<u>9,650,559</u>	<u>10,303,174</u>
	53,734,888	57,964,617
Retained Earnings at Beginning of Year	<u>724,602,954</u>	<u>666,638,337</u>
Retained Earnings at End of Year	<u>\$ 778,337,842</u>	<u>\$ 724,602,954</u>

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flows

For the years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 131,020,493	\$ 132,851,879
Cash Payments to Suppliers For Goods and Services	(31,469,220)	(28,270,054)
Cash Payments to Employees For Services	<u>(31,325,455)</u>	<u>(30,317,673)</u>
Net Cash Provided By Operating Activities	<u>68,225,818</u>	<u>74,264,152</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(392,680,228)	(358,873,887)
Proceeds from Maturities of Investments	380,549,901	335,946,200
Interest on Investments	<u>18,912,392</u>	<u>15,517,327</u>
Net Cash Provided By (Used in) Investing Activities	<u>6,782,065</u>	<u>(7,410,360)</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(19,313,684)	(18,693,089)
Interest Payments on Long-Term Debt	(15,642,325)	(15,810,607)
Proceeds from Water Pollution Control Loans	36,508,404	31,987,323
Acquisition and Construction of Property, Plant and Equipment	(79,088,703)	(74,777,836)
Grants Received	2,777,518	10,323,864
Grant Refund	(474,315)	-
Proceeds from Note Receivable	<u>212,772</u>	<u>68,136</u>
Net Cash Used in Capital and Related Financing Activities	<u>(75,020,333)</u>	<u>(66,902,209)</u>
Net Decrease in Cash	(12,450)	(48,417)
Cash at Beginning of Year	<u>346,238</u>	<u>394,655</u>
Cash at End of Year	\$ <u><u>333,788</u></u>	<u><u>346,238</u></u>

Continued

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flows (Continued)

For the years ended December 31, 2001 and 2000

	2001	2000
Reconciliation of Operating Income to Net Cash from Operating Activities:		
Operating Income	\$ 40,384,567	\$ 41,116,426
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:		
Depreciation	31,495,906	30,320,517
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(3,592,265)	918,155
Inventory and Prepaid Expenses	(48,966)	1,471,625
Accounts Payable and Other Accrued Liabilities	(13,424)	437,429
Total Adjustments	27,841,251	33,147,726
Net Cash Provided by Operating Activities	\$ 68,225,818	\$ 74,264,152
 Supplemental Schedule of Non-Cash Investing, Capital and Related Financing Activities:		
Contributions in Aid of Construction Recorded for Receivables from (Payables to) Federal Agencies in Connection With Reimbursable Project Costs	\$ <u>691,833</u>	\$ <u>(408,565)</u>
Long-Term Debt Recorded for Receivables from State Agencies in Connection With Water Pollution Control Loans	\$ <u>7,561,387</u>	\$ <u>3,598,414</u>
Increase in Fair Value of Investments, Net	\$ <u>3,331,519</u>	\$ <u>7,125,918</u>

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 1: Summary of Significant Accounting Policies

The District reports its operations as a single enterprise fund using proprietary fund accounting. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows. Certain reclassifications have been made to the 2000 financial statements in order to conform to the 2001 presentation.

Nature of Operations

The Northeast Ohio Regional Sewer District (the "District"), a political subdivision of the State of Ohio, was created by Order of the Cuyahoga County Court of Common Pleas and commenced operations on July 18, 1972, under statutory provisions of the Ohio Revised Code. The District serves a region comprised of the City of Cleveland and 58 suburban communities.

Proprietary Activity Accounting and Financial Reporting

In accordance with paragraph 6 and, at the District's election, paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, the District applies all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, Accounting Research Bulletins (ARB's), and the American Institute of Certified Public Accountants Accounting Standards Executive Committee's Statements of Position (SOP's) issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Reporting Entity

The District is governed by its Board of Trustees (the "Board"). The Board consists of seven members, each of whom serves a five-year term and who are appointed as follows: (i) two by the Mayor of the City of Cleveland (subdistrict one); (ii) two by a council of governments (the "Suburban Council") comprised of representatives of all the suburban communities served by the System (subdistrict two); (iii) one by the Board of County Commissioners of Cuyahoga County; (iv) one by the appointing authority of the subdistrict with the greatest sewage flow (currently the Mayor of the City of Cleveland); and (v) one by the appointing authority of the subdistrict with greatest population (currently the Suburban Council). Accordingly, the Mayor of the City of Cleveland and the Suburban Council each currently appoint three members of the Board.

The District receives funding from state and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by GASB Statement No. 14, since Board members have decision making authority; the authority to levy taxes, set rates, and issue bonded debt; the power to designate management; the ability to significantly influence operations; and primary accountability for fiscal matters.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 1: Summary of Significant Accounting Policies (continued)

Revenues

Sewage service fees are billed to users of the system on a cycle basis based primarily upon water usage. Estimates for services provided between the ends of various cycles and the end of the year are recorded as unbilled revenue. Included in sewage service fees receivable at December 31, 2001 and 2000 are unbilled sewage service fees of \$19,658,235 and \$17,901,272, respectively.

Cash Equivalents and Investments

The District's policy is to treat all of its short-term, highly liquid investments as investments, and not as cash equivalents.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost plus accrued interest.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2001 and 2000. 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 the respective balance sheet date.

Short-term Investments

Short-term investments consists of nonnegotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAROhio.

Property, Plant and Equipment

Property, plant and equipment, including major renewals or betterments, are capitalized and stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the various classes of assets.

The estimated useful lives in computing depreciation follow:

Interceptor Sewer Lines	Primarily 75 years
Buildings, Structures And Improvements	Primarily 40 years
Sewage Treatment and Other Equipment	5 To 20 years

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 1: Summary of Significant Accounting Policies (continued)

Deferred Debt Expense

Bond issuance costs, bond premiums, and the difference between the reacquisition price and the net carrying value of refunded debt were capitalized and are being amortized over the terms of the respective bonds using a method which approximates the effective interest method. Amortization amounted to \$640,187 for 2001 and \$703,902 for 2000.

Interest Expense

It is the District's intention that all expenses, including interest incurred in connection with financing the constructions of new facilities, be recovered on a current basis. The annual budget process is governed by a number of factors, including a covenant in the 1995 Wastewater Improvement Revenue Refunding Bond Resolution which requires that the current year "net revenues" be at least 125% of its debt service requirements. As the District does not intend that interest costs be recovered from subsequent years' revenue, it has excluded interest as an allowable cost for future rate-making purposes. Therefore, in accordance with FASB Statement No. 71, all interest expense is charged to operations as incurred.

Contribution in Aid of Construction

Participation in construction projects through approved grants-in-aid is recorded when reimbursable project costs are incurred and identified by the District. Amounts received are subject to verification of compliance with the provisions of the applicable grant terms. The portion of depreciation included in the determination of net income that is attainable to plant and equipment acquired through grants is classified as a reduction of the contribution account balance and an increase to retained earnings.

Changes in contributions in aid of construction for the years ended December 31, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
Balance at Beginning of Year	\$ 363,621,143	\$ 364,323,444
Contributions in Aid of Construction	3,377,953	9,600,873
Depreciation on Assets Purchased from Contributions in Aid of Construction	<u>(9,650,559)</u>	<u>(10,303,174)</u>
Balance at End of Year	\$ <u>357,348,537</u>	\$ <u>363,621,143</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 1: Summary of Significant Accounting Policies (continued)

Inventory

Inventory consists of supplies not yet put into service and is charged to operations when consumed. Inventory is valued at the lower of cost (weighted average) or market.

Budgetary Basis of Accounting

The District's budget is prepared on the basis of accounting principles generally accepted in the United States of America, except that the budget does not include interest income, increases in fair value of investments, interest on long-term debt, and gains and losses on equipment disposals. Formal budgetary integration is employed as a management control device during the year.

