

NORTHEAST OHIO REGIONAL SEWER DISTRICT  
A POLITICAL SUBDIVISION OF THE  
STATE OF OHIO  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2009

SUBMITTED BY:

Department of Finance





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Northeast Ohio Regional Sewer District  
3900 Euclid Avenue  
Cleveland, Ohio 44115

We have reviewed the *Independent Auditors' Report* of the Northeast Ohio Regional Sewer District, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2009 through December 31, 2009. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

October 27, 2010



**NORTHEAST OHIO REGIONAL SEWER DISTRICT**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2009**

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**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2009**

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August 31, 2010

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

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Northeast Ohio Regional Sewer District for the fiscal year ended December 31, 2009.

This report consists of management's representations concerning the finances of the Northeast Ohio Regional Sewer District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Northeast Ohio Regional Sewer District has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Northeast Ohio Regional Sewer District's financial statements in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the Northeast Ohio Regional Sewer District's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Northeast Ohio Regional Sewer District's financial statements have been audited by Ciuni and Panichi, Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Northeast Ohio Regional Sewer District for the fiscal year ended December 31, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the Northeast Ohio Regional Sewer District's financial statements for the fiscal year ended December 31, 2009, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the Independent Auditors' Report.

## **PROFILE OF THE DISTRICT**

### **General**

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

### **Service Area**

The District's service area covers approximately 350 square miles. The District encompasses 97% of the City of Cleveland and all or portions of 61 suburban communities in Cuyahoga, Lake, Lorain 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 more wastewater than any other wastewater treatment system in the State of Ohio.

### **Governance**

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

### **Budgets**

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. Readers should refer to the Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual on page 44 of this report, along with the accompanying Notes to Supplementary Information for additional budgetary information.

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. In accordance with Chapter 5705 of the Code, because the District does not levy any taxes it does not file an annual Tax Budget.



## **FACTORS AFFECTING FINANCIAL CONDITION**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

### **Local Economy**

The economic environment in which the District operates is affected by the same events and conditions as the rest of the State of Ohio and the nation. Although the economy is still recovering, District revenue is expected to remain relatively stable due to approval of a rate increase by the Board of Trustees. The region is not dominated by any single industry. 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 include federal, state, county and municipal government agencies, health care providers, public schools, financial service providers, manufacturers, and retail establishments. In recent years there has been a significant shift from manufacturing to a service and information based economy.

The unemployment rate in December 2009 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 9.0% was 1.9% lower than the seasonally adjusted rate for the State of Ohio 10.9% and 0.7% lower than the national rate of 9.7%. 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.

### **Long-term Financial Planning**

The District has produced a strong financial history since its inception in 1972. Moving forward, the District is positioned to continue to meet the level of service and regulatory requirements demanded by its customers, its Board of Trustees and regulatory agencies. Part of that responsibility will entail investment, over the next 25 years, of approximately \$5 billion in new Combined Sewer Overflow (CSO) controls and wastewater facility improvements.

The District maintains long range financing plan for its Operating and Capital budgets. The District's five year financing plan for the capital budget provides for over \$1 billion in capital project expenditures from 2009 to 2013, primarily for improvements to our Southerly wastewater treatment plant and our CSO long-term control plan. This includes approximately \$409 million for the plants, \$411 million for the CSO projects, and \$110 for the collection system improvements, and \$117 million of miscellaneous District-wide improvements. Over this five year period, the District will need to address both regulatory driven capital improvements and rehabilitation driven capital improvements at its three (3) wastewater treatment plants and within its collection system.

In 2009, the federal economic stimulus program, the American Recovery and Reinvestment Act (ARRA), was signed. ARRA provides significant funds for energy and infrastructure projects. The District was awarded \$10 million in 2009 for three of its projects.

During 2006 the District completed a five year long-term financial and rate impact model for rates going in effect 2007-2011. The model incorporates specific year by year details to determine the sewer rates over the next five years.

## **Cash Management**

The District currently invests in four major types of instruments: obligations issued or backed by the United States Government; the STAR Ohio Fund; bank or savings and loan non-negotiable certificates of deposit and bank money market savings. 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, 2009, the District's investment portfolio, at cost, of \$251,746,224, including \$9,004,502 in the Debt Service Account for the Series 2005 Bonds and \$9,822,011 in Debt Service Account for the Series 2007 Bonds and excluding accrued interest, had a market value of \$265,747,156.

## **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 10 to the audited financial statements disclose information about risk management.

## **Debt Administration**

At year-end, the District had bonded debt outstanding of \$170,790,000. The debt net of applicable unamortized discounts and refunding costs is \$173,195,601. 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, 2009, the outstanding loan balances were \$411,543,948 for the WPCLF. Outstanding revenue bonds of the District are rated AA by Standard & Poor's and Aa3 by Moody's rating agencies. Note 6 to the audited financial statements include schedules of debt outstanding and future debt service requirements.

In 2005, 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. This information should be read in conjunction with Note 6 to the audited financial statements.

In 2007, the District issued \$126,055,000 Wastewater Improvement Revenue Bonds, Series 2007 Bonds, for the purpose of providing funds for the acquisition, construction, and improvement of water resource projects, funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and paying certain costs of issuance of the Series 2007 Bonds.

## **MAJOR INITIATIVES**

### **For the Year**

#### **2009 Awards**

During 2009 the District received awards for 2008 plant performance from the National Association of Clean Water Agencies (NACWA, formerly Association of Metropolitan Sewerage Agencies, or AMSA). NACWA honored all three of our treatment facilities for excellent performance in 2008. Our Southerly, Easterly and Westerly plants earned the Peak Performance Silver Award. A Silver honor recognizes facilities with no more than one National Pollutant Discharge Elimination System permit violations in a year. Awards for 2009 performance have not been announced as of the date of this report.

During 2009, the Government Finance Officers Association (GFOA) presented the Distinguished Budget Presentation Award to the District for the third time for its 2009 Budget.

During 2009, the District was awarded the 2009 Best in Class: Supplier Diversity-Nonprofit/Government Sector in Northeast Ohio from the Greater Cleveland Partnership.

#### **Small Business Enterprise Program**

As of June 1, 2009 the District implemented a Small Business Enterprise Program (SBE). The purpose of this program is to provide procurement opportunities to small and local businesses, thereby contributing to the economic health and vitality of the region. The District implemented a SBE program to focus this economic impact in the geographic area it serves in addition to Geauga and Medina counties. In this way, the customers have a greater opportunity to do business with the District, resulting in job and business growth for the local business community. Bringing new companies into the Districts procurement process enhances the District's competitive bidding process and helps get the greatest value for the money it spends.

#### **Vendor Registration**

The Small Business Enterprise Program joined forces with the Purchasing Department in developing and implementing an on-line vendor registration system that tracks the number of registered vendors doing business with the District and vendor payments, as well as assisting in the identification of potential vendors for the Small Business Enterprise Program. The real-time, on-line vendor registration system enables vendors to up-load and edit their vendor profile information as well entering SBE certification data. In less than 1 year time the District has over 803 registered vendors.

#### **Employee Relations**

Our employees are our most valuable asset and are key to accomplishing our mission and the District's strategic goals. The District continues to invest in its employees by funding training and development efforts that provide skills training in the areas of safety, technology, government relations and professional and career development to endure a skilled, safe and competent workforce that is fully capable of supporting our customers' needs. Other major highlights of the District employee relations are:

- *Health and Wellness Program*

In 2009, the District implemented a comprehensive Health and Wellness Program to encourage employees and their families to continue to improve their quality of life. The District established a Wellness Committee to develop monthly educational sessions on health and wellness from nutrition, to exercise, to reducing stress. Even though the program is in its infancy, it has had some impact on the renewal rates. This program has enabled the District to negotiate a two year rate guarantee. The guarantee capped the costs in the second year at 10% or below. Given the current conditions of health care costs running between 12 to 15 percent, this two year guarantee will result in a savings to the District between \$100,000 to \$250,000. As the District continues to develop the program and provide new innovations and programs directed to wellness, prevention and disease management, the District will be able to better manage health care costs, as well as see some residual benefits in the areas of less missed work due to illness, lower incidents of disability and reductions in workers compensation claims.

- *Diversity and Inclusion*

In 2009 the District launched a Diversity and Inclusion Initiative. As part of this initiative the District conducted an employee diversity and inclusion survey, resulting in a 73% response rate, launched an internal DiverseWorks website, and developed a three year diversity and inclusion strategic plan.

The District is committed to fostering a diverse and inclusive work force which builds an environment that respects the individual, promotes innovation, and offers opportunities for all employees to develop to their full potential. The District's commitment to diversity and inclusion is a long-term strategy that maximizes the development of a cultural competence to achieve greater productivity and to respond proactively to an emerging American cultural demographic. Awareness of one's own cultural beliefs, values and norms; appreciations and knowledge of different cultural beliefs, values and norms; and cross cultural skills, are the guiding principles reflected in the District's interactions with customers, clients and partners and defines the work ethic under which the district operates.

- *Employee Recognition Program*

The District implemented a Employee Recognition Program which provides for monthly, District-wide recognition and rewards. The program is important to the District because employees appreciate when their contributions are acknowledged. To make recognition a part of our daily lives, the District wants to foster a culture of appreciation and motivate employees by reminding them of the value they add to furthering the District's mission and vision as demonstrated by our core values.

## **CSO Long-term Control Plan**

The District has responsibility for combined sewer overflows (CSOs) within its service area under the federal Clean Water Act and U.S. Environmental Protection Agency's (U.S. EPA) CSO Control Policy. The District also holds a state-issued NPDES permit for the CSOs and pursuant to the foregoing, the District was required to develop a Long Term Control Plan (LTCP) to reduce or eliminate the number of overflows from its CSO outfalls. The estimated cost of the District's proposed CSO LTCP, as submitted to Ohio EPA, was approximately \$2.7 billion (in 2009 dollars). The District is currently engaged in negotiations with Ohio and U.S. EPA, U.S. Department of Justice, and the Ohio Attorney General's Office to obtain final approval of its LTCP. During the course of those negotiations, the District has proposed certain additions and enhancements to its original LTCP that, if approved, would bring its total cost to approximately \$3 billion (in 2009 dollars). The schedule over which the plan will be implemented

is still under negotiation, but is likely to be between 20 and 30 years. It is anticipated that negotiations will be concluded and the District will obtain authorization from its Board of Trustees to enter into a Consent Decree with the state and federal agencies by the end of 2010.

The District has already invested \$850 million and reduced CSO volumes by 4.5 billion gallons since 1972. The District's CSO LTCP, the last of which was submitted in 2002, proposed to further reduce the number of overflows to four or less per year and to capture 97 % of the total volume of wet weather flow in the combined sewer system, which is above the 85% specified in U.S. EPA's CSO Control Policy. In its subsequent negotiations with Ohio EPA and U.S. EPA the District has proposed additional, cost-effective enhancements to its program that would result in 98.2% capture of all wet weather flow in the combined sewer area – with 97% capture achieved in year 20 of the District's proposed 25-year implementation period.

In 2011, NEORSD will begin construction on its second large-scale tunnel – the Euclid Creek Tunnel. Ultimately, NEORSD will construct seven tunnels, which range from two to five miles in length, up to 300 feet underground and up to 24 feet in diameter. The tunnels are similar to the nearly complete Mill Creek Tunnel, a structure that will have the capacity to store 75 million gallons of combined sewage until it can be treated at the District's Southerly Wastewater Treatment Plant.

Some of the major proposed CSO projects outside of the storage tunnels include the expansion of the Easterly WWTP secondary treatment capacity, with an additional Chemically Enhanced High Rate Treatment (CE HRT) facility for treatment and disinfection of CSO 001 during wet weather events. At the Southerly WWTP the District is proposing to expand secondary treatment capacity and include CE HRT and disinfection for treatment of additional wet weather flows. The District has proposed to upgrade the existing Westerly CSO Treatment Facility (CSOTF) with CE HRT and disinfection, thereby increasing wet weather treatment capacity at this facility.

The District has incorporated opportunities to construct more sustainable and cost-effective green infrastructure in place of traditional gray infrastructure in its proposal, which would include a commitment to a minimum of \$42 million in green infrastructure projects, reducing 44 MGD of wet weather CSO flows beyond those captured by tunnels.

### **Asset Management Implementation**

The District completed an asset management assessment project where many of the District's asset-related practices were evaluated and benchmarked against "world's best practices". The District's overall score from the benchmarking exercise was above average when compared to similarly sized U.S. utilities. However, opportunities to improve asset management performance were identified in various areas. As a result of this study, an Asset Management Implementation Plan was developed and is currently in its second year of implementation.

The main outcomes of the current first phase of the Asset Management Implementation plan, which will improve the efficiency and cost effectiveness of District operations, are as follows:

- Establishment of a corporate risk management policy that provides the means for identifying, measuring and reducing the District's risks.
- Establishment of a consistent method incorporating risk to develop short and long-term repair and renewal plans for all the District's infrastructure assets, which will then be used to further define the District's CIP.

- Enhanced financial planning by anticipating long-term financial needs from the repair and renewal planning.

## **Development of 30-Year Capital Improvement Plan**

The District obtained the services of a Program Manager to assist in evaluation of its capital improvement program. This included reviewing the following categories of projects: Collection System – Combined Sewer Overflow, Collection System – Interceptor and Rehabilitation, Treatment Plants, and Stormwater. The activities included updating/documenting the data for each project to be used in scheduling, developing a generic work breakdown structure for project input, building the preliminary master schedule to provide the framework for the baseline CIP, and determining a cash flow for the implementation of the planned CIP based on the master cost-loaded schedule. This effort supported the evaluation of affordability in reference to the implementation of the CIP as well as served as a baseline for assessing and determining resources for the CIP program.

The process provided the District with a validated cash flow based 30-year CIP, including a detailed 5-year CIP which provides key schedule milestones (Design Start and Construction Start) and brief descriptions of each project. Additionally, the District is developing a consistent, risk-based approach to prioritizing future non-CSO CIP projects, to ensure funds are spent on the highest priority projects first.

## **Biosolids Management**

Approximately 100,000 wet tons of biosolids (sewage sludge) are removed from the wastewater at the District's three wastewater treatment plants on an annual basis. Of this amount, roughly 90% is burned in the District's six multiple hearth biosolids incinerators and the balance is hauled to a municipal solid waste landfill for disposal or to a reclamation project for beneficial reuse.

A District Residuals Management Study completed in 2005, and validated in 2008, determined that the District's most cost effective long-term biosolids management option is to continue incineration, with landfilling as a secondary option. As a result, the District is undertaking a program to replace four existing incinerators located at the Southerly Wastewater Treatment Plant with three new state-of-the-art fluid bed incinerators. The final design of the project included a facility to house waste heat boilers and a turbine generator to create a Renewable Energy Facility (REF) that will supply power from the incineration process to the Southerly WWTC. The new REF and incinerator facility should be in service in 2013 and has a current total project cost estimate of approximately \$160.0 million.

## **For the Future**

### **Regional Stormwater Management Program**

In 2008, the District procured services to assist with the development of a Regional Stormwater Management Program. The District's Court Order required the District to "develop a detailed integrated capital improvement plan for regional management of wastewater collection and storm drainage". The District has focused on the regional sanitary sewage portion of this mandate, investing more than \$2.5 billion since its inception on sanitary sewage-related projects. To address the regional stormwater portion of this mandate, the District is currently engaged in a Regional Stormwater Management Implementation Project. This project is designed to outline the steps necessary for the District to assume responsibility for regional stormwater management. Tasks related to defining stormwater program roles and responsibilities, funding approaches, resource needs; legal issues, customer service requirements and data/billing issues are included in this effort. The District is currently discussing the details of the proposed regional stormwater management program with its member communities. The Board of Trustees approved the program in January 2010; implementation is currently planned for December 2010, pending the outcome of litigation.

### **Strategic Plan**

In 2008, Executive Director Julius Ciaccia, along with the District's leadership team, developed a plan to chart the organization's direction for the next five years. The 2009-2013 Strategic Plan focuses the organization on greater service to our customers, stressing accountability, transparency, and environmental stewardship.

A variety of data was assembled to guide the deliberations of the Strategic Planning Committee. These various materials included:

- In-depth review conducted on numerous strategic planning efforts throughout the United States.
- Interviews with senior management and key employees.
- Review of past District Capital Improvement Programs and identification of trends.
- Review and analysis of past District strategic plans and carryover of pertinent information and work-in-progress.
- A series of workshops with the Senior Staff leadership team.

Through a series of facilitated work sessions, the Strategic Planning committee revisited and refined the District's mission, crafted a new vision statement, reaffirmed the organization's core values, and developed the following six strategic goals to guide the organization over the next five years: (1) We will strive to understand, inform, and meet our customer's water quality expectations; (2) We will expand services and service area based upon economic drivers and opportunities to enhance water quality and watershed protection; (3) We will sustain our strong financial position, balancing our commitments to water quality and customer expectations; (4) We will cost effectively execute and manage our Capital Improvement Program; (5) We will align, build upon, and sustain our key assets, resources, people, and technology to meet our vision; (6) We will become an organization whose culture is progressive and embraces environmental sustainability.

The Strategic Plan provides a navigational guide for the District over the next five years. The continually changing environment in which the District operates will require annual review in order for the plan to remain most timely and useful. The inclusive strategic planning process which led to this plan broadened and deepened the understanding and appreciation of the challenges and opportunities that

lie ahead for the District. With the implementation of the strategies in this plan there is every reason to believe that the District will understand and meet consumer needs, enhance water quality, provide for cost effective and efficient capital improvements, and continue to build on its already strong reputation as a preeminent leader among water agencies.

### **CERTIFICATE OF ACHIEVEMENT**

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, 2008. This was the 14th 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.



## ACKNOWLEDGEMENTS

The preparation of this comprehensive annual financial report would not have been possible without the efficient and dedicated services of the entire staff of the Finance department and the Communications and Community Relations department. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Board of Trustees for their unfailing support for maintaining the highest standards of professionalism in the management of the District's finances.

Respectfully submitted,



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Julius Ciaccia  
Executive Director



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Jennifer L. Demmerle, C.P.A.  
Director of Finance



***2008 Comprehensive Annual Financial Reporting Award***



***2009 Government Finance Officers Association  
Distinguished Budget Award***



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
TABLE OF ORGANIZATIONS  
DECEMBER 31, 2009**

**BOARD OF TRUSTEES**



Darnell Brown,  
Board President



Mayor Thomas J. Longo,  
Vice President



Mayor Dean E. DePiero,  
Secretary



Sheila J. Kelly



Walter O'Malley



Mayor Gary W. Starr



Ronald D. Sulik

**DIRECTORS**



Julius Ciaccia  
Executive Director  
District Administration:  
47 Employees



F. Michael Buccì  
Deputy Executive Director



Jennifer L. Demmerle  
Director of Finance  
Finance: 47 Employees



Marlene Sundheimer  
Director of Law  
Legal: 13 Employees



Constance T. Haqq  
Director of Administration  
& External Affairs (AEA)  
AEA: 16 Employees



Francis P. Greenland  
Director of Watershed Programs  
Watershed Programs:  
62 Employees



Kellie C. Rotunno  
Director of Engineering &  
Construction  
Engineering & Construction:  
56 Employees



David McNeeley  
Director of Operation &  
Maintenance  
Operation & Maintenance:  
353 Employees



Douglas M. Dykes  
Director of Human Resources  
Human Resources: 19 Employees



Humberto J. Sanchez  
Director of Information  
Technology  
Information Technology:  
21 Employees



## Independent Auditors' Report

Board of Trustees  
Northeast Ohio Regional Sewer District

We have audited the accompanying statements of net assets of the Northeast Ohio Regional Sewer District (the "District"), as of December 31, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12, during the year ended December 31, 2009, the District implemented GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Board of Trustees  
Northeast Ohio Regional Sewer District

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section, budgetary comparison information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison information has been subjected to the auditing procedures applied in the audits 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. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide an assurance on them.

*Cimini & Panichi, Inc.*

Cleveland, Ohio  
August 31, 2010

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

The following discussion provides a summary overview of the financial activities of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2009. This information should be read in conjunction with the letter of transmittal and basic financial statements included in this report.

### Financial Highlights

- Assets exceeded liabilities by \$1,279,588,996.
- Net assets increased by \$3,528,748.
- Investment in capital assets, net of related debt increased by \$10,614,433.
- Unrestricted net assets decreased \$7,085,685.
- Retirements of debt principal were \$38,480,127.
- Operating revenue increased by \$2,505,421.
- Operating expenses increased by \$2,802,514.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying notes to the financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Assets present the District's financial position and report the resources owned by the District (assets), obligations owed by the District (liabilities) and District net assets (the difference between assets and liabilities). The Statements of Revenues, Expenses and Changes in Net Assets present a summary of how the District's net assets changed during the year. Revenue is reported when earned and expenses are reported when incurred. The Statements of Cash Flows provide information about the District's cash receipts and disbursements during the year. They summarize net changes in cash resulting from operating, investing and financing activities. The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

### Financial Analysis of the District's Financial Position and Results of Operations

The tables below provide a summary of the District's financial position and operations for 2009, 2008 and 2007, respectively. Certain reclassifications have been made to restate the 2008 and 2007 financial statements in order to conform to the 2009 presentation. Certain amounts may vary slightly due to differences caused by rounding to thousands.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Condensed Statements of Net Assets December 31, (In Thousands)

	2009	2008	Change	
			Amount	%
<u>Assets</u>				
Current assets	\$205,378	\$182,640	\$22,738	12.4%
Capital assets, net	1,527,939	1,493,783	34,156	2.3%
Other noncurrent assets	164,860	222,679	(57,819)	(26.0%)
<b>Total assets</b>	<b>1,898,177</b>	<b>1,899,102</b>	<b>(925)</b>	<b>0.0%</b>
<u>Liabilities</u>				
Current liabilities	65,838	58,435	7,403	12.7%
Long-term debt	548,749	564,607	(15,858)	(2.8%)
Other long-term liabilities	4,000	-	4,000	100%
<b>Total liabilities</b>	<b>618,587</b>	<b>623,042</b>	<b>(4,455)</b>	<b>(0.7%)</b>
<u>Net assets</u>				
Invested in capital assets	1,006,102	995,488	10,614	1.1%
Unrestricted	273,487	280,572	(7,085)	(2.5%)
<b>Total net assets</b>	<b>\$1,279,589</b>	<b>\$1,276,060</b>	<b>\$3,529</b>	<b>0.3%</b>

Net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,279,588,996 as of December 31, 2009, of which \$1,006,102,174 is for net investment in capital assets.

The largest portion of the District's net assets is reflected in its capital assets, less accumulated depreciation and related debt outstanding used to fund these asset acquisitions.

During 2009, net assets increased by \$3,528,748. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$7,742,374.
- Receivables from Federal and State agencies increased by \$683,950.
- Construction funds in the capital project account decreased by \$57,725,223.
- Capital assets increased by \$34,156,278 due mainly to construction of the wastewater treatment and conveyance system.
- Total debt decreased by a net amount of \$12,932,350. Additions of \$25,749,484 were for WPCLF loans and reductions of \$38,480,127 were for repayment of debt principal on General Obligation Bonds and WPCLF loans.



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Condensed Statements of Net Assets

December 31,  
(In Thousands)

	2008	2007	Change	
			Amount	%
<u>Assets</u>				
Current assets	\$182,640	\$184,294	(\$1,654)	(0.9)%
Capital assets, net	1,493,783	1,485,694	8,089	0.5%
Other noncurrent assets	222,679	222,811	(132)	(0.1)%
<b>Total assets</b>	<b>1,899,102</b>	<b>1,892,799</b>	<b>6,303</b>	<b>0.3%</b>
<u>Liabilities</u>				
Current liabilities	58,435	60,134	(1,699)	(2.9)%
Long-term debt	564,607	572,366	(7,759)	(1.4)%
<b>Total liabilities</b>	<b>623,042</b>	<b>632,500</b>	<b>(9,458)</b>	<b>(1.5)%</b>
<u>Net assets</u>				
Invested in capital assets	995,488	978,862	16,626	1.7%
Unrestricted	280,572	281,437	(865)	(0.3)%
<b>Total net assets</b>	<b>\$1,276,060</b>	<b>\$1,260,299</b>	<b>\$15,761</b>	<b>1.2%</b>

Net assets may serve as a useful indicator of financial position. As noted earlier, District assets exceeded liabilities by \$1,276,060,248 as of December 31, 2008, of which \$995,487,741 is for net investment in capital assets.

The largest portion of the District's net assets is reflected in its capital assets, less accumulated depreciation and related debt outstanding used to fund these asset acquisitions.

During 2008, net assets increased by \$15,761,347. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$3,367,536.
- Receivables from Federal and State agencies increased by \$1,224,991.
- Capital assets increased by \$8,089,504 due mainly to Easterly interceptor hydraulic improvements, Southerly/Westerly interceptors relining, replacement, and hydraulics, aeration tank rehabs, and plant improvements.
- Total debt decreased by a net amount of \$8,527,992. Additions of \$29,206,394 were for WPCLF loans and reductions of \$37,502,945 were for repayment of debt principal on General Obligation Bonds, OWDA loan, and WPCLF loans.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Condensed Statements of Revenues, Expenses and Changes in Net Assets For the years ended December 31, (In Thousands)

	2009	2008	Change	
			Amount	%
<u>Operating revenue</u>				
Sewer service fees				
Billing Agents				
City of Cleveland	\$141,082	\$137,760	\$3,322	2.4%
Other Billing Agents	10,050	9,845	205	2.1%
Total Billing Agents	151,132	147,605	3,527	2.4%
Direct billed sewer service fees	12,698	13,832	(1,134)	(8.2%)
Total sewer service fees	163,830	161,437	2,393	1.5%
Other operating revenue				
Septic tank and municipal sludge fees	599	549	50	9.1%
Miscellaneous	347	285	62	21.8%
Total other operating revenue	946	834	112	13.4%
<b>Total operating revenue</b>	<b>164,776</b>	<b>162,271</b>	<b>2,505</b>	<b>1.5%</b>
<u>Non-operating revenue</u>				
Interest revenue	7,240	11,715	(4,475)	(38.2%)
Non-operating grant revenue	1,431	1,592	(161)	(10.1%)
(Decrease) Increase in fair value of investments	(3,874)	2,332	(6,206)	(266.1%)
<b>Total non-operating revenue</b>	<b>4,797</b>	<b>15,639</b>	<b>(10,842)</b>	<b>(69.3%)</b>
<b>Total revenue</b>	<b>169,573</b>	<b>177,910</b>	<b>(8,337)</b>	<b>(4.7%)</b>
<u>Operating expenses</u>				
Salaries and Wages	37,024	35,102	1,922	5.5%
Benefits	11,714	11,494	220	1.9%
Utilities	18,924	20,633	(1,709)	(8.3%)
Professional and Contractual	17,696	18,727	(1,031)	(5.5%)
Other	8,194	5,757	2,437	42.3%
Depreciation	45,411	44,449	962	2.2%
<b>Total operating expenses</b>	<b>138,963</b>	<b>136,162</b>	<b>2,801</b>	<b>2.1%</b>
<u>Non-operating expenses</u>				
Interest expense on long-term debt	24,599	24,602	(3)	0.0%
Non-operating grant expenses	1,431	1,204	227	18.9%
Other non-operating expenses	3,000	-	3,000	100%
Loss on disposals of equipment	\$2,014	\$181	\$1,833	1,012.7%

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Condensed Statements of Revenues, Expenses and Changes in Net Assets For the years ended December 31, (In Thousands)

	2009	2008	Change	
			Amount	%
<b>Total non-operating expenses</b>	\$31,044	\$25,987	\$5,057	19.5%
<b>Total expenses</b>	170,007	162,149	7,858	4.8%
<b>(Loss) Income before contributions</b>	(434)	15,761	(16,195)	(102.8%)
Capital contributions	3,963	-	3,963	100%
<b>Change in net assets</b>	3,529	15,761	(12,232)	(77.6%)
Net assets at beginning of year	1,276,060	1,260,299	15,761	1.3%
<b>Net assets at end of year</b>	\$1,279,589	\$1,276,060	\$3,529	0.3%

Operating revenue consists mainly of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2009:

- Operating revenue increased by \$2,505,421 (1.5%) compared to 2008. The increase was due mainly to higher billing rates in 2009.
- Non-operating revenue decreased by \$10,842,407 (69.3%). Non-operating revenue consists of interest income, grant revenue and the change in fair value of investments. Interest income decreased by \$4,474,489 (38.2%) due to lower interest rates available for investment. The decrease in fair value of investments for 2009 was \$6,206,551 (266.1%) lower than in 2008. This decrease is expected to continue to reverse in the future since these investments in obligations of the U.S. Treasury and its agencies are held to maturity. Non-operating grant revenue decreased by \$161,367 (10.1%) due to the receipt of funds for Water Resource Sponsorship Programs for 2009.
- Operating expenses increased \$2,802,514 (2.1%) compared to 2008. Main components of operating expenses are as follows:
  - Salary and wages increased \$1,922,239 (5.5%).
  - Professional and Contractual expenses decreased \$1,030,810 (5.5%) due mainly to lower legal fees relating to regulatory environmental and construction matters.
  - Utilities decreased \$1,708,712 (8.3%) due to a new utility contract.
  - Decreases in Other Expenses include \$71,061 (1.7%) for Materials and Supplies to operate and maintain facilities; \$674,549 (22.2%) for Repair and Maintenance to buildings, equipment, sewer and roads; and \$109,703 (17.1%) for Travel and Education. The decreases were offset by increases in Other Expenses of \$347,415 (27.4%) for Chemicals used in the treatment processes at the Wastewater Treatment Plants; \$970,026 (112.6%) for Solids Handling of grease removal and grit and screening, sludge and ash hauling disposal; and \$2,017,296 (10,723.5%) for Judgments and Awards, which includes an estimated \$2 million for penalties associated with the District's CSO Long-Term Control Plan.
- Non-operating expenses increased \$5,056,178 (19.5%). Interest expense decreased by \$3,411 (0.0%). Losses on equipment disposals increased \$1,833,009 (1,014.5%) due mainly to disposals of obsolete equipment parts in 2009. Non-operating grant expense increased \$226,580 (18.8%).

The following table on the next page summarizes the changes in revenues and expenses for the District between 2008 and 2007.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Condensed Statements of Revenues, Expenses and Changes in Net Assets For the years ended December 31, (In Thousands)

	2008	2007	Change	
			Amount	%
<b><u>Operating revenue</u></b>				
Sewer service fees				
Billing Agents				
City of Cleveland	\$137,760	\$135,186	\$2,574	1.9%
Other Billing Agents	9,845	10,036	(191)	(1.9%)
Total Billing Agents	147,605	145,222	2,383	1.6%
Direct billed sewer service fees	13,832	13,063	769	5.9%
Total sewer service fees	161,437	158,285	3,152	2.0%
Other operating revenue				
Septic tank and municipal sludge fees	549	525	24	4.6%
Miscellaneous	285	245	40	16.3%
Total other operating revenue	834	770	64	8.3%
<b>Total operating revenue</b>	<b>162,271</b>	<b>159,055</b>	<b>3,216</b>	<b>2.0%</b>
<b><u>Non-operating revenue</u></b>				
Interest revenue	11,715	12,417	(702)	(5.7%)
Non-operating grants	1,592	35	1,557	4,448.6%
Increase in fair value of investments	2,332	3,158	(826)	(26.2%)
<b>Total non-operating revenue</b>	<b>15,639</b>	<b>15,610</b>	<b>29</b>	<b>0.2%</b>
<b>Total revenue</b>	<b>177,910</b>	<b>174,665</b>	<b>3,245</b>	<b>1.8%</b>
<b><u>Operating expenses</u></b>				
Salaries and Wages	35,102	33,725	1,377	4.1%
Benefits	11,494	10,732	762	7.1%
Utilities	20,633	18,893	1,740	9.2%
Professional and Contractual	18,727	14,808	3,919	20.9%
Other	5,757	7,047	(1,290)	(18.3%)
Depreciation	44,449	43,261	1,188	2.7%
<b>Total operating expenses</b>	<b>136,162</b>	<b>128,466</b>	<b>7,696</b>	<b>6.0%</b>
<b><u>Non-operating expenses</u></b>				
Interest expense on long-term debt	24,602	24,429	173	0.7%
Non-operating grant expenses	1,204	940	264	28.1%
Loss on disposals of equipment	181	469	(288)	(61.4%)
<b>Total non-operating expenses</b>	<b>25,987</b>	<b>25,838</b>	<b>149</b>	<b>0.6%</b>
<b>Total expenses</b>	<b>\$162,149</b>	<b>\$154,304</b>	<b>\$7,845</b>	<b>5.1%</b>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Condensed Statements of Revenues, Expenses and Changes in Net Assets For the years ended December 31, (In Thousands)