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of each year. Until the final budgets are adopted, the Board of Trustees may adopt a temporary appropriation for the first three months of the year. The Board of Trustees must also approve all amendments to the budget. The level of budgetary control for the District's operation, maintenance, and minor capital outlays is on a budget center line item basis. During the fiscal year, budget center heads may transfer appropriations within their respective budget centers and from other budget centers within limitations that are subject to Board approval. The capital budget consists of major and minor capital expenditures.

The annual Capital Plan outlines estimated cost by project. These projects are already authorized or to be considered by the Board of Trustees. Approval of the budgets by the Board of Trustees does not in itself authorize expenses for operations and maintenance or expenditures for capital projects. Requests for capital project expenditures must be approved by the Board of Trustees and/or the Executive Director, as appropriate, and require certification of available funds by the Director of Finance. Board approval is required for all operating and capital purchases of goods and services in excess of \$15,000. All budget appropriations lapse on December 31 of each year.

A reconciliation of the annual budget basis revenue and other income in excess of operating expenses to the net income included in the accompanying financial statements is as follows:

	<u>2001</u>	<u>2000</u>
Excess of Revenue over Operating Expenses – Operating Budget Basis	\$ 40,384,567	\$ 41,116,426
Interest Income	18,580,276	15,980,457
Loss on Disposals of Equipment	(768,357)	(74,682)
Increase in Fair Value of Investments	3,331,519	7,125,918
Interest on Long-Term Debt	<u>(17,443,676)</u>	<u>(16,486,676)</u>
Net Income	<u>\$ 44,084,329</u>	<u>\$ 47,661,443</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 1: Summary of Significant Accounting Policies (continued)

Budgetary Basis of Accounting (continued)

Beginning in fiscal year 2000, the District is required to submit a tax budget even though it currently levies no taxes.

Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Transactions With The City of Cleveland

As required by the court order establishing the District, the District and the City of Cleveland (the "City") entered into agreements which provide for the City, as the District's agent, to invoice, collect, and account for sewer charges to most District users. The remainder of the District's users are invoiced directly by the District or by other billing agents.

A summary of the billing and collection transactions between the City and the District for 2001 and 2000 follows:

	<u>2001</u>	<u>2000</u>
Amounts due from District customers at Beginning of Year for invoices rendered by the City	\$ 33,926,553	\$ 31,494,059
Amounts billed to District customers by the City during the year	112,963,731	114,052,893
Cash collected from District customers by the City and remitted to the District during the year	(109,814,040)	(111,342,839)
Cash collected directly by the District on invoices rendered by the City and other adjustments	<u>(553,219)</u>	<u>(277,560)</u>
Balance due from customers at End of Year, included in sewage service fees receivable before allowance for doubtful accounts	\$ <u>36,523,025</u>	\$ <u>33,926,553</u>

Sewage service fees billed by the City are considered delinquent 15 days after the date of the bill. The fees are considered in arrears when they remain unpaid beyond 90 days from the date billed. The District may certify to the County Auditor any delinquent accounts billed by the City. Such certification will result in the delinquent amounts being placed on the real property tax duplicate for collection as taxes. Failure to pay the property tax and District fees will result in a lien on such property.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 2: Transactions with The City of Cleveland (continued)

Fees paid to the City for billing and collection services in 2001 and 2000 were \$4,666,888 and \$4,635,151, respectively.

Note 3: Construction and Restricted Accounts

In conjunction with the issuance of its revenue bonds, the District maintains funds in the following special accounts:

Construction Funds

At December 31, 2001 and 2000, these funds consisted of cash, nonnegotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAROhio. They are used to finance construction expenditures approved by the Board of Trustees. Under certain circumstances, the funds may be used for repayment of principal and interest costs on the 1995 Wastewater Improvement Revenue Refunding Bonds.

Revenue Bond Debt Service Deposit

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2001 and 2000 consisted of direct obligations of the United States Government, plus accrued interest.

Note 4: Long-Term Debt

A summary of long-term debt outstanding at December 31, 2001 and 2000 follows:

	<u>Interest Rate</u>	<u>2001</u>	<u>2000</u>
Wastewater Improvement Revenue Refunding Bonds, Series 1995:			
Serial Bonds maturing 2001-2014	3.65%-5.60%	\$ 65,145,000	\$ 68,590,000
Term Bonds due 2016	5.60%	14,630,000	14,630,000
		79,775,000	83,220,000
Ohio Water Development Authority Loans Payable annually through 2008	5.25%-8.47%	4,579,536	8,243,532
Water Pollution Control Loans Payable through 2021	3.20%-5.20%	296,459,289	267,148,458
Other		12,762	27,862
Total Debt		380,826,587	358,639,852
Less current maturities		21,189,238	19,961,523
Total Long-Term Debt		\$ 359,637,349	\$ 338,678,329

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 4: Long-Term Debt (continued)

Wastewater Improvement Revenue Refunding Bonds, Series 1995

The District issued \$97,830,000 of Wastewater Improvement Revenue Refunding Bonds, Series 1995 (the "1995 Series Bonds"), in connection with the advance refunding of its Wastewater Improvement Revenue Bonds, Series 1991 (the "1991 Series Bonds"). The 1995 Series Bonds are payable from the revenues of the District, after payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. The bonds are additionally secured by a pledge of and lien on monies and investments comprising the Construction Funds and the Revenue Bond Debt Service Deposit.

The bond indenture requires, among other provisions, that the District establish certain debt service accounts, maintain the system in good operating condition, and charge rates such that the necessary debt service payments can be made after operating and maintenance charges have been paid.

Ohio Water Development Authority Loans (OWDA)

These loans represent financing obtained under cooperative agreements for certain construction projects for which Federal grant funds were provided and are intended to cover the portion of funds required for each project in excess of Federal grant funds. These loans are subordinate to the 1995 Series Bonds and are payable from the revenues of the District, after payment of operating and maintenance costs and are secured by a pledge of and lien on such net revenues. The repayment period commences on a fixed date established by each agreement. Repayments have begun on all agreements.

Water Pollution Control Loans

Title VI of the Clean Water Act, as amended, authorizes the Administrator of the U.S. Environmental Protection Agency to make Federal capitalization grants to states for deposit in state water pollution control revolving funds (SRFs). From these funds, states can provide loans and other types of financial assistance, but not grants, to governmental entities for the construction of publicly-owned wastewater treatment facilities. 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. These loans are subordinate to the 1995 Series Bonds and are payable from the revenues of the District, after payment of operating and maintenance costs and are secured by a pledge of and lien on such net revenues. 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.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 4: Long-Term Debt (continued)

Water Pollution Control Loans (continued)

The repayment period for each loan commences no later than the first 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. The District is required to submit final eligible project costs within one year of the project completion date at which time the final loan amount is determined and semi-annual payment amounts are adjusted to reflect such costs. The District had thirty-four SRF loan awards related to projects, nine of which were not complete as of December 31, 2001. Loans related to completed construction projects are being repaid in semi-annual payments of principal and interest over a period of up to twenty years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2001 follows:

<u>Completion or Expected Completion Year of Projects</u>	<u>Number Of Projects</u>	<u>Current Amount Including Accrued Construction Period Interest</u>	<u>Additional Available Borrowings Including Construction Period Interest</u>
1993-2001	25	\$ 228,335,204	\$ -
2002	6	60,222,095	42,579,531
2003	1	3,406,542	7,722,074
2004	1	3,037,595	82,253
2005	1	<u>1,457,853</u>	<u>49,255,518</u>
		<u>\$ 296,459,289</u>	<u>\$ 99,639,376</u>

Defeasance Transactions

In July 1991, the District deposited available construction funds and revenue bond debt service deposits in an irrevocable trust with an escrow agent for the purpose of defeasing bonded debt issued in 1984. The deposit was invested in U.S. Treasury obligations which, together with the revenue earned on such investments, will be sufficient to service the debt until maturity or redemption. The defeased debt and the escrow funds deposited in the irrevocable trust are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the defeasance transaction. As of December 31, 2001, the amount of defeased debt outstanding is \$93,659,000.