	2008	2007	Change	
			Amount	%
<b>Change in net assets</b>	\$15,761	\$20,361	(\$4,600)	(1.8%)
Net assets at beginning of year	1,260,299	1,239,938	20,361	1.6%
<b>Net assets at end of year</b>	<u>\$1,276,060</u>	<u>\$1,260,299</u>	<u>\$15,761</u>	<u>1.3%</u>

Operating revenue consists of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2008:

- Operating revenue increased by \$3,216,640 (2.0%) compared to 2007. The increase was due mainly to higher billing rates in 2008.
- Non-operating revenue increased by \$29,142 (0.18%). Non-operating revenue consists of interest income, non-operating grants, and the change in fair value of investments. Interest income decreased by \$702,589 (5.7%) due to lower interest rates on available balances for investment. The decrease in fair value of investments for 2008 was \$824,991 (26.2%) lower in 2007. This decrease is expected to continue due to the recession. Non-operating grant revenue increased \$1,556,722 (4,448.6%) due to the receipt of funds for Water Resource Sponsorship program in 2008.
- Operating expenses increased \$7,695,986 (6.0%) compared to 2007. Main components of operating expenses increased as follows:
  - Salaries and Wages increased \$1,377,736 (4.1%).
  - Utilities increased \$1,739,589 (9.2%) due to increased usage and higher rates.
  - Professional and Contractual expenses increased \$3,918,742 (26.5%) due mainly to an adjustment to construction in progress account related to costs of studies initially capitalized that needed to be reclassified to operating expenses in accordance with GASB Statement No. 51.
- Non-operating expenses increased \$149,829 (0.58%). Interest expense increased by \$173,553 (0.8%). Losses on equipment disposals decreased \$287,912 (61.5%) due mainly to disposals of obsolete equipment parts in 2007. Non-operating grant expense increased \$264,188 (28.1%) due to expenses for West Creek Restoration project.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Capital Assets

At the end of 2009, the District had \$1,527,939,265 invested in capital assets. This amount represents a net increase of approximately \$34 million, or 2.3% over 2008. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

### Capital Assets at December 31, (Net of Depreciation, in Thousands)

	2009	2008	Change	
			Amount	%
Land	\$9,473	\$8,950	\$523	5.8%
Construction in Progress	236,792	194,457	42,335	21.8%
Interceptor Sewer Lines	782,918	776,495	6,423	0.8%
Buildings, structures and improvements	355,161	368,730	(13,569)	(3.7%)
Sewage treatment and other equipment	143,595	145,151	(1,556)	(1.1%)
Totals	\$1,527,939	\$1,493,783	\$34,156	2.3%

Major additions in 2009, at cost included:

Euclid Creek Storage Tunnel	\$1,667
Big Creek Upgrades	2,619
Mill Creek Tunnel #3	2,334
Easterly, Southerly & Westerly Interceptor Relining	1,048
Plant Electrical Infrastructure Upgrades	1,723
Dugway East Interceptor Relief Sewer (DEIRS)	4,855
Valley Belt Gravity Sewer	5,021
SWWTP Renewable Energy Facility	24,120
Westerly Interceptor Box Culvert	3,407
Train Avenue Relief Sewer (TARS)	1,373
CVI Lift Station Improvements	2,647
Easterly Final Clarifier Rehabilitation (FCR-4)	1,389
Easterly Primary Settling Tank Rehabilitation	1,400
Southerly Second Stage Rehabilitation	2,426
MCI Vista Branch Connector	1,997
Miles Avenue Relief Sewer (MARS)	1,197
Final Clarifier Rehabilitation	2,120
Flats East Bank Project	5,715
	<u>\$67,058</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Capital Assets

At the end of 2008, the District had \$1,493,782,987 invested in capital assets. This amount represents a net increase of approximately \$8.1 million, or 0.6% over 2007. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

### Capital Assets at December 31, (Net of Depreciation, in Thousands)

	2008	2007	Change	
			Amount	%
Land	\$8,950	\$8,950	\$-	0.0%
Construction in Progress	194,457	184,276	10,181	5.6%
Interceptor Sewer Lines	776,495	764,732	11,763	1.6%
Buildings, structures and improvements	368,730	377,308	(8,578)	(2.3%)
Sewage treatment and other equipment	145,151	150,427	(5,276)	(3.5%)
Totals	\$1,493,783	\$1,485,693	\$8,090	0.6%

Major additions in 2008, at cost included:

Mill Creek Tunnel	\$1,300
Southerly/Westerly Interceptors Relining, Replacement and Hydraulics	7,579
Southerly Incineration Improvements Design	3,149
Westerly Interceptor Box Culvert	1,521
Easterly Interceptor Hydra Improvements	2,190
Second Stage Aeration Tank Rehabilitation	4,753
Easterly Effluent Screw Pumps Rehabilitation	1,674
Heights/Hilltop Operational Evaluation Project	1,954
Easterly Final Clarifier Rehabilitation	1,206
Southerly Second Stage Settling Tank Rehabilitation	4,476
Manhole Rehabilitation	1,052
Roof Renovations-Southerly/EMSC/PSTN	1,361
MCI Repair/Vista Branch Design	1,219
Big Creek Improvement Trestle #2 Replacement	2,805
Flats East Bank Project	2,439
	\$38,678

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Debt Administration

At December 31, 2009, the District had total debt outstanding of \$582,333,948 compared to \$595,064,591 at December 31, 2008. This represents a decrease of \$12,730,643. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund decreased \$5,535,643; total debt retirements were \$38,480,127. The carrying value of the long-term portion of debt at December 31, 2009 was \$548,749,433 and the fair value of the long-term debt was \$593,223,548.

At December 31, 2008, the District had total debt outstanding of \$595,064,591 compared to \$603,361,142 at December 31, 2007. This represents a decrease of \$8,296,551. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund decreased \$1,182,251; total debt retirements were \$37,502,945. The carrying value of the long-term portion of debt at December 31, 2008 was \$564,606,888 and the fair value of the long-term debt was \$562,806,201.

This information should be read in conjunction with Note 6 to the audited financial statements for more detailed information on long-term debt.

### Outstanding Debt at December 31, (In Thousands)

	2009	2008	2007
Revenue Bonds	\$170,790	\$177,985	\$184,905
Ohio Water Development Authority Loans	-	-	194
Water Pollution Control Loans Payable	411,544	417,080	418,262
Total Debt	<u>\$582,334</u>	<u>\$595,065</u>	<u>\$603,361</u>

### Economic Factors

In February, 2007 the District's Board of Trustees approved a schedule of rate increases for the five years 2007 through 2011. Increasingly stringent federal regulations and remaining legal obligations are key factors that led to these rate increases. A rate study of a projected five-year period concluded that the need to finance \$411 million in federally mandated capital projects between 2009 and 2013, combined with the repayment of existing debt service for past projects and an anticipated decrease in billed consumption, necessitated the rate increases. Effective January 1, 2008, rates charged to District customers increased 9.7 percent to \$33.85 per mcf for City of Cleveland customers, and 7.8 percent to \$37.85 for the suburban customers. Effective January 1, 2009, rates charged to District customers increased 9.7 percent to \$37.15 per mcf for City of Cleveland customers, and 8.1 percent to \$40.90 per mcf for the suburban customers. The rates are scheduled to increase similarly on January 1 of each year, for the years 2010 and 2011.

### Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all interested parties. Questions and requests for additional information regarding this report should be addressed to the Director of Finance, Northeast Ohio Regional Sewer District, 3900 Euclid Avenue, Cleveland, Ohio 44115, or by telephone at (216) 881-6600.





Northeast Ohio Regional  
**Sewer District**

*Protecting Your Health and Environment*

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets

**December 31, 2009 and 2008**

	<u>Assets</u>	
	2009	2008
Current Assets:		
Cash	\$ 2,302,363	\$ 13,434
Short-Term Investments	103,365,060	90,626,168
Sewage Service Fees Receivable, less allowance for doubtful accounts of \$20,000,000 in 2009 and \$13,963,000 in 2008 (Note 4)	84,395,543	76,653,169
Receivables from Federal and State Agencies	9,306,513	8,622,563
Inventory, Prepaid Expenses and Other	6,008,227	6,725,448
Total Current Assets	205,377,706	182,640,782
Noncurrent Assets:		
Capital Assets:		
Interceptor Sewer Lines	942,407,230	923,044,031
Buildings, Structures and Improvements	689,157,153	686,213,505
Sewage Treatment and Other Equipment	344,345,689	337,340,453
	1,975,910,072	1,946,597,989
Less Accumulated Depreciation	694,235,969	656,222,329
	1,281,674,103	1,290,375,660
Land	9,472,660	8,950,592
Construction in Progress	236,792,502	194,456,735
Net Capital Assets	1,527,939,265	1,493,782,987
Unamortized Deferred Debt Expense	1,181,936	1,322,707
Construction Funds (Note 2)	144,558,841	202,284,064
Revenue Bond Debt Service Deposit (Note 2)	19,119,218	19,071,849
Total Noncurrent Assets	1,692,799,260	1,716,461,607
Total Assets	\$ 1,898,176,966	\$ 1,899,102,389

Continued

The accompanying notes are an integral part of these statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets (Continued)

December 31, 2009 and 2008

	<u>Liabilities and Net Assets</u>	
	<u>2009</u>	<u>2008</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 4,898,963	\$ 6,264,524
Construction Contracts and Retainages Payable	9,860,285	5,422,307
Accrued Interest	9,181,647	9,710,075
Other Accrued Liabilities	5,907,526	3,973,336
Current Maturities of Long-Term Debt (Note 6)	35,990,116	33,065,011
Total Current Liabilities	<u>65,838,537</u>	<u>58,435,253</u>
Noncurrent Liabilities:		
Long-Term Debt, Net of Current Maturities (Note 6)	548,749,433	564,606,888
Other Accrued Long-Term Liabilities (Note 11)	<u>4,000,000</u>	<u>-</u>
Total Liabilities	<u>618,587,970</u>	<u>623,042,141</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,006,102,174	995,487,741
Unrestricted	<u>273,486,822</u>	<u>280,572,507</u>
Total Net Assets	<u>\$ 1,279,588,996</u>	<u>\$ 1,276,060,248</u>

The accompanying notes are an integral part of these statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31, 2009 and 2008

	2009	2008
Operating Revenues:		
Billing Agents	\$ 151,132,069	\$ 147,605,404
Direct Billed	12,697,756	13,832,074
Other	946,537	833,463
Total Operating Revenues	164,776,362	162,270,941
Operating Expenses:		
Salaries and Wages	37,024,254	35,102,015
Fringe Benefits	11,714,646	11,493,925
Utilities	18,924,173	20,632,885
Professional and Contractual Services	17,696,366	18,727,176
Other	8,194,326	5,757,037
Depreciation	45,410,351	44,448,564
Total Operating Expenses	138,964,116	136,161,602
Operating Income	25,812,246	26,109,339
Non-Operating Revenues (Expenses):		
Interest Income	7,240,399	11,714,888
(Decrease) Increase in Fair Value of Investments, Net	(3,874,343)	2,332,208
Non-Operating Grant Revenue	1,430,784	1,592,151
Non-Operating Grant Expenses	(1,430,784)	(1,204,204)
Other Non-Operating Expenses	(3,000,000)	-
Loss on Disposals of Equipment	(2,013,698)	(180,689)
Interest on Long-Term Debt	(24,598,935)	(24,602,346)
Total Non-Operating Expenses	(26,246,577)	(10,347,992)
(Loss) Income before Contributions	(434,331)	15,761,347
Capital Contributions	3,963,079	-
Change in Net Assets	3,528,748	15,761,347
Net Assets at Beginning of Year	1,276,060,248	1,260,298,901
Net Assets at End of Year	\$ 1,279,588,996	\$ 1,276,060,248

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Cash Received From Customers	\$ 157,033,988	\$ 158,903,407
Cash Payments to Suppliers for Goods and Services	(44,322,788)	(44,201,854)
Cash Payments to Employees for Services	(47,997,620)	(47,722,625)
Net Cash Provided by Operating Activities	<u>64,713,580</u>	<u>66,978,928</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(459,526,632)	(524,843,818)
Proceeds from Maturities of Investments	499,699,733	531,289,526
Interest on Investments	8,107,903	12,239,357
Grant Payments	(378,289)	(1,204,204)
Grants Received	471,506	694,879
Net Cash Provided by Investing Activities	<u>48,374,221</u>	<u>18,175,740</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(34,177,061)	(36,034,517)
Interest Payments on Long-Term Debt	(25,228,945)	(26,388,361)
Proceeds from Water Pollution Control Loans	25,749,484	28,435,570
Acquisition and Construction of Capital Assets	(77,142,350)	(52,959,485)
Net Cash Used in Capital and Related Financing Activities	<u>(110,798,872)</u>	<u>(86,946,793)</u>
Net Increase (Decrease) in Cash	2,288,929	(1,792,125)
Cash at Beginning of Year	<u>13,434</u>	<u>1,805,559</u>
Cash at End of Year	\$ <u>2,302,363</u>	\$ <u>13,434</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, 2009 and 2008**

	2009	2008
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 25,812,246	\$ 26,109,339
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	45,410,351	44,448,564
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(7,742,374)	(3,367,536)
Inventory and Prepaid Expenses	717,221	(89,164)
Accounts Payable and Other Accrued Liabilities	516,136	(122,275)
Total Adjustments	38,901,334	40,869,589
Net Cash Provided by Operating Activities	\$ 64,713,580	\$ 66,978,928
 <b>Supplemental Schedule of Non-Cash Investing, Capital and Related Financing Activities:</b>		
Long-Term Debt Recorded for Receivables from State Agencies in Connection with Water Pollution Control Loans	\$ 4,189,789	\$ 8,428,196
Long-Term Debt Decreased due to Accrued Construction Interest and Recorded Receivables and Principal Adjustment	\$ (4,303,066)	\$ (1,470,497)
Capital Contributions Recorded in Accounts Receivables	\$ 3,963,079	\$ -
Capital Assets (Decreased) Increased due to Capitalized Costs, Recorded Accounts Payable, and Asset Reclassifications	\$ (3,921,325)	\$ 206,387
(Decrease) Increase in Fair Value of Investments, Net	\$ (3,874,343)	\$ 2,332,208

The accompanying notes are an integral part of these statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 1: Reporting Entity

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 provides wastewater treatment and interceptor sewer facilities for the region comprised of the City of Cleveland and 61 suburban communities.

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.

In accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* (an amendment of GASB Statement No. 14), the accompanying financial statements include only the accounts and transactions of the District. Under the criteria specified in these GASB Statements, the District has no component units nor is it considered a component unit of the State of Ohio. The District is considered, however, a political subdivision to the State of Ohio. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The District is not financially accountable for any other organizations. This is evidenced by the fact that the District is a legally and fiscally separate and distinct organization. The annual budget is submitted to Cuyahoga County for informational purposes only and does not require its approval. The District is solely responsible for its finances. The District is empowered to issue revenue bonds payable solely from sewer charge revenues.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if it appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Based upon the application of these criteria, the District has no component units.

### Note 2: Summary of Significant Accounting Policies

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. The statements were prepared using the economic resources measurement focus and the accrual basis of accounting. All transactions are accounted for in a single proprietary (enterprise) fund.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 2: Summary of Significant Accounting Policies (continued)

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

On September 30, 2009, the District adopted authoritative guidance issued by the FASB which established the FASB Accounting Standards Codifications (ASC) as the single source of authoritative accounting principles generally accepted in the United States of America. The District has modified its disclosures in this report to comply with the requirements. Accordingly, references to authoritative accounting principles after the effective date will reference the codification and not the previous accounting guidance. The adoption of the guidance did not have a material effect on the District's financial position, changes in net assets, or cash flows.

#### **A. Basis of Presentation**

The District's basic financial statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

The District uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

#### **B. Measurement Focus**

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its enterprise activity.

#### **C. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The District's financial statements are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 2: Summary of Significant Accounting Policies (continued)

#### **D. 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 invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2009 and 2008. 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 Securities and Exchange Commission 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 statement of net assets date.

#### **E. Short-term Investments**

Short-term investments consist of nonnegotiable certificates of deposit, obligations of Federal agencies, and STAROhio.

#### **F. Fair Value of Financial Instruments**

The District discloses estimated fair values for its financial instruments in accordance with the FASB ASC topic "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.

##### **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.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 2: Summary of Significant Accounting Policies (continued)

#### 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, net of the current portion, at December 31, 2009 were \$548,749,433 and \$593,223,548, respectively. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2008 were \$564,606,888 and \$562,806,201, respectively.

#### G. 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, 2009 and 2008, 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 2005 Wastewater Improvement Revenue Refunding Bonds and the 2007 Wastewater Improvement Revenue 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, 2009 and 2008 consisted of direct obligations of the United States Government, plus accrued interest.