In prior years, the District refinanced bonded debt which was outstanding at the time. These legal defeasance transactions resulted in funds being deposited with escrow agents who invested them in U.S. Treasury obligations which, together with the income earned on such investments, will be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the refunding transactions.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 4: Long-Term Debt (continued)

Future Debt Service Requirements

The District anticipates significant additional long-term debt borrowings for ongoing and future construction projects.

The total future debt service requirements for all long-term debt not defeased or refunded as of December 31, 2001 follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 21,189,239	\$ 16,002,050	\$ 37,191,289
2003	20,478,652	16,103,969	36,582,621
2004	20,870,894	15,181,101	36,051,995
2005	20,891,907	14,222,442	35,114,349
2006	20,848,183	13,324,520	34,172,703
2007-2011	111,389,473	52,179,991	163,569,464
2012-2016	123,200,591	24,601,817	147,802,408
2017-2021	40,284,231	4,191,953	44,476,184
2022	<u>1,673,417</u>	<u>36,687</u>	<u>1,710,104</u>
	\$ <u>380,826,587</u>	\$ <u>155,844,530</u>	\$ <u>536,671,117</u>

Note 5: Deposits and Investments

Deposits

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The District's practice is to place deposits with commercial banks and savings and loan associations within its service area. At December 31, 2001, the carrying amount of the District's deposits, including certificates of deposit of \$1,082,937, was \$1,415,725 and the bank balance was \$2,857,849. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$2,557,849 was covered by collateral securities held in Federal Reserve pledge accounts. At December 31, 2000, the carrying amount of the District's deposits, including certificates of deposit of \$837,992, was \$1,184,229 and the bank balance was \$1,995,040. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$1,695,040 was covered by collateral securities held in Federal Reserve pledge accounts. In the event of default by the pledging financial institution, the District may make written demand upon the Federal Reserve Bank of Cleveland for surrender of the collateral.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 5: Deposits and Investments (continued)

Investments

The District's investment policies are currently governed by its 1995 Wastewater Improvement Refunding Revenue Bond Resolution (the "Resolution") as permitted by state statute. The Resolution allows the District to purchase certain instruments, including obligations of the U.S. Treasury, its agencies and instrumentalities, interest-bearing demand or time deposits, repurchase agreements and, in certain situations, pre-refunded municipal obligations, general obligations of any state and other fixed income securities. Repurchase transactions are not to exceed one year and must be collateralized by obligations of the U.S. Government or its agencies which are held by a third party custodian.

The investments included in the Revenue Bond Debt Service Deposit are governed by the provisions of a trust agreement which provides for interest and principal payments on the 1995 Series Bonds.

The District categorizes investments to give an indication of the level of credit risk associated with the District's custodial arrangements at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name (the District had no Category 2 investments at December 31, 2001 and 2000). Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in the District's name.

Categorization of the District's investments at December 31, 2001 was as follows:

	Category		Total
	1	3	Fair Value
Debt Securities:			
United States Treasury	\$ 12,633,804	\$ 1,985,810	\$ 14,619,614
United States Government Agencies	286,062,283	-	286,062,283
Total debt securities	\$ 298,696,087	\$ 1,985,810	300,681,897
STAROhio*			25,123,927
			\$ 325,805,824

*Non-Categorized

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 5: Deposits and Investments (continued)

Categorization of the District's investments at December 31, 2000 was as follows:

	Category		Total Fair Value
	1	3	
Debt Securities:			
United States Treasury	\$ 12,720,731	\$ 1,997,788	\$ 14,718,519
United States Government Agencies	246,216,671	-	246,216,671
Total Debt Securities	\$ 258,937,402	\$ 1,997,788	260,935,190
STAROhio*			49,857,265
			\$ 310,792,455

*Non-Categorized

The amounts invested with STAROhio at December 31, 2001 and 2000 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.

The fair value of debt securities by contractual maturity at December 31, 2001 and 2000, are shown below:

	2001	2000
Due Within One Year	\$ 76,216,791	\$ 119,177,017
Due After One Year Through Five Years	224,465,106	141,758,173
	\$ 300,681,897	\$ 260,935,190

Note 6: Fair Value of Financial Instruments

FASB Statement No.107 requires that the District disclose estimated fair values for its financial instruments. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates, methods, and assumptions are set forth below:

Cash

The carrying value approximates fair value due to the short maturity of this financial instrument.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 6: Fair Value of Financial Instruments (continued)

Investments

The carrying value of the District's investments in U.S. Treasury Securities, obligations of Federal Agencies, and STAROhio is fair value in accordance with the application of GASB Statement No.31. The carrying value of the District's certificates of deposits approximates fair value due to the relative short maturities of these financial instruments.

Long-Term Debt

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The carrying value and estimated fair value of the District's long-term debt at December 31, 2001 were \$359,637,349 and \$353,642,360, respectively. The carrying value and estimated fair value of the District's long-term debt at December 31, 2000 were \$338,678,329 and \$330,880,368, respectively.

Note 7: Defined Benefit Pension Plans

Public Employees Retirement System

The District contributes to the Public Employees Retirement System of Ohio (the "PERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board of Ohio. The PERS provides retirement and disability benefits, annual cost of living adjustments, 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. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. District employees are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 the employer contribution rate for the District was 13.55 percent of covered payroll. The District's contributions to the PERS for the years ended December 31, 2001, 2000 and 1999 were \$3,408,909, \$2,616,873 and \$3,325,401, respectively, which is approximate to the required contributions for each year.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 8: Postemployment Benefits

Public Employees Retirement System

PERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the District's employer units, the rate was 13.55 percent of covered payroll; 4.30 percent was the portion used to fund health care for the year. During 2001 and 2000 the District's portion that was used to fund health care was \$1,081,794 and \$1,038,058, respectively, representing 4.3 percent of covered payroll.

The postretirement health care coverage is advance-funded on an actuarially determined basis. The following assumptions and calculations were based on PERS' latest actuarial review performed as of December 31, 2000: an entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities; the difference between assumed and actual experience is part of the unfunded actuarial accrued liability; the investment assumption rate for 2000 was 7.75 percent; all investments are carried at market value; for actuarial valuation purposes, a smoothed market approach is used – meaning that assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets; individual pay increases are assumed to increase 4.75 percent compounded annually, with no change in the number of active employees; annual pay increases over and above the 4.75 percent base increase were assumed to range from 0.54 percent to 5.1 percent; and health care costs are assumed to increase 4.75 percent annually. The actuarially accrued postretirement health care liability for PERS at December 31, 2000 was \$14,364,600,000. The net assets were \$11,735,900,000, leaving an unfunded actuarial accrued liability of \$2,628,700,000. The number of active contributing participants was 411,076.

Note 9: Deferred Compensation Plans

Under a deferred compensation program, the District offers two plans created in accordance with Internal Revenue Code Section 457 ("IRC 457"). Eligible employees of the District may elect to participate in either the Aetna Life Insurance and Annuity Company Plan (the "Aetna Plan") or the Ohio Public Employees Deferred Compensation Plan (the "Ohio Plan" and collectively, the "Plans"). Employees may also elect to participate in both plans. The Plans allow employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseen financial emergency, as defined in IRC 457.

The District follows the provisions of GASB Statement No.32, Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans. In accordance with the provisions of GASB Statement No.32, at both December 31, 2001 and 2000, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 10: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains an insurance reserve to account for and finance its uninsured risks of property damage. The District is self insured for workers' compensation and purchases commercial insurance for other specific types of coverage. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance and the insurance reserve are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2001 and 2000, estimated liabilities were less than \$130,000 and \$300,000, respectively, and are not material with respect to the financial position of the District. The District's insurance reserve as of December 31, 2001 and 2000 was \$15,632,404 and \$14,703,786, respectively, and is included in short-term investments on the District's balance sheet.