#### H. Sewage Service Fees Receivable

Sewage service fees receivable are shown net of an allowance for uncollectibles. The allowance is based on aged accounts receivable and current year operating revenues. The allowance amounts are \$20,000,000 at December 31, 2009 and \$13,963,000 at December 31, 2008.

#### I. 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.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 2: Summary of Significant Accounting Policies (continued)

#### J. Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. sewer lines and similar items) are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Northeast Ohio Regional Sewer District maintains a capitalization threshold of \$5,000. Major renewals and betterments are capitalized; the costs of normal improvements and repairs that do not add to the value of the assets or materially extend an asset's life are not. All reported capital assets except for land and construction in progress are depreciated. Major renewals and betterments are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Interceptor sewer lines	Primarily 75 years
Buildings, structures and improvements	Primarily 40 years
Sewage treatment and other equipment	5 to 20 years

#### K. Unamortized Financing Costs

The unamortized financing costs include insurance, consulting, and attorney fees incurred in connection with the revenue bond obligations. These amounts are being amortized on the straight-line method over the lives of the revenue bonds. Bond premiums, discounts and deferred loss are being amortized on the interest method over the lives of the revenue bonds. Amortization amounted to \$60,937 for 2009 and \$65,818 for 2008.

#### L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Northeast Ohio Regional Sewer District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The District did not have any restricted net assets for 2009 or 2008.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 2: Summary of Significant Accounting Policies (continued)

#### L. Net Assets (continued)

During the year ended December 31, 2009, the District's Board of Trustees adopted a reserve policy that annually designates amounts of the District's unrestricted net assets as board designated for specific purposes. Such amounts are not restricted, and may be designated for other purposes or eliminated at the discretion of the Board of Trustees. As of December 31, 2009, amounts have been designated by the Board of Trustees:

General Operating Reserve (Working Capital Reserve)	\$ 22,928,259
Debt Service Reserve	19,119,218
Equipment Repair and Replacement Reserve	53,386,395
Insurance Reserve	21,521,055
Rate Stabilization Account	3,000,000

#### M. Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment services. Operating revenues consist of user charges for sewage services based on water consumption. Operating revenues are shown net of bad debt expense of \$7,673,720 in 2009 and \$6,228,927 in 2008. Operating expenses include the cost of these sewer services, including administrative expenses and depreciation on capital assets.

Non-operating revenues and expenses are all revenues and expenses not meeting the definition of operating revenues and expenses. Non-operating revenues and expenses include revenues and expenses from capital and related financing activities, and investing activities.

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, 2009 and 2008 are unbilled sewage service fees of \$26,215,827 and \$24,384,894, respectively.

#### N. 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 2005 Wastewater Improvement Revenue Refunding Bond Resolution and the 2007 Wastewater Improvement Revenue 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 ASC topic "Regulated Operations", all interest expense is charged to operations as incurred.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 2: Summary of Significant Accounting Policies (continued)

#### O. 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. Management made certain estimates for billing adjustments that occurred in 2009.

#### P. Comparative Data/Reclassifications

Comparative data for the prior year are presented in order to provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2008 financial statements in order to conform to the 2009 presentation.

#### Q. Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through August 31, 2010, the date the financial statements were available to be issued.

### Note 3: 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, 2009, the carrying amount of the District's deposits, including certificates of deposit of \$1,295,962, was \$3,598,326 and the bank balance was \$7,180,120. Of the bank balance, \$750,000 was covered by Federal depository insurance and \$6,430,120 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. At December 31, 2008, the carrying amount of the District's deposits, including certificates of deposit of \$31,429,455, was \$31,442,184 and the bank balance was \$34,066,698. Of the bank balance, \$750,000 was covered by Federal depository insurance and \$33,316,698 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. In the event of default by the pledging financial institution, the District may make written demand upon the Federal Reserve Bank of Boston, Massachusetts for surrender of the collateral.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 3: Deposits and Investments (continued)

#### Investments

The District's investment policies are currently governed by its 2007 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 2005 and 2007 Series Bonds.

At December 31, 2009 the District's investment balances and maturities were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	% of <u>Total</u>	<u>Maturities (in Years)</u>	
			<u>Less than 1</u>	<u>1 Through 5</u>
Federal Home Loan Bank	\$ 80,574,086	30%	\$ 50,750,727	\$ 29,823,359
State Treasury Asset Reserve of Ohio	68,264,274	26%	68,264,274	-
Federal National Mortgage Association	40,549,656	15%	35,555,328	4,994,328
Federal Home Loan Mortgage Corporation	15,211,746	6%	10,129,996	5,081,750
General Electric Bond	10,183,542	4%	-	10,183,542
Citi Group Bond	10,041,668	4%	-	10,041,668
Forward Delivery Agreement	8,099,801	3%	8,099,801	-
Guaranteed Investment Contracts	7,175,938	3%	-	7,175,938
JP Morgan Bond	6,642,009	2%	6,642,009	-
Federal Farm Credit Bank	5,074,028	2%	5,074,028	-
Morgan Stanley Bond	5,049,279	2%	-	5,049,279
U.S. Bancorp Bond	5,037,650	2%	-	5,037,650
U.S. Treasury Bills	3,843,479	1%	3,843,479	-
	<u>\$ 265,747,156</u>		<u>\$ 188,359,642</u>	<u>\$ 77,387,514</u>

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. It is the District's policy to hold instruments to maturity, limiting any investment to a maximum of five years. The targeted weighted average days to maturity for the overall District portfolio is not more than two years. In addition, Ohio law prescribes that all District investments mature within five years of purchase, unless the investment is matched to a specific obligation or debt of the District.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 3: Deposits and Investments (continued)

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy authorizes investments in obligations of the U.S. Treasury, U.S. agencies and instrumentalities, interest-bearing demand or time deposits, State Treasury Asset Reserve of Ohio ("STAR Ohio"), money market mutual funds, repurchase agreements, and in certain situations, pre-funded 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. Star Ohio is an investment pool created pursuant to Ohio statutes and is managed by the Treasurer of the State of Ohio. As of December 31, 2009, the District's investment in U.S. instrumentalities (Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Guaranteed Investment Contracts) were all rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The investments in Star Ohio, and Bank of New York were rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.

**Custodial Credit Risk:** Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the requirements of State Law, it is the policy of the District to require full collateralization of all investments other than obligations of U.S. Government, its agencies and instrumentalities. The District's investment in U.S. agencies with fair values totaling \$178,363,664 has maturities of \$108,152,088 in less than one year and \$70,211,576 within two years. U.S. agencies are held in the account of National City Bank ("Trustee"), at the Federal Reserve Bank of Cleveland. The District's securities associated with the principal and interest payment of bond proceeds in the amount of \$19,119,218 are held in the account of Bank of New York under the Master Trust Agreement. Assets held by the Trustee as a custodial agent are considered legally separate from the other assets of Trustee.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The District's investment policy provides that investments be diversified to reduce the risk of loss from over concentration in a single issuer, but does not identify specific limits on the amounts that may be so invested. More than ten percent of the District's investments are in Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and State Treasury Asset Reserve of Ohio.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 4: 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 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 59,794,293	\$ 54,237,994
Amounts billed to District customers by the City during the year	142,685,094	146,159,999
Cash collected from District customers by the City and remitted to the District during the year	(132,329,924)	(133,410,654)
Write off of inactive accounts	(1,575,072)	(1,665,928)
Cash collected directly by the District on invoices rendered by the City and other adjustments	<u>2,343,465</u>	<u>(5,527,118)</u>
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	\$ <u>70,917,856</u>	\$ <u>59,794,293</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.

Fees paid to the City for billing and collection services in 2009 and 2008 were \$4,499,769 and \$5,159,946, respectively.



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2009 and 2008**

### Note 5: Capital Assets and Depreciation

Capital Asset Activity for the year ended December 31, 2009 was as follows:

	<u>Balance December 31, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer</u>	<u>Balance December 31, 2009</u>
<b>Non-depreciable:</b>					
Land	\$ 8,950,592	\$ -	\$ (42,806)	\$ 564,874	\$ 9,472,660
Construction in Progress	194,456,735	78,139,500	-	(35,803,733)	236,792,502
	<u>203,407,327</u>	<u>78,139,500</u>	<u>(42,806)</u>	<u>(35,238,859)</u>	<u>246,265,162</u>
<b>Depreciable:</b>					
Interceptor Sewer Lines	923,044,031	2,129	-	19,361,070	942,407,230
Buildings, Structures & Improvements	686,213,505	179,433	(2,772,011)	5,536,226	689,157,153
Sewage Treatment & Other Equipment	337,340,453	2,742,613	(6,078,940)	10,341,563	344,345,689
	<u>1,946,597,989</u>	<u>2,924,175</u>	<u>(8,850,951)</u>	<u>35,238,859</u>	<u>1,975,910,072</u>
Total at Historical Cost	<u>2,150,005,316</u>	<u>81,063,675</u>	<u>(8,893,575)</u>	<u>-</u>	<u>2,222,175,234</u>
<b>Less Accumulated Depreciation For:</b>					
Interceptor Sewer Lines	(146,549,366)	(12,939,489)	-	-	(159,488,855)
Buildings, Structures & Improvements	(317,483,501)	(18,505,482)	1,992,642	-	(333,996,341)
Sewage Treatment & Other Equipment	(192,189,462)	(13,965,380)	5,404,069	-	(200,750,773)
Total Accumulated Depreciation	<u>(656,222,329)</u>	<u>(45,410,351)</u>	<u>7,396,711</u>	<u>-</u>	<u>(694,235,969)</u>
Capital Assets, Net	<u>\$ 1,493,782,987</u>	<u>\$ 35,653,324</u>	<u>\$ (1,497,046)</u>	<u>\$ -</u>	<u>\$ 1,527,939,265</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 45,410,351</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2009 and 2008**

**Note 5: Capital Assets and Depreciation (continued)**

Capital Asset Activity for the year ended December 31, 2008 was as follows:

	<u>Restated Balance December 31, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer</u>	<u>Balance December 31, 2008</u>
Non-depreciable:					
Land	\$ 8,950,592	\$ -	\$ -	\$ -	\$ 8,950,592
Construction in Progress	184,275,990	51,615,565	-	(41,434,820)	194,456,735
	<u>193,226,582</u>	<u>51,615,565</u>	<u>-</u>	<u>(41,434,820)</u>	<u>203,407,327</u>
Depreciable:					
Interceptor Sewer Lines	898,665,823	-	-	24,378,208	923,044,031
Buildings, Structures & Improvements	676,610,685	443,066	(117,053)	9,276,807	686,213,505
Sewage Treatment & Other Equipment	330,984,995	694,467	(2,118,814)	7,779,805	337,340,453
	<u>1,906,261,503</u>	<u>1,137,533</u>	<u>(2,235,867)</u>	<u>41,434,820</u>	<u>1,946,597,989</u>
Total at Historical Cost	<u>2,099,488,085</u>	<u>52,753,098</u>	<u>(2,235,867)</u>	<u>-</u>	<u>2,150,005,316</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(133,933,946)	(12,615,420)	-	-	(146,549,366)
Buildings, Structures & Improvements	(299,302,459)	(18,208,103)	27,061	-	(317,483,501)
Sewage Treatment & Other Equipment	(180,558,197)	(13,625,041)	1,993,776	-	(192,189,462)
Total Accumulated Depreciation	<u>(613,794,602)</u>	<u>(44,448,564)</u>	<u>2,020,837</u>	<u>-</u>	<u>(656,222,329)</u>
Capital Assets, Net	<u>\$ 1,485,693,483</u>	<u>\$ 8,304,534</u>	<u>\$ (215,030)</u>	<u>\$ -</u>	<u>\$ 1,493,782,987</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 44,448,564</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2009 and 2008**

**Note 6: Long-Term Obligations**

A summary of long-term debt outstanding at December 31, 2009 and 2008 follows:

	Interest Rate	2009	2008
Wastewater Improvement Revenue Refunding Bonds, Series 2005:			
Serial Bonds Maturing 2009 through 2016	4.00%-5.00%	\$ 48,925,000	\$ 53,985,000
Wastewater Improvement Revenue Bonds, Series 2007:			
Serial Bonds Maturing 2009 through 2037	3.75%-5.00%	121,865,000	124,000,000
Water Pollution Control Loans Payable Through 2031	3.20%-5.20%	<u>411,543,948</u>	<u>417,079,591</u>
Total Debt		582,333,948	595,064,591
Less Current Maturities		35,990,116	33,065,011
Bond Premium, Net		<u>2,405,601</u>	<u>2,607,308</u>
Total Long-Term Debt		<u>\$ 548,749,433</u>	<u>\$ 564,606,888</u>

Wastewater Improvement Revenue Refunding Bonds, Series 2005

The District issued \$68,280,000 of Wastewater Improvement Revenue Refunding Bonds, Series 2005 (the “2005 Series Bonds”), in connection with the advance refunding of its Wastewater Improvement Revenue Bonds, Series 1995 (the “1995 Series Bonds”). The 2005 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 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.

Wastewater Improvement Revenue Bonds, Series 2007

On May 22, 2007, the District issued \$126,055,000 of Wastewater Improvement Revenue Bonds, Series 2007. The Wastewater Improvement Revenue Bonds, Series 2007 Bonds (the “Series 2007 Bonds”) are being issued for the purpose of (i) providing funds for the acquisition, construction and improvement of Water Resource Projects, (ii) funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and (iii) paying certain costs of issuance of the Series 2007 Bonds. These bonds are payable from the revenues of the District, after the 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 the monies and investments in the Revenue Bond Debt Service Deposit.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 6: Long-Term Obligations (continued)

#### Wastewater Improvement Revenue Bonds, Series 2007 (continued)

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

#### 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 2005 and 2007 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.

The repayment period for each loan commences no later than the first January or July following the expected completion dates 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 57 SRF loan awards related to projects, 4 of which were not complete as of December 31, 2009. 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, 2009 follow:

<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 – 2009	53	\$ 392,871,719	\$ 45,166,991
2010	1	3,764,619	2,764,720
2011	3	14,907,610	41,120,996
		<u>\$ 411,543,948</u>	<u>\$ 89,052,707</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 6: Long-Term Obligations (continued)

#### Defeasance Transactions

In July 1991, the Board of Trustees of the District approved a plan of defeasance for the Series 1984 Bonds and the 1984 trust agreement. Under the defeasance plan, the District irrevocably transferred to and deposited with the trustee for the Series 1984 Bonds \$20,602,500 in internally generated funds, which together with amounts held by the trustee in the debt service fund, debt service reserve fund and invested sinking fund under the 1984 trust agreement, were applied to the purchase of eligible securities that are sufficient, under the terms of the 1984 trust agreement, to pay the principal of, and interest, and any redemption premium on, the Series 1984 Bonds. The Series 1984 Bonds are deemed paid and discharged and no longer outstanding under the 1984 trust agreement, and the 1984 trust agreement is defeased. The foregoing defeasance of the Series 1984 Bonds was consummated on July 22, 1991.

In August 1991, the District issued its Wastewater Improvement Revenue Bonds, Series 1991, in the aggregate principal amount of \$122,315,000 to finance all or a portion of the costs of various components of the District's on-going capital improvements program, to fund the Debt Service Reserve Requirement and to pay the costs of issuance of the Series 1991 Bonds.

In September 1995, the District issued its Wastewater Improvement Revenue Refunding Bonds, Series 1995 (the "1995 Series Bonds"), in the aggregate principal amount of \$97,830,000 for the purpose of advance refunding its 1991 Series Bonds, issued under a Trust Agreement then outstanding in the aggregate principal amount of \$112,690,000. Through the issuance of the 1995 Series Bonds, the deposit of net proceeds together with certain moneys of the District into the Escrow Account, the District caused the 1991 Series Bonds and the 1991 Trust Agreement to be deemed paid and discharged and no longer outstanding. As of December 31, 2005, outstanding Series 1995 Bonds totaled \$64,165,000. A deposit of the net proceeds of the 2005 Series Bonds together with certain monies of the District into the Escrow Account will cause the 1995 Series Bonds to be deemed paid and discharged.

In 2005, the District issued \$68,980,000 in Wastewater Improvement Revenue Refunding Bonds, Series 2005 to advance refund and defease the series 1995 Wastewater Improvement Refunding Bonds of \$64,165,000. The net proceeds were used to purchase direct obligations of the U.S. government. Those securities were deposited in an irrevocable trust with an escrow agent. The securities and fixed earnings from the securities are sufficient to provide for all future debt service payments on the series 1995 wastewater improvement bonds. As a result, the 1995 wastewater improvement bonds are considered defeased. As of December 31, 2009, \$44,970,000 of the defeased debt remained outstanding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$3,413,626. This difference, reported in the accompanying financial statement as a deduction from long-term debt, is being charged to operations through the year 2016 using the weighted average method. The unamortized balance of the deferral totaled \$1,101,250 at December 31, 2009 and \$1,436,411 at December 31, 2008. The Series 2005 Bonds are not subject to redemption at the option of the District prior to their stated maturity.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2009 and 2008**

**Note 6: Long-Term Obligations (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, 2009 follows:

	Wastewater Improvement Revenue Refunding Bonds Series 2005		Wastewater Improvement Revenue Bonds Series 2007	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2010	5,265,000	2,254,900	2,220,000	5,635,275
2011	5,470,000	2,044,300	2,315,000	5,540,925
2012	5,665,000	1,852,850	2,400,000	5,454,113
2013	5,890,000	1,626,250	2,500,000	5,358,113
2014	6,190,000	1,331,750	2,625,000	5,233,112
2015-2019	20,445,000	1,719,750	15,215,000	24,061,813
2020-2024	-	-	19,055,000	20,225,425
2025-2029	-	-	23,855,000	15,426,000
2030	-	-	51,680,000	11,169,187
<b>Total</b>	<b>\$ 48,925,000</b>	<b>\$ 10,829,800</b>	<b>\$ 121,865,000</b>	<b>\$ 98,103,963</b>

	Water Pollution Control Loans		Future Debt Service Requirements Total	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2010	28,505,118	15,796,565	35,990,118	23,686,740
2011	30,374,678	14,555,681	38,159,678	22,140,906
2012	31,782,218	13,458,379	39,847,218	20,765,342
2013	31,192,422	12,154,732	39,582,422	19,139,095
2014	31,732,157	10,880,240	40,547,157	17,445,102
2015-2019	131,967,225	37,171,962	167,627,225	62,953,525
2020-2024	93,788,637	14,935,219	112,843,637	35,160,644
2025-2029	30,864,104	1,999,590	54,719,104	17,425,590
2030	1,337,389	44,282	53,017,389	11,213,469
<b>Total</b>	<b>\$ 411,543,948</b>	<b>\$ 120,996,650</b>	<b>\$ 582,333,948</b>	<b>\$ 229,930,413</b>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2009 and 2008**

### Note 6: Long-Term Obligations (continued)

Bond premium, loss on defeasance activity for the year:

<u>December 31, 2009</u>	<u>Beginning Balance</u>	<u>Amortized</u>	<u>Refunded</u>	<u>Issued</u>	<u>Ending Balance</u>
Bond Premium – 2005	\$ 1,369,162	\$ (320,375)	\$ -	\$ -	\$ 1,048,787
Bond Premium – 2007	2,674,557	(216,493)	-	-	2,458,064
Loss on Refunding, Series 2005	(1,436,411)	335,161	-	-	(1,101,250)
Total	<u>\$ 2,607,308</u>	<u>\$ (201,707)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,405,601</u>

<u>December 31, 2008</u>	<u>Beginning Balance</u>	<u>Amortized</u>	<u>Refunded</u>	<u>Issued</u>	<u>Ending Balance</u>
Bond Premium – 2005	\$ 1,760,571	\$ (391,409)	\$ -	\$ -	\$ 1,369,162
Bond Premium – 2007	2,923,740	(249,183)	-	-	2,674,557
Loss on Refunding, Series 2005	(1,845,562)	409,151	-	-	(1,436,411)
Total	<u>\$ 2,838,749</u>	<u>\$ (231,441)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,607,308</u>

Long-term debt activity for the year:

<u>December 31, 2009</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due in 2010</u>
Wastewater Improvement Revenue Refunding Bonds Series 2005	\$ 53,985,000	\$ -	\$ (5,060,000)	\$ 48,925,000	\$ 5,265,000
Wastewater Improvement Revenue Bonds Series 2007	124,000,000	-	(2,135,000)	121,865,000	2,220,000
Water Pollution Control Loans	417,079,591	25,749,484	(31,285,127)	411,543,948	28,505,116
Total Debt	<u>\$ 595,064,591</u>	<u>\$ 25,749,484</u>	<u>\$ (38,480,127)</u>	<u>\$ 582,333,948</u>	<u>\$ 35,990,116</u>

<u>December 31, 2008</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due in 2009</u>
Wastewater Improvement Revenue Refunding Bonds Series 2005	\$ 58,850,000	\$ -	\$ (4,865,000)	\$ 53,985,000	\$ 5,060,000
Wastewater Improvement Revenue Bonds Series 2007	126,055,000	-	(2,055,000)	124,000,000	2,135,000
Ohio Water Development Authority Loans	194,300	-	(194,300)	-	-
Water Pollution Control Loans	418,261,842	29,206,394	(30,388,645)	417,079,591	25,870,011
Total Debt	<u>\$ 603,361,142</u>	<u>\$ 29,206,394</u>	<u>\$ (37,502,945)</u>	<u>\$ 595,064,591</u>	<u>\$ 33,065,011</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 7: Pension Plans

#### Ohio Public Employees Retirement System

The District contributes to the Ohio Public Employees Retirement System (“OPERS”). OPERS administers three separate pension plans as described below:

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. District members were required to contribute 10.0% of their annual covered salary to fund pension obligations in 2009. The 2009 employer contribution rate for the District was 14.0% of covered payroll. The District’s contributions to the OPERS for the years ended December 31, 2009, 2008 and 2007 were \$5,317,654, \$4,971,551, and \$4,813,753, respectively, which are the required contributions for each year. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer’s records.



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 8: Postemployment Benefits

#### Ohio Public Employees Retirement System

OPERS administers three separate pension plans: The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. For the District's employer units, the 2009 contribution rate was 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for District employer units. Active members do not make contributions to the OPEB plan.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

**Note 8: Postemployment Benefits (continued)**

Ohio Public Employees Retirement System (continued)

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.0% of covered payroll from January 1 through March 31, 2009 at a cost of \$664,707 and 5.5% of covered payroll from April 1 through December 31, 2009 at a cost of \$1,566,809; during 2008 the District's portion was \$2,485,776 or 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

**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 ING Life Insurance and Annuity Company (formerly known as Aetna Life Insurance and Annuity Company Plan) or the Ohio Public Employees Deferred Compensation Plan, 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, 2009 and 2008, 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, 2009 and 2008

### 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. The change in the estimate for claims is as follows:

	<u>Beginning Balance</u>	<u>Claims Paid</u>	<u>Increase in Estimate</u>	<u>Ending Balance</u>
2009	\$ 169,733	\$ (55,626)	\$ -	\$ 114,107
2008	47,472	-	122,261	169,733

Estimated liabilities are not material with respect to the financial position of the District. The claims liability is included in other accrued liabilities in the accompanying statements of net assets and is estimated to be paid during the year ended December 31, 2010. The District's insurance reserve as of December 31, 2009 and 2008 was \$21,521,055 and \$20,995,667, respectively, and is included in short-term investments on the District's balance sheet.

### Note 11: Commitments and Contingencies

#### Cleveland Metroparks West Creek Reservation Stewardship Center

In June 2007, the Board of Trustees approved to enter into a long-term partnership with the Cleveland Metroparks to support construction of the Watershed Stewardship center at the West Creek Reservation with a capital investment of \$3,000,000 with naming rights of the building. As part of the agreement, the District would also provide in-kind services of \$250,000 in staff support and program support. During year ending December 31, 2009 the conditions have been met for the long-term partnership with the Cleveland Metroparks and the construction of the Stewardship Center is anticipated to commence by September 2010 and continue through 2011. As such, the District has recorded \$1,000,000 as an other accrued current liability and \$2,000,000 as an other accrued long-term liability.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 11: Commitments and Contingencies (continued)

#### Combined Sewer Overflows Long-Term Control Plan

The District is finalizing Consent Decree negotiations with Ohio and US EPA, US Department of Justice, and the Ohio Attorney General's Office, and it is anticipated that the District will seek authorization from its Board of Trustees to enter into a Consent Decree by the end of 2010. Implementation of the Combined Sewer Overflows Long-Term Control Plan under the Consent Decree would be expected to begin 30 days after approval by the US District Court, although the District has already begun work on certain projects that will be required under the Consent Decree. Funding for those projects is included in the District's existing capital plan. The District currently estimates the costs for implementing the CSO capital improvement program to be approximately \$3 billion in 2009 dollars. These expenditures constitute a "high burden" on District ratepayers, and based upon the estimated costs of the program and high burden status, the proposed implementation schedule is anticipated to be 25 years. Upon approval of the Consent Decree, the District expects to pay civil penalties to the United States and State of Ohio in the amount of \$2 million as follows: (1) to the United States \$600,000 in cash and \$400,000 in Supplemental Environmental Projects; (2) to the State of Ohio \$600,000 in cash and \$400,000 in Supplemental Environmental Projects. As such the District has recorded \$2 million as an other accrued long-term liability on the accompanying Statement of Net Assets as of December 31, 2009.

#### Mill Creek Tunnel 3 Project

On or about July 18, 2002, the District entered into an approximate \$58,281,408 million construction contract with KMM&K Joint Venture ("KMM&K") for the Mill Creek Tunnel-3 ("MCT-3") project. During 2004, the MCT-3 project was shut down due to unsafe tunneling conditions. On October 8, 2007, KMM&K filed for breach of contract claiming damages of approximately \$15 million against the District. On March 24, 2009, the District filed a counterclaim against KMM&K and its surety for \$25 million, which is primarily related to claims of overstated costs incurred during the shutdown and failure to complete the project. Subsequently, on June 29, 2010, the District filed amended pleadings, stating civil fraud and conspiracy charges against KMM&K. The District seeks to recover an additional \$7.5 million by asking the Court to set aside four legal settlements paid to KMM&K which are alleged to have been procured by fraud and conspiracy. As of the auditors' report date, the lawsuit has remained in preliminary stages. The District intends to vigorously defend its claims and believes no adverse impact will result from this litigation. Accordingly, no adjustment has been made to the financial statements as of December 31, 2009.

#### Big Creek Interceptor – 3D

On or about November 17, 2004, the District entered into an approximate \$12,706,205 construction contract with KM&M Joint Venture ("KM&M") for the Big Creek Interceptor-3D ("BCI-3D") project. The District exercised its right to set off amounts due to the failure of a polymer liner installed by contractor. On April 15, 2008, KM&M filed for breach of contract action claiming damages of approximately \$900,000 against the District. On July 28, 2008, the District filed a counterclaim and third-party complaint against KM&M and its surety for damages in excess of \$4 million, which is primarily related to costs for completion of unfinished work and remediation of the failed liner system. The parties are currently engaged in mediation and settlement discussions, and it is anticipated the litigation will be settled by the end of 2010. Should the parties not reach settlement, the District intends to vigorously defend its claims and believes no adverse impact will result from this litigation. Accordingly, no adjustment has been made to the financial statements as of December 31, 2009.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2009 and 2008

### Note 11: Commitments and Contingencies (continued)

#### Former General Counsel Litigation

On April 21, 2010, William B. Schatz, former General Counsel for the District, was charged in the United States District Court with bribery, theft, embezzlement and tax fraud in connection with the District's Mill Creek Tunnel 2 and 3 contracts.

Mr. Schatz received bribes in the amount of \$682,130 from, among others, a contractor identified as "Contractor No. 1" in the charging documents, which can only refer to KMM&K, a joint venture made up of Kassouf Co., Mole Contractors, Murray Hill and Kenny Construction Co. for the purpose of influencing his recommendation to the District's Board of Trustees with respect to certain legal settlements on the contractor's disputed claims on those projects. A third party acted as the go-between by invoicing the contract for services that were not performed and funneling monies back to Mr. Schatz for fictitious legal fees.

Additionally, Mr. Schatz embezzled money by depositing checks made payable to the District, including insurance premium returns and District tenant payments, into accounts he controlled using a fraudulent deposit stamp.

Mr. Schatz entered a plea agreement on May 18, 2010, pleading guilty to all charges. Sentencing has been scheduled for September 15, 2010. The federal government is continuing its criminal investigation of other parties involved in this matter.

The District filed a victim impact statement with the District Court asking the court to award any restitution ordered to be paid to the District.

In addition, based upon the criminal information and plea agreement documents filed with the court, the District filed a proof of loss with its insurance carrier for claims relating to the District's financial losses.

The District has fully cooperated with federal investigators over the past three years. The FBI subpoenaed ten years of contract documents, and the District has expeditiously submitted over two hundred thousand documents in paper and electronic form.

NEORS is aggressively pursuing three major civil lawsuits involving the recovery of millions of dollars, and hired a firm to review and investigate all legal settlements submitted to the Board by Mr. Schatz during his tenure with the District, along with all construction contracts where change orders were approved by District engineering staff that exceeded 10% in the aggregate of the contract amount. This will culminate in a report and may result in further legal action.

The District will consider bringing in additional outside resources to update a previous performance report issued by an expert outside legal firm and/or conduct a performance audit by the Ohio Auditor of State.

#### Other Litigation

The District, in 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.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2009 and 2008**

### **Note 12: Change in Governmental Accounting Principles**

During 2009, the District implemented GASB Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments." This establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments. The implementation of this statement did not affect the presentation of the financial statements of the District.

In June 2008, the GASB issued Statement No. 53, "Accounting for Financial Reporting for Derivative Instruments." This statement provides guidance regarding the accounting and reporting of derivative instruments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The District has not determined the impact, if any, that this statement will have on its financial statements or disclosures.

In March 2009, the GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This statement establishes fund balance classifications based primarily on the extent to which a governmental is bound by constraints on the use of resources reported in its governmental funds. The requirements for this statement are effective for financial statements for periods beginning after June 15, 2010. The District has not determined the impact, if any, that this statement will have on its financial statements or disclosures.

During 2009, the District implemented GASB Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." The statement incorporates the hierarchy of generally accepted accounting principles for state and local governments into the GASB's authoritative literature. The implementation of this statement did not affect the presentation of the financial statements of the District.

During 2009, the District implemented GASB Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards." This statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants' auditing literature into the GASB's accounting and financial reporting literature for state and local governments – related party transactions, going concern considerations, and subsequent events. The implementation of this statement did not affect the presentation of financial statements of the District.

In December 2009, the GASB issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." The requirements of this statement are effective for financial statements for periods beginning after June 15, 2011. The District has not determined the impact, if any, that this statement will have on its financial statements or disclosures.

In December 2009, the GASB issued Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies." The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The District has not determined the impact, if any, that this statement will have on its financial statements or disclosures.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2009 and 2008**

### **Note 13: Fair Value Measurements**

In accordance with the “Fair Value Measurements” topic of the FASB ASC, the District uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information which has been internally developed.

Financial assets consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/2009</u>
Money Market Funds	\$ 68,264,274	\$ -	\$ -	\$ 68,264,274
Certificates on Deposit	1,295,962	-	-	1,295,962
Fixed Income Securities	-	7,175,938	-	7,175,938
U.S. Government Obligations	-	190,306,944	-	190,306,944
	<u>\$ 69,560,236</u>	<u>\$ 197,482,882</u>	<u>\$ -</u>	<u>\$ 267,043,118</u>
				<u>Total at 12/31/2008</u>
Money Market Funds	\$ 79,849,326	\$ -	\$ -	\$ 79,849,326
Certificates on Deposit	31,429,455	-	-	31,429,455
Fixed Income Securities	-	7,173,079	-	7,173,079
U.S. Government Obligations	-	193,530,221	-	193,530,221
	<u>\$ 111,278,781</u>	<u>\$ 200,703,300</u>	<u>\$ -</u>	<u>\$ 311,982,081</u>

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2009 and 2008**

### **Note 14: Subsequent Events**

On January 7, 2010, the Board of Trustees adopted a new Stormwater Code of Regulations and authorized implementation of the Regional Stormwater Management Program (hereinafter "SMP") with respect to all member communities served by the District, including member communities outside of Cuyahoga County. On the same day, the District filed a Complaint for Declaratory Relief or, in the alternative, a Petition for Order Permitting Amendment of the District's Plan of Operation in Cuyahoga County Court of Common Pleas asking for a judgment declaring that the District has authority to fully implement its SMP. Twelve (12) Cuyahoga County communities, along with eight (8) Summit County communities have formed an Opposition Group seeking to enjoin the District from implementing the SMP and assessing stormwater fees before the court determines the District's authority. In addition, several business associations, the Cleveland Catholic Diocese, and the Cleveland Municipal School District have been granted permission to intervene in the litigation in opposition to the SMP.