Note 11: Commitments and Contingencies

The District has a major capital improvement and expansion program. At December 31, 2001, the District has outstanding commitments for contracts in progress of approximately \$156,000,000. Funding for future expenditures will be provided primarily from borrowings and District equity.

The District is currently appealing approximately \$11,000,000 in questioned and disallowed costs as a result of an EPA Federal grant audit. Although some portion of this claim may not be settled in the District's favor, management believes that the ultimate outcome will not have a material adverse effect on the financial position of the District and, accordingly, no liability for this amount has been accrued by the District.

The District has approximately \$6,000,000 in asserted or implied construction contract claims currently pending against it related to active construction contracts. In the opinion of District management, the ultimate outcome of these matters will not have a material adverse effect on the financial position of the District and, accordingly, no liability for this amount has been accrued by the District.

The District, in the normal course of its activities, is involved in various other claims and pending litigation. In the opinion of District management, the disposition of these other matters is not expected to have a material adverse effect on the financial position of the District.

Note 12: Change in Accounting Principle

For 2001, the Northeast Ohio Regional Sewer District implemented GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. At December 31, 2001, there was no effect on retained earnings as a result of implementing GASB 33, however, bad debt expense has been reclassified in 2000 to be netted against operating revenue instead of recorded as an other operating expense.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2001 and 2000

Note 13: New Accounting Pronouncements

The Governmental Accounting Standards Board has issued GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*. The phase-in period of this accounting principle will require the Northeast Ohio Regional Sewer District to implement the change for the year ended December 31, 2002. The District is preparing for this change in accounting principle but has chosen not to implement early.

**SUPPLEMENTARY INFORMATION
(UNAUDITED)**

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Schedule of Revenue and Expenses – Budget to Actual

For the year ended December 31, 2001

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>Revenue:</u>			
User Charges:			
Billed	\$ 132,590,000	\$ 132,968,039	\$ 378,039
Unbilled	2,000,000	1,380,536	(619,464)
Other Revenue	<u>400,000</u>	<u>264,183</u>	<u>(135,817)</u>
Total Revenue	<u>134,990,000</u>	<u>134,612,758</u>	<u>(377,242)</u>
<u>Expenses:</u>			
Salaries and Wages	26,458,411	24,647,491	1,810,920
Other Operating Expenses	38,348,028	38,084,794	263,234
Depreciation	<u>31,500,000</u>	<u>31,495,906</u>	<u>4,094</u>
Total Operating Expenses	<u>96,306,439</u>	<u>94,228,191</u>	<u>2,078,248</u>
Excess of Revenues Over Operating Expenses	\$ <u>38,683,561</u>	40,384,567	\$ <u>1,701,006</u>
<u>Reconciliation to Net Income:</u>			
Interest Income		18,580,276	
Increase in Fair Value of Investments		3,331,519	
Loss on Disposals of Equipment		(768,357)	
Interest on Long-Term Debt		<u>(17,443,676)</u>	
Net Income		\$ <u>44,084,329</u>	

See Accompanying Independent Auditors' Report

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Schedule of Operating Expenses – Budget to Actual

For the year ended December 31, 2001

<u>Expense Category</u>	<u>Annual Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
Salaries and Wages	\$ 26,458,411	\$ 24,647,491	\$ 1,810,920
Other Operating Expenses:			
Benefits	7,333,751	6,774,095	559,656
Power	10,113,000	9,267,991	845,009
Gas	3,836,400	4,926,932	(1,090,532)
Water	987,327	831,926	155,401
Professional Services	2,204,000	1,484,679	719,321
Billing and Collection Fees	5,221,000	5,110,654	110,346
Insurance and Bonds	920,000	819,952	100,048
Solids Handling	1,870,710	1,495,717	374,993
Chemicals	759,200	765,279	(6,079)
Materials and Supplies	3,530,330	3,375,647	154,683
Repairs and Maintenance	1,998,073	3,641,665	(1,643,592)
All Other Expenses	3,013,237	2,686,842	326,395
Capitalized Construction Costs	<u>(3,439,000)</u>	<u>(3,096,585)</u>	<u>(342,415)</u>
Total Other Operating Expenses	38,348,028	38,084,794	263,234
Depreciation	<u>31,500,000</u>	<u>31,495,906</u>	<u>4,094</u>
Total Operating Expenses	\$ <u>96,306,439</u>	\$ <u>94,228,191</u>	\$ <u>2,078,248</u>

See Accompanying Independent Auditors' Report

**III. STATISTICAL SECTION
(UNAUDITED)**



**NORTHEAST OHIO REGIONAL SEWER DISTRICT
 OPERATING REVENUE AND OTHER INCOME BY TYPE
 LAST TEN YEARS**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Sewer Service Fees				
City of Cleveland Billing Agent (1)	\$79,530,008	\$89,014,831	\$89,274,103	\$90,988,184
Other Billing Agents	2,571,805	2,856,538	7,459,849	7,826,656
Other Sewer Service Fees	6,101,947	6,600,176	7,226,733	6,906,932
Other Operating Revenue	<u>1,875,981</u>	<u>948,315</u>	<u>1,016,818</u>	<u>982,145</u>
Total Operating Revenue (2)	90,079,741	99,419,860	104,977,503	106,703,917
Interest Income	8,958,755	8,431,474	9,726,315	11,761,325
Increase (Decrease) in Fair Value of Investments (3)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue	<u><u>\$99,038,496</u></u>	<u><u>\$107,851,334</u></u>	<u><u>\$114,703,818</u></u>	<u><u>\$118,465,242</u></u>

(1) 1992 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.

(2) Year 2001 operating revenue increased due to higher unbilled consumption. Increases in other years are due primarily to rate increases.

(3) Beginning in 1997 investments are stated at fair value in accordance with Governmental Accounting Standards Board Statement No.31.

Note: 1992 is presented using the cash basis of accounting. In 1993, for internal purposes the District began using the full accrual basis of accounting and years 1993 through 2001 represent accrual basis amounts. Although the audited financial statements for 1992 were presented on the accrual basis, the revenue detail in this schedule is available only on the cash basis for those years.

Source: District accounting records.

<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
\$95,374,478	\$99,227,876	\$107,385,439	\$114,613,601	\$110,749,258	\$113,591,867
8,481,837	8,819,246	9,754,924	10,025,945	9,914,671	10,435,577
7,404,001	7,622,117	8,174,134	8,846,646	9,727,725	9,780,118
<u>1,058,847</u>	<u>1,198,112</u>	<u>1,159,594</u>	<u>744,600</u>	<u>939,179</u>	<u>805,196</u>
112,319,163	116,867,351	126,474,091	134,230,792	131,330,833	134,612,758
14,419,575	14,656,424	14,833,852	14,996,659	15,980,457	18,580,276
<u>0</u>	<u>1,050,095</u>	<u>2,445,183</u>	<u>(4,806,082)</u>	<u>7,125,918</u>	<u>3,331,519</u>
<u><u>\$126,738,738</u></u>	<u><u>\$132,573,870</u></u>	<u><u>\$143,753,126</u></u>	<u><u>\$144,421,369</u></u>	<u><u>\$154,437,208</u></u>	<u><u>\$156,524,553</u></u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
OPERATING EXPENSES BY TYPE
LAST TEN YEARS**

	<u>1992 (1)</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Salaries and Wages	\$21,220,849	\$22,113,901	\$23,319,678	\$24,086,396
Benefits	6,280,973	6,318,051	6,720,646	6,360,136
Power	9,316,151	9,424,042	9,303,057	9,646,002
Gas	2,450,523	2,652,841	2,373,248	2,607,493
Water	538,546	631,245	631,753	667,855
Professional Services	1,622,670	1,869,990	2,787,508	3,207,863
Billing and Collection Fees	3,474,205	3,725,604	4,176,279	4,486,005
Insurance and Bonds	637,175	557,202	615,065	533,639
Solids Handling	1,134,959	1,605,700	1,173,927	1,431,972
Chemicals	1,291,766	1,474,658	1,419,660	1,578,721
Materials and Supplies	2,498,774	2,304,772	2,474,834	2,603,262
Repairs and Maintenance	1,019,204	1,123,637	1,334,008	1,196,549
Depreciation	21,651,818	22,290,708	22,052,053	24,332,512
All Other Expenses	1,249,208	1,416,172	1,546,501	2,324,815
Capitalized Construction Costs	<u>(2,630,231)</u>	<u>(3,322,855)</u>	<u>(3,210,377)</u>	<u>(3,576,318)</u>
Total Operating Expenses	<u>\$71,756,590</u>	<u>\$74,185,668</u>	<u>\$76,717,840</u>	<u>\$81,486,902</u>

(1) 1992 is presented using the cash basis of accounting, except for depreciation and capitalized construction costs. In 1993, for internal reporting purposes the District began using the full accrual basis of accounting and years 1993 through 2001 represent accrual basis amounts. Although the audited financial statements for 1992 were presented on the accrual basis, the expense detail in this schedule is available only on the cash basis for that year.

(2) 1992 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.

Source : District accounting records.

<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
\$24,993,344	\$25,033,703	\$24,437,135	\$23,662,565	\$23,892,150	\$24,647,491
6,235,727	6,621,439	6,492,369	6,746,180	7,197,179	6,774,095
9,664,024	9,751,968	9,490,602	9,126,719	8,953,181	9,267,991
2,581,693	2,744,234	2,557,611	2,391,660	3,601,449	4,926,932
701,934	768,811	858,857	871,216	954,713	831,926
1,346,917	1,070,494	1,303,469	1,990,640	1,426,942	1,484,679
4,568,164	4,666,139	4,863,083	4,947,264	5,002,072	5,110,654
583,216	541,835	580,001	583,644	864,156	819,952
1,393,493	1,010,364	1,082,460	1,373,228	1,439,390	1,495,717
912,559	808,661	831,880	944,648	742,727	765,279
2,648,300	2,936,944	2,750,734	3,261,897	4,677,056	3,375,647
1,167,174	1,437,440	1,700,997	2,004,747	1,722,806	3,641,665
26,589,817	29,929,463	28,335,108	29,028,480	30,320,517	31,495,906
2,124,851	2,097,277	2,240,893	2,176,672	2,473,286	2,686,842
<u>(3,715,274)</u>	<u>(3,393,015)</u>	<u>(3,637,103)</u>	<u>(3,122,880)</u>	<u>(3,053,217)</u>	<u>(3,096,585)</u>
<u>\$81,795,939</u>	<u>\$86,025,757</u>	<u>\$83,888,096</u>	<u>\$85,986,680</u>	<u>\$90,214,407</u>	<u>\$94,228,191</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
RATIO OF ANNUAL DEBT SERVICE FOR BONDED DEBT TO
TOTAL OPERATING EXPENSES AND TOTAL OPERATING REVENUE
LAST TEN YEARS**

SEE SUMMARY OF REVENUES, EXPENSES, DEBT SERVICE AND DEBT SERVICE
COVERAGE ON PAGES III-18 AND III-19, WHICH INCLUDES DEBT SERVICE RATIOS
FOR BONDED AND TOTAL DISTRICT DEBT FOR THE LAST TEN YEARS.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMMUNITIES SERVED BY THE DISTRICT AND
ESTIMATED POPULATION SERVED
DECEMBER 31, 2001**

<u>Municipality</u>	Estimated Service <u>Population (1)</u>	<u>Municipality</u>	Estimated Service <u>Population (1)</u>
SUBDISTRICT 1			
Cleveland	478,403		
SUBDISTRICT 2			
Bath Township	0 (3)	Middleburg Heights	15,542
Beachwood	12,186	Newburgh Heights	2,389
Bedford	0 (3)	North Randall	906
Bedford Heights	41 (2)	North Royalton	5,654 (2)
Berea	18,970	Northfield	3,827
Boston Heights	0 (3)	Northfield Center Township	4,931
Bratenahl	1,337	Oakwood	3,104 (2)
Brecksville	13,382	Olmsted Falls	7,962
Broadview Heights	15,967	Olmsted Township	5,002 (2)
Brook Park	21,218	Orange	375 (2)
Brooklyn	11,586	Parma	85,655
Brooklyn Heights	1,558	Parma Heights	21,659
Cleveland Heights	49,958	Pepper Pike	976 (2)
Cuyahoga Heights	599	Richfield Village	3,144
East Cleveland	27,217	Richfield Township	0 (3)
Euclid	2,373 (2)	Richmond Heights	4,162 (2)
Garfield Heights	30,734	Sagamore Hills Township	9,340
Gates Mills	849 (2)	Seven Hills	12,080
Highland Heights	8,082	Shaker Heights	29,405
Highland Hills	1,618	Solon	353 (2)
Hudson	9,911 (2)	South Euclid	23,537
Independence	7,109	Strongsville	24,836 (2)
Lakewood	0 (3)	Twinsburg	0 (3)
Linndale	117	Twinsburg Township	0 (3)
Lyndhurst	15,279	University Heights	14,146
Macedonia	9,224 (2)	Valley View	2,179
Maple Heights	26,156	Walton Hills	2,400
Mayfield Heights	19,386 (2)	Warrensville Heights	14,921 (2)
Mayfield Village	3,435 (2)	Willoughby Hills	<u>24 (2)</u>
		Total Subdistrict 2	<u>606,801</u>
Total estimated service population			<u><u>1,085,204</u></u>

(1) Based on 2000 U.S. Census Block Data as presented in the Northeast Ohio Areawide Coordinating Agency (NOACA) Magic 2001 Database, using the Service Area Boundary determined by the District's Regional Plan for Sewerage and Drainage Phase I study revised 01/11/02 .

(2) Estimated population for that portion of the municipality within the service area of the District.

(3) Service population not applicable; District serves commercial properties only.

Source: District administrative records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
LARGEST CUSTOMERS OF THE DISTRICT
AS OF DECEMBER 31, 2001**

	<u>2001 MCF CONSUMPTION</u>	<u>2001 AMOUNT BILLED</u>
<u>SUBDISTRICT 1</u>		
Cuyahoga Metropolitan Housing Agency*	123,752.6	\$3,506,084
Cleveland Clinic*	48,956.8	1,376,922
LTV Steel Company*	46,430.2	1,356,649
City of Cleveland Water Filtration Plants	33,776.2	1,086,600
Case Western Reserve University	29,569.7	848,115
Cleveland Board of Education*	24,824.4	709,742
University Hospitals	21,189.9	610,484
Cuyahoga County*	19,347.0	538,998
MetroHealth Medical Centers	17,583.7	482,057
Cleveland Thermal Energy Corporation	17,749.4	437,474
Synthetic Products	15,715.3	440,522
Ferro Corporation*	14,990.5	414,744
Veterans Administration Hospital*	14,742.3	345,585
General Electric Company*	11,910.2	342,442
Cleveland State University*	11,782.6	334,348
Clean Harbors of Cleveland Inc.	4,000.5	248,508
New Longwood Association	8,295.5	232,058
Holiday Inn*	7,539.4	206,066
	<hr/>	<hr/>
Total Subdistrict 1	472,156.2	\$13,517,397
 <u>SUBDISTRICT 2</u>		
Ford Motor Corporation	56,689.7	\$1,525,395
Aluminum Corporation of America	37,624.8	1,029,558
NASA Lewis Research Center*	34,340.1	912,805
Forest City Management*	19,626.1	531,819
General Motors Corporation	9,859.9	262,273
	<hr/>	<hr/>
Total Subdistrict 2	158,140.6	\$4,261,850
	 <hr/> <hr/>	 <hr/> <hr/>
Grand Total	630,296.8	\$17,779,248

*Amount represents Subdistrict 1 and Subdistrict 2 billings combined.
Customer is listed in the Subdistrict where majority of consumption occurs.