In a companion case filed on December 30, 2009 Summit County and eight (8) Summit County member communities filed a Declaratory Judgment and Permanent Injunction Action against the District in Summit County Court of Common Pleas asking for a judgment declaring the District lacks authority and jurisdiction over Summit County property owners to impose a stormwater management program and to assess fees, and a preliminary and permanent injunction to enjoin the District from creating a stormwater management program and assessing fees on Summit County property owners. The District has filed motions to dismiss the complaint or transfer venue to the Cuyahoga County court. This case is in inactive status.

These cases are in the early stages of litigation and discovery is on-going. The District is moving forward with upgrades to the billing system to issue stormwater bills through agreements with the Cleveland Division of Water, its billing agent. The District anticipates the billing system will be prepared to issue bills by December 31, 2010; however, the District has entered into a stipulation agreement to refrain from enforcing its Stormwater Code, including the collection of stormwater fees, without first giving 60 days written notice to the Court and the parties of its intent prior to commencing any enforcement activities.



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Supplementary Information Schedule of Revenues, Expenses and Changes in Net Assets-Budget to Actual

For the year ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
User Charges:				
Billed	\$ 171,873,566	\$ 171,873,566	\$ 159,883,459	\$ (11,990,107)
Unbilled	-	-	3,946,366	3,946,367
Other Revenues	<u>781,584</u>	<u>781,584</u>	<u>946,537</u>	<u>164,952</u>
 Total Revenues	 <u>172,655,150</u>	 <u>172,655,150</u>	 <u>164,776,362</u>	 <u>(7,878,788)</u>
 <u>Expenses:</u>				
Salaries and Wages	37,539,010	37,796,706	37,024,254	772,452
Benefits	11,729,483	11,887,419	11,714,646	172,773
Power	11,687,165	10,714,470	10,591,495	122,975
Materials and Supplies	4,392,367	4,699,815	4,190,172	509,643
Collection Fees	5,600,000	5,793,337	5,725,215	68,122
Gas	7,236,703	6,811,107	6,600,201	210,906
Chemicals	1,600,287	1,684,536	1,615,452	69,084
Repairs and Maintenance	3,253,440	3,037,896	2,362,155	675,741
Solids Handling	1,601,203	2,015,226	1,831,793	183,433
Water	1,141,913	1,136,065	1,007,356	128,709
Professional Services	7,302,830	8,601,418	7,886,179	715,239
Insurance	1,182,000	997,672	997,672	-
Judgments and Awards	50,000	36,108	2,036,108	(2,000,000)
Other Operating Expenses	6,387,627	5,492,253	3,430,734	2,061,519
Capitalized Construction Costs	(3,613,571)	(3,613,571)	(3,459,667)	(153,904)
Depreciation	<u>44,300,000</u>	<u>44,300,000</u>	<u>45,410,351</u>	<u>(1,110,351)</u>
 Total Operating Expenses	 <u>141,390,457</u>	 <u>141,390,457</u>	 <u>138,964,116</u>	 <u>2,426,341</u>
 Excess of Revenues Over Operating Expenses	 <u>\$ 31,264,693</u>	 <u>\$ 31,264,693</u>	 <u>\$ 25,812,246</u>	 <u>\$ (5,452,447)</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Supplementary Information Schedule of Revenues, Expenses and Changes in Net Assets-Budget to Actual

For the year ended December 31, 2009

Reconciliation to Change in Net Assets:

Excess of Revenues Over Operating Expenses	\$	25,812,246
Non-Operating Grants Revenue		1,430,784
Interest Revenue		7,240,399
Decrease in Fair Value of Investments		(3,874,343)
Non-Operating Grant Expenses		(1,430,784)
Other Non-Operating Expenses		(3,000,000)
Loss on Disposals of Equipment		(2,013,698)
Interest Expense on Long-Term Debt		<u>(24,598,935)</u>
Loss Before Contribution		(434,331)
Capital Contributions		<u>3,963,079</u>
Change in Net Assets		3,528,748
Net Assets at Beginning of Year		<u>1,276,060,248</u>
Net Assets at End of Year	\$	<u><u>1,279,588,996</u></u>

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Supplementary Information Schedule of Revenues, Expenses and Changes in Net Assets-Budget to Actual**

**For the year ended December 31, 2009**

### **Notes to Supplementary Information**

**December 31, 2009**

#### **Note 1: Summary of Significant Accounting Policies**

##### **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 \$25,000. All budget appropriations lapse on December 31 of each year.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Supplementary Information Schedule of Revenues, Expenses and Changes in Net Assets-Budget to Actual

For the year ended December 31, 2009

### Notes to Supplementary Information

December 31, 2009

#### Note 1: Summary of Significant Accounting Policies (continued)

##### Budgetary Basis of Accounting

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

	<u>2009</u>
Excess of revenue over operating expenses – operating budget basis	\$ 25,812,246
Non-operating grant revenue	1,430,784
Interest income	7,240,399
Decrease in fair value of investments	(3,874,343)
Non-operating grant expenses	(1,430,784)
Other non-operating expenses	(3,000,000)
Loss on disposals of equipment	(2,013,698)
Interest on long-term debt	<u>(24,598,935)</u>
Loss before contribution	(434,331)
Capital Contributions	<u>3,963,079</u>
Change in net assets	\$ <u>3,528,748</u>

## STATISTICAL SECTION (UNAUDITED)

This part of the District's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help the reader understand the District's financial performance and well-being and how they have changed over time.</i>	50
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant revenue source, user charges.</i>	54
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	62
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	64
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	66
Continuing Disclosure Requirements <i>These schedules are required by Continuing Disclosure Agreement with respect to outstanding Revenue Bonds. They contain information pertinent to each of the categories above.</i>	74

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports and District accounting records for the relevant year.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
NET ASSETS BY COMPONENT  
LAST TEN YEARS**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Invested in Capital Assets, Net of Related Debt	\$ 732,269,677	\$ 758,721,984	\$ 799,299,807	\$ 836,065,355
Unrestricted	<u>351,462,956</u>	<u>369,576,559</u>	<u>370,368,464</u>	<u>357,871,693</u>
Total	<u>\$ 1,083,732,633</u>	<u>\$ 1,128,298,543</u>	<u>\$ 1,169,668,271</u>	<u>\$ 1,193,937,048</u>

Note:

1999 through 2000 restated to comply with GASB 34. Amounts previously reported as equity are presented here as net assets.  
1999 through 2007 restated to comply with GASB 51. Refer to Note 12.

Source: District accounting records.

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$ 899,552,635	\$ 937,597,258	\$ 980,197,219	\$ 978,861,950	\$ 995,487,741	\$ 1,006,102,174
<u>307,707,118</u>	<u>285,112,392</u>	<u>259,740,301</u>	<u>281,436,951</u>	<u>280,572,507</u>	<u>273,486,822</u>
<u><u>\$ 1,207,259,753</u></u>	<u><u>\$ 1,222,709,650</u></u>	<u><u>\$ 1,239,937,520</u></u>	<u><u>\$ 1,260,298,901</u></u>	<u><u>\$ 1,276,060,248</u></u>	<u><u>\$ 1,279,588,996</u></u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
CHANGES IN NET ASSETS  
LAST TEN YEARS**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Operating Revenues</u>				
Billing Agents (1)	\$ 120,663,929	\$ 124,027,444	\$ 119,515,859	\$ 117,755,171
Direct Billed	9,727,725	9,780,118	10,277,561	11,504,702
Other (6)	939,179	805,196	964,619	615,506
Total Operating Revenues (2)	<u>131,330,833</u>	<u>134,612,758</u>	<u>130,758,039</u>	<u>129,875,379</u>
<u>Operating Expenses</u>				
Salaries & Wages (3)	23,892,150	24,647,491	25,977,019	27,542,022
Fringe Benefits	7,197,179	6,774,095	7,790,909	8,521,645
Utilities	13,931,089	15,454,158	13,865,509	14,517,622
Professional & Contractual	10,431,643	10,759,907	10,793,057	11,731,572
Other (6)	4,441,829	5,096,634	3,625,200	4,019,822
Depreciation (3)	30,320,517	31,495,906	29,749,276	34,167,297
Total Operating Expenses	<u>90,214,407</u>	<u>94,228,191</u>	<u>91,800,970</u>	<u>100,499,980</u>
Operating Income	41,116,426	40,384,567	38,957,069	29,375,399
<u>Non-Operating Revenues (Expenses)</u>				
Interest Income	15,980,457	18,580,276	14,247,954	12,267,626
Increase (Decrease) in Fair Value of Investments	7,125,918	3,331,519	5,457,490	(5,709,818)
Non-Operating Grant Revenue (6)	-	-	-	-
Non-Operating Grant Expenses (6)	-	-	-	-
Other Non-Operating Expenses (7)	-	-	-	-
Loss on Disposals of Equipment	(74,682)	(768,357)	(1,317,155)	(123,555)
Interest on Long-Term Debt	(16,486,676)	(17,443,676)	(18,283,691)	(19,289,590)
Total Non-Operating Revenues(Expenses)	<u>6,545,017</u>	<u>3,699,762</u>	<u>104,598</u>	<u>(12,855,337)</u>
Capital Contributions (4)	<u>9,600,873</u>	<u>3,377,953</u>	<u>5,253,943</u>	<u>9,402,297</u>
Change in Net Assets (5)	<u>\$ 57,262,316</u>	<u>\$ 47,462,282</u>	<u>\$ 44,315,610</u>	<u>\$ 25,922,359</u>

(1) Year 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. Decreases are due primarily to lower billed consumption.

(3) 2002 restated for December 31, 2002 prior period adjustments. Depreciation decreased \$2,639,240 from the amount originally reported, and accrued payroll expenses increased by \$144,800.

(4) Beginning in 2001 contributions for construction grants are reported as revenue in accordance with GASB 33. Prior to that date contributions were recorded as direct additions to equity.

(5) Year 2000 restated to comply with GASB 34 to present former equity amounts as net assets.

(6) Commencing in 2007 Reclassified Non-Operating Grant Revenue and Expenses.

(7) Other Non-Operating Expenses include Agreement with the Cleveland Metroparks. Refer to Note 11.

Source: District accounting records.



<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$ 122,078,222	\$ 131,938,350	\$ 135,732,973	\$ 145,221,599	\$ 147,605,404	\$ 151,132,069
11,442,284	12,623,945	13,220,817	13,062,958	13,832,074	12,697,756
762,782	734,253	1,200,272	769,744	833,463	946,537
<u>134,283,288</u>	<u>145,296,548</u>	<u>150,154,062</u>	<u>159,054,301</u>	<u>162,270,941</u>	<u>164,776,362</u>
29,127,972	31,283,367	33,021,551	33,724,279	35,102,015	37,024,254
9,916,038	10,944,618	11,225,384	10,732,240	11,493,925	11,714,646
15,053,259	17,595,315	17,814,509	18,893,296	20,632,885	18,924,173
12,272,328	13,389,541	14,076,004	14,808,434	18,727,176	17,696,366
4,439,180	5,566,881	6,917,693	7,046,216	5,757,037	8,194,326
35,668,913	35,968,351	40,093,478	43,261,151	44,448,564	45,410,351
<u>106,477,690</u>	<u>114,748,073</u>	<u>123,148,619</u>	<u>128,465,616</u>	<u>136,161,602</u>	<u>138,964,116</u>
27,805,598	30,548,475	27,005,443	30,588,685	26,109,339	25,812,246
11,264,860	8,816,261	8,645,525	12,417,477	11,714,888	7,240,399
(6,662,611)	(3,190,247)	1,774,960	3,157,199	2,332,208	(3,874,343)
-	-	-	35,430	1,592,151	1,430,784
-	-	-	(940,016)	(1,204,204)	(1,430,784)
-	-	-	-	-	(3,000,000)
(1,025,183)	(776,203)	(4,216,914)	(468,601)	(180,689)	(2,013,698)
(19,352,880)	(19,821,947)	(20,641,227)	(24,428,793)	(24,602,346)	(24,598,935)
<u>(15,775,814)</u>	<u>(14,972,136)</u>	<u>(14,437,656)</u>	<u>(10,227,304)</u>	<u>(10,347,992)</u>	<u>(26,246,577)</u>
1,703,878	45,133	6,359,637	-	-	3,963,079
<u>\$ 13,733,662</u>	<u>\$ 15,621,472</u>	<u>\$ 18,927,424</u>	<u>\$ 20,361,381</u>	<u>\$ 15,761,347</u>	<u>\$ 3,528,748</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
REVENUES BY TYPE  
LAST TEN YEARS**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Operating Revenues</u>				
Sewer Service Fees				
City of Cleveland Billing Agent (1)	\$ 110,749,258	\$ 113,591,867	\$ 109,416,694	\$ 107,662,424
Other Billing Agents	9,914,671	10,435,577	10,099,165	10,092,747
Other Sewer Service Fees	9,727,725	9,780,118	10,277,561	11,504,702
Other Operating Revenue	<u>939,179</u>	<u>805,196</u>	<u>964,619</u>	<u>615,506</u>
Total Operating Revenue (2)	131,330,833	134,612,758	130,758,039	129,875,379
<u>Non-Operating Revenues</u>				
Interest Income	15,980,457	18,580,276	14,247,954	12,267,626
Increase (Decrease) in Fair Value of Investments	7,125,918	3,331,519	5,457,490	(5,709,818)
Non-Operating Grant Revenue (4)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenues (4)	23,106,375	21,911,795	19,705,444	6,557,808
Capital Contributions (3)	<u>-</u>	<u>3,377,953</u>	<u>5,253,943</u>	<u>9,402,297</u>
Total Revenues	<u>\$ 154,437,208</u>	<u>\$ 159,902,506</u>	<u>\$ 155,717,426</u>	<u>\$ 145,835,484</u>

(1) Year 2000 restated for reclassification of bad debt expense as a reduction of revenue. 2000 restatement corrected in 2006.

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

(3) Beginning in 2001 contributions for construction grants are reported as revenue in accordance with GASB 33.

(4) Commencing in 2007 Reclassified Non-Operating Grant Revenue.

Source: District accounting records.

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$ 110,815,131	\$ 120,578,807	\$ 123,897,778	\$ 135,185,688	\$ 137,760,081	\$ 141,082,193
11,263,091	11,359,543	11,835,195	10,035,911	9,845,323	10,049,876
11,442,284	12,623,945	13,220,817	13,062,958	13,832,074	12,697,756
<u>762,782</u>	<u>734,253</u>	<u>1,200,272</u>	<u>769,744</u>	<u>833,463</u>	<u>946,537</u>
134,283,288	145,296,548	150,154,062	159,054,301	162,270,941	164,776,362
11,264,860	8,816,261	8,645,525	12,417,477	11,714,888	7,240,399
(6,662,611)	(3,190,247)	1,774,960	3,157,199	2,332,208	(3,874,343)
<u>-</u>	<u>-</u>	<u>-</u>	<u>35,430</u>	<u>1,592,151</u>	<u>1,430,784</u>
4,602,249	5,626,014	10,420,485	15,610,106	15,639,247	4,796,840
<u>1,703,878</u>	<u>45,133</u>	<u>6,359,637</u>	<u>-</u>	<u>-</u>	<u>3,963,079</u>
<u><u>\$ 140,589,415</u></u>	<u><u>\$ 150,967,695</u></u>	<u><u>\$ 166,934,184</u></u>	<u><u>\$ 174,664,407</u></u>	<u><u>\$ 177,910,188</u></u>	<u><u>\$ 173,536,281</u></u>

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Salaries and Wages	\$ 23,892,150	\$ 24,647,491	\$ 25,977,019	\$ 27,542,022
Benefits	7,197,179	6,774,095	7,790,909	8,521,645
Power	8,953,181	9,267,991	9,147,231	9,370,436
Materials and Supplies	4,677,056	3,375,647	3,383,852	3,599,091
Collection Fees	5,002,072	5,110,654	4,977,231	5,598,772
Gas	3,601,449	4,926,932	3,805,104	3,587,102
Chemicals	742,727	765,279	742,794	777,478
Repairs and Maintenance	1,722,806	3,641,665	2,435,869	2,505,875
Solids Handling	1,439,390	1,495,717	1,181,476	782,822
Water	954,713	831,926	500,030	1,128,576
Professional Services	1,426,942	1,484,679	2,097,685	2,488,843
Insurance	864,156	819,952	908,484	1,005,164
All Other Expenses (3)	2,473,286	2,686,842	2,668,495	2,857,775
Capitalized Construction Costs	(3,053,217)	(3,096,585)	(3,564,485)	(3,432,918)
Depreciation	<u>30,320,517</u>	<u>31,495,906</u>	<u>29,749,276</u>	<u>34,167,297</u>
Total Operating Expenses	<u>\$ 90,214,407</u>	<u>\$ 94,228,191</u>	<u>\$ 91,800,970</u>	<u>\$ 100,499,980</u>

- (1) 2002 restated for December 31, 2002 prior period adjustments. Depreciation decreased \$2,639,240 from the amount originally reported, and accrued payroll expenses increased by \$144,800.
- (2) Year 2000 restated for reclassification of bad debt expense as a reduction of revenue.
- (3) Commencing in 2007 Reclassified Non-Operating Grant Expenses.