Source: District accounting records and City of Cleveland Division of Water billing records.



**NORTHEAST OHIO REGIONAL SEWER DISTRICT
MISCELLANEOUS OPERATING STATISTICS
LAST TEN YEARS**

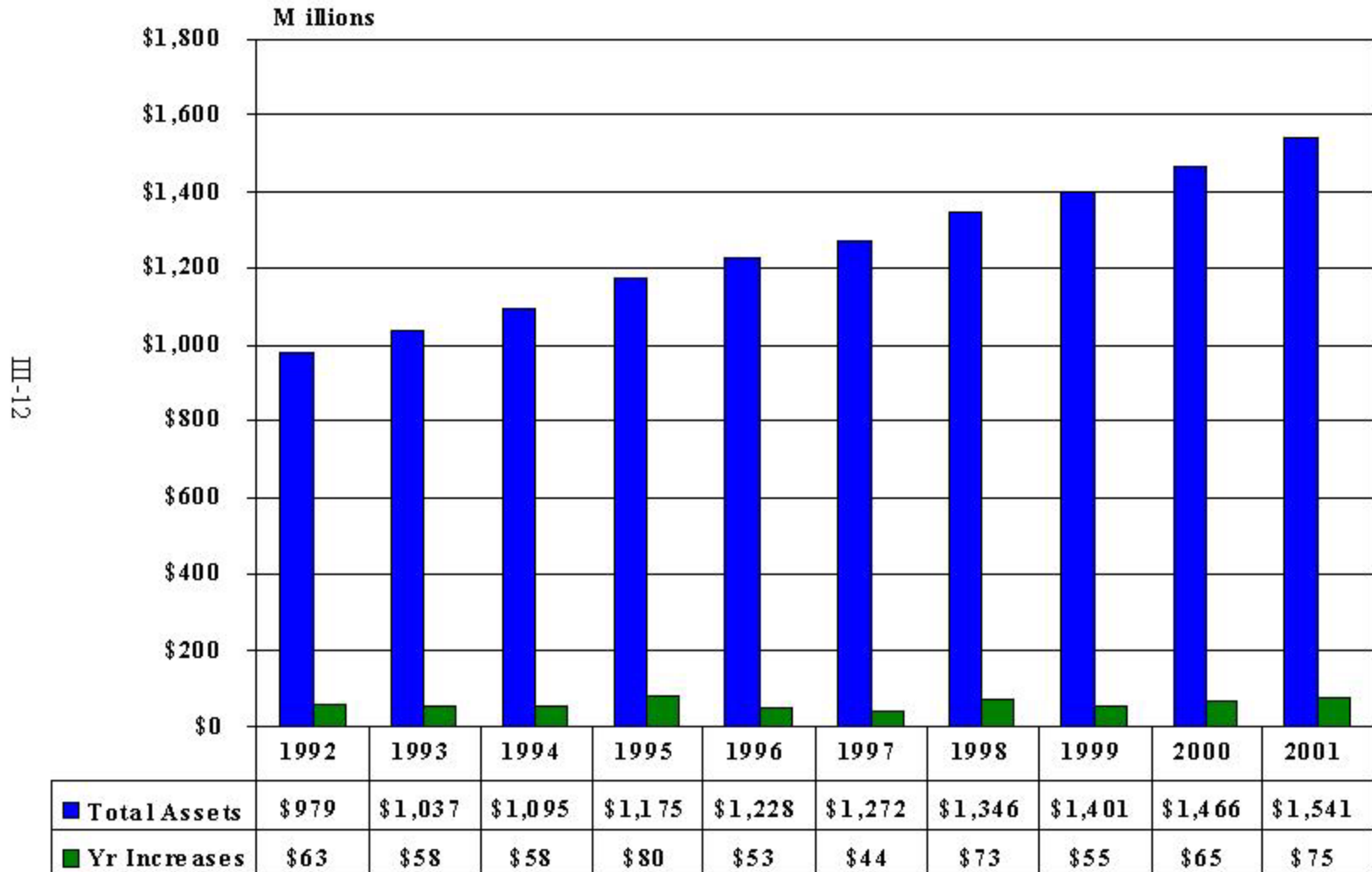
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
<u>TREATMENT PLANT FLOW</u>				
Billions of gallons of sewage treated per plant:				
Easterly	55.2	57.5	54.1	58.3
Southerly	44.4	45.9	46.5	46.4
Westerly	12.5	12.6	12.6	14.6
Strongsville (1)	1.3	1.3	0.7	0.0
Berea (1)	0.9	0.7	0.0	0.0
Total	<u>114.3</u>	<u>118.0</u>	<u>113.9</u>	<u>119.3</u>
Total sewage treated, in MCFs (2)	<u>15,280,749</u>	<u>15,775,401</u>	<u>15,227,273</u>	<u>15,949,198</u>
MCFs billed, total District	<u>6,356,764</u>	<u>6,211,793</u>	<u>6,436,047</u>	<u>6,057,449</u>
<u>STAFFING LEVELS</u>				
Number of employees (3):				
Plant Operations & Maintenance	406	400	396	390
Support Services	169	174	177	178
Engineering and Construction	46	45	50	50
Finance	37	39	39	39
District Administration	10	10	12	11
Legal	9	10	9	11
Total	<u>677</u>	<u>678</u>	<u>683</u>	<u>679</u>
Budgeted employees, total District	<u>693</u>	<u>699</u>	<u>700</u>	<u>705</u>

- (1) Berea plant decommissioned in 1993 and Strongsville plant decommissioned in 1994.
- (2) Conversion factor: 1 MCF (thousand cubic feet) = 7,480 gallons.
- (3) Includes all positions filled during the year. In 1998, Support Services budget centers were redistributed between Operations and District Administration.

Source: Various District records.

<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
54.6	41.0	36.5	38.0	40.9	36.7
54.2	47.5	43.3	40.0	39.2	38.9
13.1	13.8	12.7	11.4	12.0	11.1
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
<u>121.9</u>	<u>102.3</u>	<u>92.5</u>	<u>89.4</u>	<u>92.1</u>	<u>86.7</u>
<u>16,296,791</u>	<u>13,676,471</u>	<u>12,366,310</u>	<u>11,951,872</u>	<u>12,312,834</u>	<u>11,590,909</u>
<u>6,158,601</u>	<u>5,963,566</u>	<u>6,004,778</u>	<u>5,785,288</u>	<u>5,600,215</u>	<u>5,442,696</u>
385	370	467	435	420	400
183	186	0	0	0	0
49	47	45	46	45	48
39	39	38	38	35	35
13	13	66	66	73	76
8	8	8	9	9	10
<u>677</u>	<u>663</u>	<u>624</u>	<u>594</u>	<u>582</u>	<u>569</u>
<u>709</u>	<u>704</u>	<u>644</u>	<u>620</u>	<u>625</u>	<u>595</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
CUMULATIVE ASSET GROWTH
LAST TEN YEARS**



CONTINUING DISCLOSURE REQUIREMENTS

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
HISTORICAL NUMBER OF CUSTOMER ACCOUNTS
LAST TEN YEARS**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
<u>Subdistrict 1</u>				
Cleveland (1)	137,274	135,981	136,845	134,688
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	4	4	3	3
Direct Service - Suburbs (1)	<u>138,830</u>	<u>146,611</u>	<u>163,481</u> (1)	<u>164,395</u>
Subtotal	<u>138,834</u>	<u>146,615</u>	<u>163,484</u>	<u>164,398</u>
Total Customers	<u><u>276,108</u></u>	<u><u>282,596</u></u>	<u><u>300,329</u></u>	<u><u>299,086</u></u>

- (1) 2001 and 2000 exclude inactive accounts.
- (2) The Master Meter Suburbs, which bill their customers separately, had approximately 15,550 accounts at the end of 2001. This represents an increase from 2000 of 455 accounts in Summit County. The Village of Richfield became a Master Meter Community in 1991. As of April 1, 1994 the City of Cleveland Heights converted from a Master Meter to a Direct Service community and performs billing and collection functions similar to those performed by the City of Cleveland. The City of Hudson became a Master Meter community in 1998.