Source : District accounting records.

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$ 29,127,972	\$ 31,283,367	\$ 33,021,551	\$ 33,724,279	\$ 35,102,015	\$ 37,024,254
9,916,038	10,944,618	11,225,384	10,732,240	11,493,925	11,714,646
9,230,045	9,612,943	9,698,130	10,087,278	11,101,067	10,591,495
3,981,807	4,136,824	4,467,163	4,498,829	4,261,239	4,190,172
4,977,801	5,344,377	5,577,407	5,558,472	5,435,973	5,725,215
4,085,469	6,311,146	6,411,117	7,094,373	7,801,361	6,600,201
735,715	1,156,059	1,419,372	1,523,535	1,268,036	1,615,452
2,287,614	2,649,356	3,109,610	4,008,618	3,036,704	2,362,155
989,915	1,665,083	1,282,171	1,462,056	861,768	1,831,793
1,242,143	1,101,448	1,036,930	1,070,362	1,021,701	1,007,356
3,132,075	3,228,625	4,083,289	4,469,991	8,991,475	7,886,179
1,087,302	1,138,447	1,139,139	1,120,774	1,097,763	997,672
3,301,927	3,432,862	4,262,270	3,624,958	3,758,449	5,466,842
(3,287,046)	(3,225,433)	(3,678,392)	(3,771,300)	(3,518,438)	(3,459,667)
<u>35,668,913</u>	<u>35,968,351</u>	<u>40,093,478</u>	<u>43,261,151</u>	<u>44,448,564</u>	<u>45,410,351</u>
<u>\$ 106,477,690</u>	<u>\$ 114,748,073</u>	<u>\$ 123,148,619</u>	<u>\$ 128,465,616</u>	<u>\$ 136,161,602</u>	<u>\$ 138,964,116</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
COMMUNITIES SERVED BY THE DISTRICT AND  
ESTIMATED POPULATION SERVED  
DECEMBER 31, 2009**

<u>Municipality</u>	Estimated Service <u>Population (1)</u>	<u>Municipality</u>	Estimated Service <u>Population (1)</u>
<b>SUBDISTRICT 1</b>			
Cleveland City	428,659		
<b>SUBDISTRICT 2</b>			
Bath Township	0 (3)	Mayfield Village	3,314
Beachwood City	13,912	Middleburg Heights City	16,273
Bedford City	0 (3)	Newburgh Heights Village	2,434
Bedford Heights City	0 (3)	North Randall Village	791
Berea City	18,391	North Royalton City	6,631 (2)
Boston Heights Village	597 (4)	Northfield Village	3,830
Bratenahl Village	1,279	Northfield Center Township	4,400
Brecksville City	15,150 (4)	Oakwood Village	3,089 (2)
Broadview Heights City	18,625 (2)	Olmsted Falls City	8,786 (2,4)
Brook Park City	18,535	Olmsted Township	7,007 (2,4)
Brooklyn City	11,140	Orange Village	557 (2,4)
Brooklyn Heights Village	1,663	Parma City	80,601
Cleveland Heights City	45,204	Parma Heights City	21,400
Columbia Township	941 (2,4)	Pepper Pike City	2,134 (2)
Cuyahoga Heights Village	476	Richfield Village	3,340 (2,4)
East Cleveland City	18,956	Richfield Township	1,119 (2,4)
Euclid City	1,938 (2,4)	Richmond Heights City	3,774 (2)
Garfield Heights City	28,648	Sagamore Hills Township	8,014 (4)
Gates Mills Village	318 (2)	Seven Hills City	11,438
Glenwillow Village	32 (2)	Shaker Heights City	26,801
Highland Heights City	10,390	Solon City	166 (2)
Highland Hills Village	1,169	South Euclid City	22,518 (4)
Hudson City	9,298 (2)	Strongsville City	28,694 (2)
Independence City	7,746	Twinsburg City	8 (2)
Lakewood City	0 (3)	Twinsburg Township	203 (2)
Linndale Village	100	University Heights City	12,948
Lyndhurst City	13,976	Valley View Village	2,180
Macedonia City	8,204	Walton Hills Village	2,379
Maple Heights City	24,279	Warrensville Heights City	13,898
Mayfield Heights City	18,297	Willoughby Hills City	0 (3)

Total Subdistrict 2 587,991

**Total estimated service population**

**1,016,650**

- (1) Based on 2000 U.S. Census Block Data as presented in the Northeast Ohio Areawide Coordinating Agency (NOACA) Magic 2001 Database, using the NEORS D Service Area Boundary.
- (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.
- (4) Service population to be determined by ongoing service area verification project.

Source: District administrative records.



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
LARGEST CUSTOMERS OF THE DISTRICT  
AS OF DECEMBER 31, 2009  
and NINE YEARS PRIOR**

	2009			PERCENTAGE OF
	CONSUMPTION	AMOUNT	RANK	OPERATING
	MCF (1)	BILLED		REVENUE
<b><u>SUBDISTRICT 1</u></b>				
Cuyahoga Metropolitan Housing Agency (2)	81,020.1	\$3,730,445	1	2.2%
Cleveland Clinic (2)	42,345.2	\$1,993,995	2	1.2%
University Hospitals (2)	23,572.0	1,097,940	4	0.7%
City of Cleveland Water Filtration Plants	21,945.9	1,078,828	6	0.7%
Cleveland Board of Education	21,926.0	1,008,949	8	0.6%
Case Western Reserve University	21,365.1	989,925	9	0.6%
Cuyahoga County (2)	20,093.0	925,705	10	0.6%
Mittal Steel (ISG Cleveland)	19,872.9	735,298	11	0.4%
Metro Health Medical Centers	15,855.4	733,310	12	0.4%
Ferro Corporation (2)	13,877.4	611,931	14	0.4%
Cleveland State University (2)	10,212.5	468,450	15	0.3%
Veterans Administration Hospitals (2)	7,185.8	321,747	17	0.2%
Holiday Inn (2)	6,885.6	301,617	18	0.2%
Columbus Road Realty	6,379.7	286,756	19	0.2%
Property Management Rental	4,768.5	218,417	22	0.1%
Inland Waters of Ohio	3,506.7	196,485	24	0.1%
General Electric Company	3,753.1	175,147	25	0.1%
Cleveland Thermal Energy Corporation	-	-	-	-
LTV Steel	-	-	-	-
Synthetic Products	-	-	-	-
Pure Tech Systems / Research Oil Company	-	-	-	-
Clean Harbors of Cleveland Inc.	-	-	-	-
Longwood Apartments Inc.	-	-	-	-
Total Subdistrict 1	324,564.9	\$14,874,945		9.0%
<b><u>SUBDISTRICT 2</u></b>				
Ford Motor Corporation	31,865.8	\$1,303,311	3	0.8%
NASA John H Glenn Research Center	26,392.6	1,079,229	5	0.7%
Aluminum Corporation of America	25,429.1	1,035,186	7	0.6%
Forest City Management (2)	15,472.1	695,967	13	0.4%
Eaton Estates/ Nagy Park	7,887.2	322,586	16	0.2%
General Motors Corporation	6,103.8	247,303	20	0.2%
Fairhill Towers LLC (Zehman & Wolfe Management)	5,796.3	242,567	21	0.1%
The Pearl Management Company	5,214.9	211,434	23	0.1%
K & D Group	4,345.9	173,629	26	0.1%
Total Subdistrict 2	128,507.7	\$5,311,212		3.2%
Grand Total	453,072.6	\$20,186,157		12.2%

(1) One (1) MCF = one thousand cubic feet = 7,480 gallons.

(2) 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.



2000

CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
138,649.9	\$ 3,814,499	1	2.9%
39,392.2	950,545	7	0.7%
31,604.3	766,063	9	0.6%
32,239.6	1,037,294	5	0.8%
29,903.5	796,109	8	0.6%
25,814.5	702,828	10	0.5%
20,715.8	535,775	12	0.4%
-	-	-	-
11,605.1	305,920	17	0.2%
16,260.5	446,227	15	0.3%
10,537.9	288,398	18	0.2%
11,671.6	258,286	20	0.2%
8,154.1	220,271	22	0.2%
-	-	-	-
-	-	-	-
-	-	-	-
7,809.7	200,394	24	0.2%
38,277.4	989,659	6	0.8%
49,684.3	1,445,770	2	1.1%
16,498.7	457,009	14	0.3%
3,835.6	206,766	23	0.2%
4,341.6	248,011	21	0.2%
11,290.3	308,888	16	0.2%
<u>508,286.6</u>	<u>\$ 13,978,712</u>		<u>10.6%</u>
53,094.0	\$ 1,412,299	3	1.1%
23,123.5	606,424	11	0.5%
47,694.6	1,263,594	4	1.0%
17,760.1	477,465	13	0.4%
-	-	-	-
10,783.0	286,549	19	0.2%
-	-	-	-
-	-	-	-
-	-	-	-
<u>152,455.2</u>	<u>\$ 4,046,331</u>		<u>3.2%</u>
<u><u>660,741.8</u></u>	<u><u>\$ 18,025,043</u></u>		<u><u>13.8%</u></u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
RATIO OF OUTSTANDING DEBT BY TYPE  
LAST TEN YEARS**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Debt by Type, In Thousands</b>				
Revenue Bond Issues				
\$97,830 Series 1995	\$ 83,220	\$ 79,775	\$ 76,175	\$ 72,415
\$68,280 Series 2005 (A)	-	-	-	-
\$126,055 Series 2007 (B)	-	-	-	-
Total Revenue Bonds	<u>83,220</u>	<u>79,775</u>	<u>76,175</u>	<u>72,415</u>
Ohio Water Development Authority Loans	8,244	4,580	1,907	1,599
Water Pollution Control Loans	267,148	296,459	329,332	346,073
Other	<u>28</u>	<u>13</u>	<u>-</u>	<u>-</u>
 Total All Debt	 <u>\$ 358,640</u>	 <u>\$ 380,827</u>	 <u>\$ 407,414</u>	 <u>\$ 420,087</u>
 <b>Number of Customer Accounts (1)</b>	 319,608	 326,146	 325,022	 325,292
 <b>Outstanding Debt Per Customer Account</b>	 \$ 1,122	 \$ 1,168	 \$ 1,253	 \$ 1,291

(1)For this schedule, Number of Customer Accounts is adjusted for Master Meter Communities as follows.\*

Historical Number of Customer Accounts (see pages 74 & 75)	304,517	310,600	308,809	308,197
Less Master Meter Communities	(4)	(4)	(4)	(4)
Add estimated number of customers in Master Meter Communities	<u>15,095</u>	<u>15,550</u>	<u>16,217</u>	<u>17,099</u>
Number of Customer Accounts	<u>319,608</u>	<u>326,146</u>	<u>325,022</u>	<u>325,292</u>

\*The Master Meter Communities bill their customers separately. Master Meter Communities are Hudson, Hudson, Richfield Village and Summit County. County.

Note: This schedule should be read in conjunction with Note 6 to the Audited Financial Statements for December 31, 2009.

(A) The Series 1995 Bonds were refunded on December 20, 2005 and replaced by the Series 2005 Bonds.

(B) The Series 2007 Bonds were issued on May 22, 2007.

Source: District accounting records.

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$ 68,415	\$ -	\$ -	\$ -	\$ -	\$ -
-	68,280	63,525	58,850	53,985	48,925
-	-	-	126,055	124,000	121,865
<u>68,415</u>	<u>68,280</u>	<u>63,525</u>	<u>184,905</u>	<u>177,985</u>	<u>170,790</u>
1,274	932	573	194	-	-
350,908	387,380	417,777	418,262	417,080	411,544
-	-	-	-	-	-
<u>\$ 420,597</u>	<u>\$ 456,592</u>	<u>\$ 481,875</u>	<u>\$ 603,361</u>	<u>\$ 595,065</u>	<u>\$ 582,334</u>
330,190	328,417	325,389	334,850	328,856	319,629
\$ 1,274	\$ 1,390	\$ 1,481	\$ 1,802	\$ 1,810	\$ 1,822
313,043	312,093	308,769	318,515	311,937	306,791
(4)	(4)	(4)	(4)	(3)	(3)
17,151	16,328	16,624	16,339	16,922	12,841
<u>330,190</u>	<u>328,417</u>	<u>325,389</u>	<u>334,850</u>	<u>328,856</u>	<u>319,629</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
 DEMOGRAPHIC AND ECONOMIC STATISTICS  
 LAST TEN YEARS**

Year	Estimated Population Served (1)	Cuyahoga County		
		Unemployment Rate (2)	Total Personal Income (000's) (3)	Per Capita Personal Income (3)
2000	1,031,336	4.5%	\$ 45,276,523	\$ 32,522
2001	1,085,204	4.5%	45,282,921	32,753
2002	1,085,204	6.7%	45,703,641	33,322
2003	1,085,071	6.8%	45,655,393	33,590
2004	1,085,071	6.3%	47,818,353	35,521
2005	1,041,392	6.1%	49,335,286	37,082
2006	1,032,670	5.5%	51,236,686	39,134
2007	1,027,184	6.1%	52,893,000	40,838
2008	1,026,500	6.8%	53,946,514	42,051
2009	1,015,500	9.2%	n/a	n/a

(1) Sources are District administrative records and U.S. Census Block Data as presented in the Northeast Ohio Areawide Coordinating Agency Magic 2001 Database.

(2) Sources are District administrative records, County of Cuyahoga, Ohio Comprehensive Annual Financial Report for 2005 and U.S. Department of Labor/Bureau of Labor Statistics. Cuyahoga County is significantly the same as the District's service area.

(3) U.S. Department of Commerce, Bureau of Economic Analysis. Cuyahoga County is significantly the same as the District's service area.

Note - Items indicated "n/a" were not available as of the date of this report.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
PRINCIPAL EMPLOYERS OF CUYAHOGA COUNTY, OHIO  
AS OF DECEMBER 31, 2009  
and NINE YEARS PRIOR**

Employer Name (1)	2009			2000		
	Number of Employees (1)	Rank (1)	Percentage of Total County Employment (2)	Number of Employees (1)	Rank (1)	Percentage of Total County Employment (2)
	FTE* 12-31-2009			FTE* 12-31-2000		
Cleveland Clinic Health System	32,000	1	5.12%	20,000	1	3.10%
U.S. Office of Personnel Management	13,849	2	2.22%	11,000	2	1.71%
University Hospitals	12,970	3	2.08%	-	-	-
Giant Eagle, Inc.	10,319	4	1.65%	-	-	-
Cuyahoga County	8,956	5	1.43%	-	-	-
Progressive Corp.	8,795	6	1.41%	9,700	3	-
City of Cleveland	8,232	7	1.32%	-	-	-
United State Postal Service	8,195	8	1.31%	8,500	5	-
Group Management Services Inc.	6,507	9	1.04%	9,000	4	1.02%
Key Corp	5,973	10	0.96%	6,500	7	1.33%
Cleveland Municipal School District	-	-	-	8,000	6	1.24%
Metro Health System	-	-	-	6,500	8	1.01%
Ford Motor Company	-	-	-	5,500	9	0.85%
LTV Corporation	-	-	-	4,800	10	0.74%
<b>Total</b>	<b>115,796</b>		<b>18.54%</b>	<b>89,500</b>		<b>11.00%</b>
<b>Total Cuyahoga County Employment (2)</b>			<b>625,000</b>			<b>645,000</b>

\* Full-Time Equivalent.

(1) Sources are *Crain's Cleveland Business*, December 2009 and March 2000.

Cuyahoga County is significantly the same as the District's service area.

(2) Sources of total employment for Cuyahoga County, Ohio are District administrative records, Cuyahoga County, Ohio Comprehensive Annual Financial Report for 2005, and U.S. Department of Labor, Bureau of Labor Statistics.