Source: District accounting records.

<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
134,851	134,819	134,228	136,234	132,801	136,332
3	3	4	4	4	4
<u>167,376</u>	<u>167,784</u>	<u>170,325</u>	<u>170,032</u>	<u>171,712</u>	<u>174,264</u>
<u>167,379</u>	<u>167,787</u>	<u>170,329</u>	<u>170,036</u>	<u>171,716</u>	<u>174,268</u>
<u><u>302,230</u></u>	<u><u>302,606</u></u>	<u><u>304,557</u></u>	<u><u>306,270</u></u>	<u><u>304,517</u></u>	<u><u>310,600</u></u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
ANNUAL METERED BILLING QUANTITIES
LAST TEN YEARS
(IN THOUSANDS OF CUBIC FEET)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
<u>Subdistrict 1</u>				
Cleveland	3,572,012	3,394,178	3,540,224	3,198,706
<u>Subdistrict 2</u>				
Direct Service - Suburbs	2,254,467	2,273,988	2,537,397	2,593,163
Master Meter - Suburbs(1)	<u>530,285</u>	<u>543,627</u>	<u>358,426 (2)</u>	<u>265,580</u>
Subtotal	<u>2,784,752</u>	<u>2,817,615</u>	<u>2,895,823</u>	<u>2,858,743</u>
Total Service Area	<u><u>6,356,764</u></u>	<u><u>6,211,793</u></u>	<u><u>6,436,047</u></u>	<u><u>6,057,449</u></u>

- (1) Consumption of Master Meter Suburbs is presented at 80% of total consumption which is the billing basis.
- (2) As of April 1, 1994 the City of Cleveland Heights converted from a Master Meter to a Direct Service Community and performs billing and collection functions similar to those performed by the City of Cleveland. Consumption in 1994 for the City of Cleveland Heights at 80% of actual as a Master Meter Community was 71,552.6 MCF (thousand cubic feet); as a Direct Service Community it was 175,342.9 MCF.
- (3) In 1995 Cleveland Heights was a Direct Service Community for the entire year.
- (4) 1999 includes the City of Hudson for the first time. Although Hudson joined the District in late 1998, they did not receive sewer bills and they were not included on the District billing roster until 1999.

Source: District accounting records.

<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
3,309,692	3,173,571	3,176,655	2,919,241	2,815,865	2,765,282
2,569,691	2,519,858	2,559,852	2,553,481	2,427,096	2,387,609
<u>279,218</u>	<u>270,137</u>	<u>268,271</u>	<u>312,566</u> (4)	<u>357,254</u>	<u>289,805</u>
<u>2,848,909</u>	<u>2,789,995</u>	<u>2,828,123</u>	<u>2,866,047</u>	<u>2,784,350</u>	<u>2,677,414</u>
<u><u>6,158,601</u></u>	<u><u>5,963,566</u></u>	<u><u>6,004,778</u></u>	<u><u>5,785,288</u></u>	<u><u>5,600,215</u></u>	<u><u>5,442,696</u></u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
SUMMARY OF REVENUES, EXPENSES, DEBT SERVICE AND
DEBT SERVICE COVERAGE
LAST TEN YEARS
(In Thousands of Dollars)**

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Operating Revenue (1)	\$90,770	\$99,235	\$104,713	\$106,704
Non-Operating Revenue (2)	<u>6,743</u>	<u>3,933</u>	<u>4,140</u>	<u>9,657</u>
Total Revenues	<u>97,513</u>	<u>103,168</u>	<u>108,853</u>	<u>116,361</u>
Operating Expenses (Exclusive of depreciation)				
Operations (1)	39,939	38,599	40,494	42,705
Maintenance	<u>11,246</u>	<u>13,444</u>	<u>14,190</u>	<u>14,450</u>
Total Operating Expenses	<u>51,185</u>	<u>52,043</u>	<u>54,684</u>	<u>57,155</u>
Net Revenues Available for Debt Service	<u>\$46,328</u>	<u>\$51,125</u>	<u>\$54,169</u>	<u>\$59,206</u>
Total Revenue Bond Debt Service (3)	\$8,966	\$9,961	\$9,959	\$9,961
Coverage on Revenue Bond Debt Service	5.17	5.13	5.44	5.94
Total All Debt Service (3)	\$13,612	\$15,381	\$16,143	\$18,960
Coverage on Total Debt Service	3.40	3.32	3.36	3.12

(1)1992 through 2000 restated for reclassification of bad debt expense as a reduction of revenue. This has no effect on debt service.

(2) Non-Operating Revenue excludes Project Account interest income on Revenue Bond Proceeds.

Interest Income from Project Account investments was as follows:	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
	\$5,539	\$3,159	\$1,898	\$701

(2) Restated 1997 to record increase of investments to fair value.

(3) Net Revenues are first used to pay debt service on Revenue Bonds and second to pay debt service on loans from the Ohio Water Development Authority (OWDA) and Water Pollution Control Loan Fund (WPCLF). The annual Debt Service Requirements on these obligations for the ten years ended December 31, 2000 were:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Revenue Bond Issues and Debt Service				
\$63,439 Series 1984(A)	\$0	\$0	\$0	\$0
\$122,315 Series 1991(B)	8,966	9,961	9,959	9,961
\$97,830 Series 1995	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue Bond Debt Service	8,966	9,961	9,959	9,961
OWDA Debt Service	4,646	4,654	4,652	4,654
WPCLF Debt Service	<u>0</u>	<u>766</u>	<u>1,532</u>	<u>4,345</u>
Total All Debt Service	<u>\$13,612</u>	<u>\$15,381</u>	<u>\$16,143</u>	<u>\$18,960</u>

(A) The Series 1984 Bonds were paid and discharged on July 1, 1991.

(B) The Series 1991 Bonds were refunded on September 1, 1995 and replaced by the Series 1995 Bonds.

(C) Includes \$836 repayment of grant as result of final Ohio EPA audit.

Source: District accounting records.

<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
\$112,319	\$116,867	\$126,474	\$132,631	\$131,331	\$134,613
<u>13,575</u>	<u>8,592</u> (2)	<u>16,434</u>	<u>9,971</u>	<u>23,032</u>	<u>21,143</u>
125,894	125,459	142,908	142,602	154,363	155,756
40,272	40,650	40,368	41,278	44,184	44,550
<u>14,934</u>	<u>15,446</u>	<u>15,185</u>	<u>15,680</u>	<u>15,710</u>	<u>18,182</u>
55,206	56,096	55,553	56,958	59,894	62,732
<u>\$70,688</u>	<u>\$69,363</u>	<u>\$87,355</u>	<u>\$85,644</u>	<u>\$94,469</u>	<u>\$93,024</u>
\$8,285	\$7,932	\$7,932	\$7,934	\$7,936	\$7,932
8.53	8.74	11.01	10.79	11.90	11.73
\$21,561	\$25,640	\$26,253	\$28,331	\$34,409	\$34,866
3.28	2.71	3.33	3.02	2.75	2.67
<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
\$271	\$0	\$0	\$0	\$0	\$0
<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
\$0	\$0	\$0	\$0	\$0	\$0
0	0	0	0	0	0
<u>8,285</u>	<u>7,932</u>	<u>7,932</u>	<u>7,934</u>	<u>7,936</u>	<u>7,932</u>
8,285	7,932	7,932	7,934	7,936	7,932
4,501	5,479 (C)	4,643	4,643	4,643	4,079
<u>8,775</u>	<u>12,229</u>	<u>13,678</u>	<u>15,754</u>	<u>21,830</u>	<u>22,855</u>
\$21,561	\$25,640	\$26,253	\$28,331	\$34,409	\$34,866

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
SEWAGE SERVICE RATES
RATE HISTORY - LAST TEN YEARS**

Fiscal Years During Which Rates Were Effective	SUBDISTRICT 1				SUBDISTRICT 2			
	Standard		Homestead (2)		Standard		Homestead (2)	
	Rate (1)	Change	Rate (1)	Change	Rate (1)	Change	Rate (1)	Change
1991	\$10.60	24.0 %	\$8.96	N.A.	\$13.50	22.1 %	\$11.55	N.A.
1992	12.75	20.3	9.39	4.8 %	16.50	22.2	12.15	5.2 %
1993	13.00	2.0	9.44	0.5	18.00	9.1	12.45	2.5
1994 - 1995	14.75	13.5	9.79	3.7	19.80	10.0	12.81	2.9
1996	15.95	8.1	11.10	13.4	21.00	6.1	13.85	8.1
1997	17.15	7.5	11.80	6.3	22.25	6.0	14.75	6.5
1998	18.25	6.4	12.55	6.4	23.45	5.4	15.70	6.4
1999	19.60	7.4	13.35	6.4	24.50	4.5	16.70	6.4
2000 - 2001	21.10	7.7	14.25	6.7	26.60	8.6	17.80	6.6

- (1) Per thousand cubic feet (MCF) of water consumed.
- (2) These rates were first established in the 1991 fiscal year.

Industrial Waste Surcharge

An additional charge is billed to industrial and other types of customers discharging wastewater which contains substances requiring more extensive treatment than effluent from residential customers.

The amount of this Industrial Waste Surcharge is calculated in accordance with formulas set forth in the Rate Resolution which take into account concentrations of suspended solids, biological oxygen demand and chemical oxygen demand based on waste loading determined by analysis or otherwise.

Minimum Quarterly Billing

Each customer of the District is charged a minimum quarterly amount for sewage service equal to the class of service rate applicable to the metered water usage of 1,000 cubic feet (7,480 gallons).

Source: District accounting records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
CAPITAL IMPROVEMENT PROGRAM
USES AND SOURCES OF FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2002 THROUGH 2006
(In Thousands of Dollars)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>TOTAL</u>
<u>USES OF FUNDS (1)</u>						
Sewage Treatment Plant Improvements						
Westerly	\$17,000	\$100	\$100	\$1,000	500	\$18,700
Southerly	11,000	21,820	37,325	20,640	63,200	153,985
Easterly	9,000	500	500	2,000	7,000	19,000
Sub-Total	<u>37,000</u>	<u>22,420</u>	<u>37,925</u>	<u>23,640</u>	<u>70,700</u>	<u>191,685</u>
Interceptors						
Inter-Community Relief Sewers	15,600	2,530	2,240	2,500	0	22,870
Cuyahoga Valley	0	2,000	0	0	0	2,000
Sub-Total	<u>15,600</u>	<u>4,530</u>	<u>2,240</u>	<u>2,500</u>	<u>0</u>	<u>24,870</u>
Combined Sewer Overflow and Interceptor Rehabilitation						
	77,560	44,570	12,500	65,350	45,200	245,180
Other Projects	32,330	10,100	4,200	3,050	800	50,480
TOTAL	<u>\$162,490</u>	<u>\$81,620</u>	<u>\$56,865</u>	<u>\$94,540</u>	<u>\$116,700</u>	<u>\$512,215</u>
<u>SOURCES OF FUNDS</u>						
Federal Grants (2)	\$13,100	\$0	\$0	\$0	\$0	\$13,100
WPCLF Loans (2)	85,900	41,700	9,900	69,000	45,200	251,700
Net Bond Proceeds	0	25,480	0	0	44,000	69,480
Internally Generated Funds	63,490	14,440	46,965	25,540	27,500	177,935
TOTAL	<u>\$162,490</u>	<u>\$81,620</u>	<u>\$56,865</u>	<u>\$94,540</u>	<u>\$116,700</u>	<u>\$512,215</u>

(1) Five years are presented instead of ten because the District prepares five year projections. Ten year projected information is not available.

(2) Subject to appropriation and allocation and can not be expected with any degree of certainty.

Source: District accounting records.

Northeast Ohio Regional Sewer District

SINGLE AUDIT REPORTS

DECEMBER 31, 2001

NORTHEAST OHIO REGIONAL SEWER DISTRICT

FOR THE YEAR ENDED DECEMBER 31, 2001

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1-2
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards.....	5
Notes to the Schedule of Expenditures of Federal Awards.....	6
Schedule of Findings OMB Circular A-133 Section .505	7
Corrective Action Plan OMB Circular A-133 Section .315(c).....	8
Schedule of Prior Audit Findings OMB Circular A-133 Section .315(b).....	9

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the financial statements of the Northeast Ohio Regional Sewer District (the "District"), as of and for the year ended December 31, 2001, wherein we noted that the District reclassified certain assets to the Enterprise Fund Type, and have issued our report thereon dated April 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control which might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal controls over financial reporting, which we have reported to management of the District in a separate letter dated April 19, 2002.

Members of the Board of Trustees of the
Northeast Ohio Regional Sewer District

This report is intended solely for the information and use of the Board of Trustees, Management, Auditor of State's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Curtis P. Parnell, Esq.

Cleveland, Ohio
April 19, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Northeast Ohio Regional Sewer District

Compliance

We have audited the compliance of the Northeast Ohio Regional Sewer District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2001. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2001.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the District as of and for the year ended December 31, 2001, and have issued our report there dated April 19, 2002. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, Management, Auditor of State's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Curtis P. Partridge, Jr.

Cleveland, Ohio
April 19, 2002

NORTHEAST OHIO REGIONAL SEWER DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2001

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency: Surveys, Studies, Investigations and Special Purpose Grants	66.606	XP985018-01-0 XP985464-01-0 XP985464-02-0	\$ 547,136 131,054 <u>3,174,078</u>
Subtotal Direct Programs			<u>3,852,268</u>
U.S. Environmental Protection Agency: Pass-through Programs from Ohio Environmental Protection Agency: Capitalization Grants for State Revolving Funds	66.458	CS391867-01 CS391972-02 CS391126-15 CS392039-02 CS392166-01 CS391126-16 CS391972-05 CS391972-03 CS392194-01 CS391126-17 CS392034-02 CS391972-04 CS391972-06 CS391126-18	807,835 53,191 136,340 711,416 59,041 2,833,134 26,377,559 504,550 2,873,213 2,104,200 1,574,788 823,655 158,394 <u>1,454,061</u>
Subtotal Pass-through Programs			<u>40,471,377</u>
Total Expenditures of Federal Awards			\$ <u>44,323,645</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

SCHEDULE OF FINDINGS OMB CIRCULAR A-133 SECTION .505

DECEMBER 31, 2001

1. SUMMARY OF AUDITOR'S RESULTS

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .501?	No
(d)(I)(vii)	Major Programs	Surveys, Studies, Investigations and Special Purpose Grants (CFDA No. 66.606); Capitalization Grants for State Revolving Funds (CFDA No. 64.458)
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$1,176,785 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 SECTION .315(c)**

FOR THE YEAR ENDED DECEMBER 31, 2001

The December 31, 2001 audit reported no audit findings as defined in OMB Circular A-133, Section .510. Therefore, preparation of a corrective action plan is not applicable.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

SCHEDULE OF PRIOR AUDIT FINDINGS OMB CIRCULAR A-133 SECTION .315(b)

DECEMBER 31, 2001

The December 31, 2000 audit reported no audit findings as defined in OMB Circular A-133, Section .510. Therefore, there are no prior findings on which to report.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

NORTHEAST OHIO REGIONAL SEWER DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 5, 2002**