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b><u>TREATMENT PLANT FLOW</u></b>				
<b>Billions of gallons of sewage treated per plant:</b>				
Easterly	40.9	36.7	37.3	40.4
Southerly	39.2	38.9	37.2	43.1
Westerly	12.0	11.1	10.4	11.0
Total	<u>92.1</u>	<u>86.7</u>	<u>84.9</u>	<u>94.5</u>
<b>Total sewage treated, in MCFs (1)</b>	<u>12,312,834</u>	<u>11,590,909</u>	<u>11,350,267</u>	<u>12,633,690</u>
<b>MCFs billed, total District</b>	<u>5,600,215</u>	<u>5,342,696</u> (3)	<u>5,191,506</u>	<u>5,094,136</u>
<b><u>STAFFING LEVELS</u></b>				
<b>Number of employees:</b>				
Plant Operations & Maintenance	420	400	382	383
Engineering	45	48	54	61
Finance	35	35	48	49
Human Resources (2, 5)	-	-	41	44
Information Technology (2)	-	-	19	20
District Administration	73	76	20	18
Legal	9	10	9	8
Communications & Community Relations	-	-	-	-
Watershed Programs (6)	-	-	-	-
Total	<u>582</u>	<u>569</u>	<u>573</u>	<u>583</u>
<b>Budgeted employees, total District</b>	<u>625</u>	<u>595</u>	<u>634</u>	<u>637</u>

(1) Conversion factor: 1 MCF (thousand cubic feet) = 7,480 gallons.

(2) Reclassified from District Administration beginning in 2002.

(3) Restated 2001 for consumption adjustment in the City of Cleveland, Subdistrict 1.

(4) Restated 2005 for City of Cleveland Subdistrict 2 and City of Cleveland Heights.

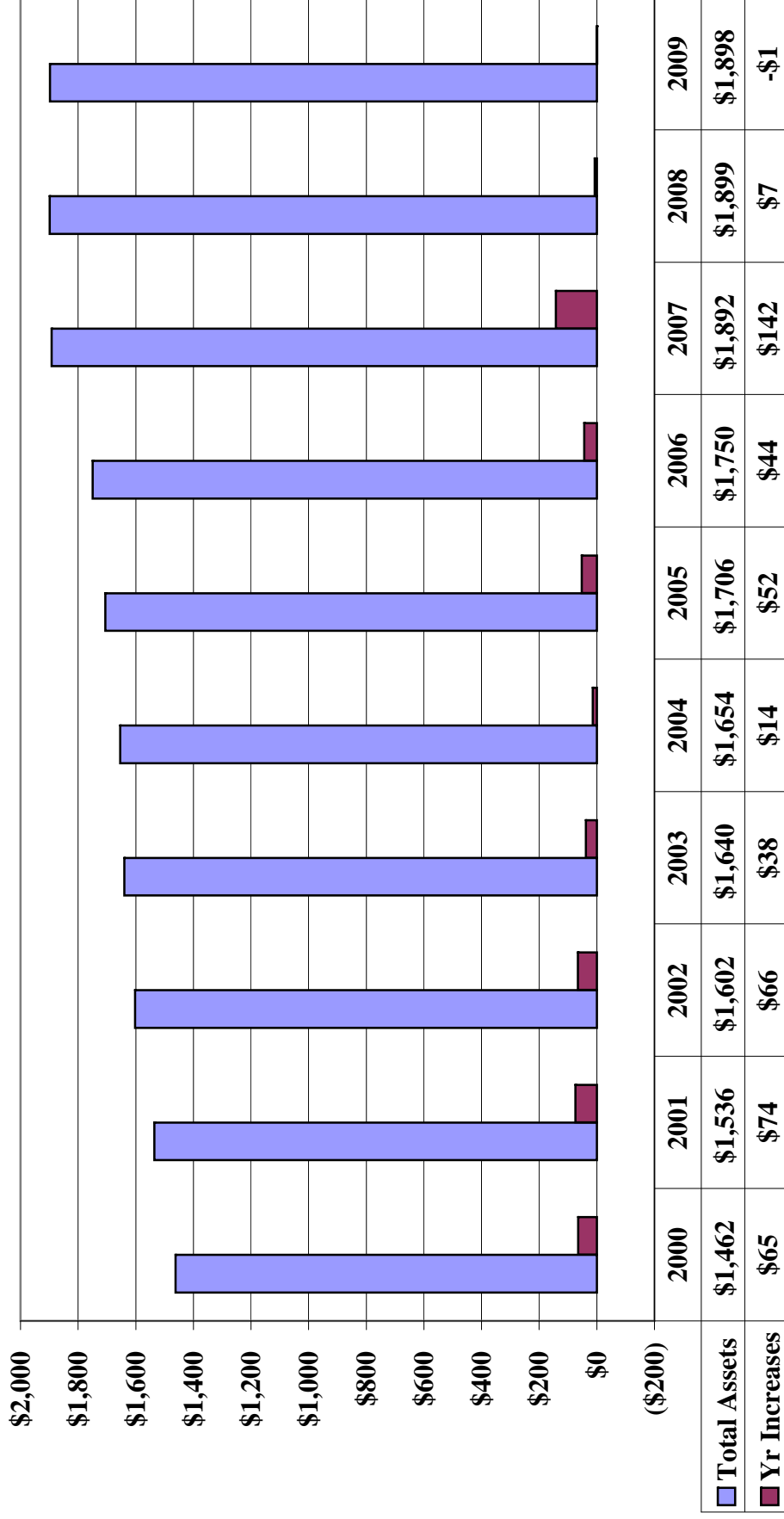
(5) Safety and Security reclassified from Human Resources to District Administration beginning in 2005.

(6) Watershed Programs reclassified from Plant Operations & Maintenance

Source: Various District records.

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
40.6	38.4	34.4	35.3	36.1	31.2
44.2	46.6	45.8	45.3	43.8	39.1
10.5	10.4	9.6	10.0	10.8	10.1
<u>95.3</u>	<u>95.4</u>	<u>89.8</u>	<u>90.6</u>	<u>90.7</u>	<u>80.4</u>
<u>12,740,642</u>	<u>12,754,011</u>	<u>12,005,348</u>	<u>12,112,299</u>	<u>12,125,668</u>	<u>10,748,663</u>
<u>4,930,817</u>	<u>4,969,948</u> (4)	<u>4,745,269</u>	<u>4,756,809</u>	<u>4,507,357</u>	<u>4,267,959</u>
404	412	404	396	363	353
66	66	70	65	57	56
50	49	50	42	47	47
47	21	17	15	14	19
18	19	20	21	19	21
17	43	44	56	46	47
8	9	8	8	14	13
-	4	7	8	16	16
-	-	-	-	58	62
<u>610</u>	<u>623</u>	<u>620</u>	<u>611</u>	<u>634</u>	<u>634</u>
<u>677</u>	<u>672</u>	<u>676</u>	<u>662</u>	<u>660</u>	<u>668</u>

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







**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
CAPITAL ASSET STATISTICS  
LAST TEN YEARS**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Number of Buildings</b>			
<u>Operations</u>			
Southerly Plant	36	36	36
Easterly Plant	17	17	16
Westerly Plant	16	16	17
Outlying Pump Buildings	6	6	6
<b>Total Operations</b>	<u>75</u>	<u>75</u>	<u>75</u>
<u>Administration</u>			
District Administration	2	2	2
Environmental Maintenance and Services Center	4	4	4
<b>Total Offices</b>	<u>6</u>	<u>6</u>	<u>6</u>
<b>Total Buildings</b>	<u><u>81</u></u>	<u><u>81</u></u>	<u><u>81</u></u>
 <b>Miles of Interceptor Sewers Installed Annually*</b>	 <u><u>3.25</u></u>	 <u><u>3.18</u></u>	 <u><u>0</u></u>
 <b>Number of Outlying Systems</b>			
<u>Sewage Collection System</u>			
Interceptor Sewers & Tunnels	20	20	21
Inter-Community Relief Sewers	13	17	17
Automated Regulators	29	29	27
Pumping Stations	7	7	7
Force Mains	3	3	3
<b>Total Sewage Collection System</b>	<u>72</u>	<u>76</u>	<u>75</u>
<u>Support Facilities</u>			
Floatables Control Sites	5	5	5
Biofilter Odor Control Sites	5	5	5
Rain Gauge Sites	25	25	25
Lakeview Dam	1	1	1
<b>Total Support Facilities</b>	<u>36</u>	<u>36</u>	<u>36</u>
<b>Total Outlying Systems</b>	<u><u>108</u></u>	<u><u>112</u></u>	<u><u>111</u></u>
 <b>Acres of Land</b>			
<u>Operations</u>			
Southerly Plant	311.2	311.2	311.2
Easterly Plant	77.7	77.7	77.7
Westerly Plant	13.4	14.5	14.5
<u>Administration</u>			
District Administration	1.5	1.5	1.5
Environmental Maintenance and Services Center	14.7	14.7	14.7
<b>Total Acres, Operations and Administration</b>	<u><u>418.5</u></u>	<u><u>419.6</u></u>	<u><u>419.6</u></u>

\*Total interceptor sewers are in excess of 200 miles.  
Source: District accounting and engineering records.





## CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Subdistrict 1</u>				
Cleveland (1)	132,801	136,332	133,611	132,541
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	4	4	4	4
Direct Service - Suburbs (1)	<u>171,712</u>	<u>174,264</u>	<u>175,194</u>	<u>175,652</u>
Subtotal	<u>171,716</u>	<u>174,268</u>	<u>175,198</u>	<u>175,656</u>
Total Customers	<u><u>304,517</u></u>	<u><u>310,600</u></u>	<u><u>308,809</u></u>	<u><u>308,197</u></u>

(1) 2000 through 2006 exclude inactive accounts.

(2) The Master Meter Suburbs, which bill their customers separately, had approximately 16,624 accounts at the end of 2006. Master Meter communities are East Cleveland, Hudson, Richfield Village and Summit County. The City of Hudson became a Master Meter community in 1998. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in SubDistrict II.

Source: District accounting records.

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
137,746	133,054	129,428	130,616	128,142	122,201
4	4	4	4	3	3
<u>175,293</u>	<u>179,035</u>	<u>179,337</u>	<u>187,895</u>	<u>183,792</u>	<u>184,587</u>
<u>175,297</u>	<u>179,039</u>	<u>179,341</u>	<u>187,899</u>	<u>183,795</u>	<u>184,590</u>
<u><u>313,043</u></u>	<u><u>312,093</u></u>	<u><u>308,769</u></u>	<u><u>318,515</u></u>	<u><u>311,937</u></u>	<u><u>306,791</u></u>

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>Subdistrict 1</u>				
Cleveland (4)	2,815,865	2,665,282 (2)	2,662,602	2,495,126
<u>Subdistrict 2</u>				
Direct Service - Suburbs (3) (4)	2,427,096	2,387,609	2,231,962	2,287,825
Master Meter - Suburbs (1)	<u>357,254</u>	<u>289,805</u>	<u>296,942</u>	<u>311,185</u>
Subtotal	<u>2,784,350</u>	<u>2,677,414</u>	<u>2,528,904</u>	<u>2,599,010</u>
Total Service Area	<u><u>5,600,215</u></u>	<u><u>5,342,696</u></u>	<u><u>5,191,506</u></u>	<u><u>5,094,136</u></u>

- (1) Consumption of Master Meter Suburbs is presented at 80% of total consumption which is the billing basis. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in SubDistrict 2.
- (2) Restated 2005 and 2001 for consumption adjustment.
- (3) For 2002-2005, NASA was categorized as a Direct Bill customer in Subdistrict 1. Beginning in 2006, NASA has been categorized as a Subdistrict II customer to properly reflect consumption totals.
- (4) The amount shown for the City of Cleveland for Subdistricts 1 & 2 has been adjusted to reflect the estimated MCFs as it relates to the adjustments made by the City of Cleveland in 2009 prior to the conversion to the new billing system. The District re-stated the 2009 financials whereby total MCFs adjustments was 116,948.0; 64,321.40 Subdistrict 1 and 52,626.60 Subdistrict 2. In addition, the amounts shown for the City of Cleveland for Subdistrict 1 & 2 has been adjusted for suppressed bills thus, total MCFs adjustments was (163,533.93); (105,703.56) Subdistrict 1 and (59,830.37) for Subdistrict 2.



<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
2,379,632	2,370,567	2,209,563	2,217,887	2,127,084	1,915,736
2,241,819	2,288,026 (2)	2,215,147	2,250,184	2,184,458	2,189,464
<u>309,366</u>	<u>311,109</u>	<u>320,559</u>	<u>288,738</u>	<u>195,815</u>	<u>162,759</u>
<u>2,551,185</u>	<u>2,599,135</u>	<u>2,535,706</u>	<u>2,538,922</u>	<u>2,380,273</u>	<u>2,352,223</u>
<u><u>4,930,817</u></u>	<u><u>4,969,702</u></u>	<u><u>4,745,269</u></u>	<u><u>4,756,809</u></u>	<u><u>4,507,357</u></u>	<u><u>4,267,959</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>2000</u>	<u>2001</u>	<u>2002</u>
Operating Revenue (1)	\$131,331	\$134,613	\$130,758
Non-Operating Revenue	<u>23,032</u>	<u>21,143</u>	<u>18,388</u>
Total Revenues	154,363	155,756	149,146
Operating Expenses (Exclusive of depreciation) (3)	<u>59,894</u>	<u>62,732</u>	<u>62,052</u>
Net Revenues Available for Debt Service	<u>\$ 94,469</u>	<u>\$ 93,024</u>	<u>\$ 87,094</u>
Total Revenue Bond Debt Service (2),(4)	\$7,936	\$ 7,932	\$ 7,934
Coverage on Revenue Bond Debt Service	11.90	11.73	10.98
Total All Debt Service (2)	\$ 34,409	\$ 34,866	\$ 35,984
Coverage on Total Debt Service	2.75	2.67	2.42

- (1) Year 2000 restated for reclassification of bad debt expense as a reduction of revenue. This has no effect on debt service.
- (2) 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, 2008 were:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Revenue Bond Issues and Debt Service			
\$97,830 Series 1995	\$ 7,936	\$ 7,932	\$ 7,934
\$68,280 Series 2005 (A)	-	-	-
\$126,055 Series 2007 (B)	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue Bond Debt Service	7,936	7,932	7,934
OWDA Debt Service	4,643	4,079	3,136
WPCLF Debt Service	<u>21,830</u>	<u>22,855</u>	<u>24,914</u>
Total All Debt Service	<u>\$ 34,409</u>	<u>\$ 34,866</u>	<u>\$ 35,984</u>

(A) The Series 1995 Bonds were refunded on December 20, 2005 and replaced by the Series 2005 Bonds.

(B) The Series 2007 Bonds were issued on May 22, 2007.

- (3) 2002 restated for December 31, 2002 prior period adjustment of \$144,800 accrued payroll.
- (4) Bonds and loans are secured by a pledge of and lien on revenues of the District, after payment of operating and maintenance costs, and on monies and investments comprising the Construction Funds and Revenue Bond Debt Service Deposit. Loans are subordinate to the Bonds.

Source: District accounting records.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$ 129,875	\$ 134,283	\$ 145,297	\$ 150,154	\$ 159,055	\$ 162,271	\$164,776
6,434	3,577	4,850	10,421	15,575	14,047	3,366
<u>136,309</u>	<u>137,860</u>	<u>150,147</u>	<u>160,575</u>	<u>174,630</u>	<u>176,318</u>	<u>168,142</u>
<u>66,333</u>	<u>70,808</u>	<u>78,780</u>	<u>82,319</u>	<u>85,205</u>	<u>91,713</u>	<u>93,554</u>
<u>\$ 69,976</u>	<u>\$ 67,052</u>	<u>\$ 71,367</u>	<u>\$ 78,256</u>	<u>\$ 89,425</u>	<u>\$ 84,605</u>	<u>\$ 74,588</u>
\$ 7,930	\$ 7,935	\$ 7,935	\$ 7,490	\$ 10,174	\$ 15,375	\$ 15,373
8.82	8.45	8.99	10.45	8.79	5.61	4.85
\$ 35,886	\$ 42,029	\$ 42,552	\$ 44,257	\$ 54,905	\$ 58,140	\$ 59,430
1.95	1.60	1.68	1.77	1.63	1.46	1.26

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
\$ 7,930	\$ 7,935	\$ 7,935	\$ -	\$ -	\$ -	\$ -
-	-	-	7,490	7,514	7,517	7,517
-	-	-	-	2,660	7,858	7,856
<u>7,930</u>	<u>7,935</u>	<u>7,935</u>	<u>7,490</u>	<u>10,174</u>	<u>15,375</u>	<u>15,373</u>
408	409	409	409	409	204	-
<u>27,548</u>	<u>33,685</u>	<u>34,208</u>	<u>36,358</u>	<u>44,322</u>	<u>42,561</u>	<u>44,057</u>
<u>\$ 35,886</u>	<u>\$ 42,029</u>	<u>\$ 42,552</u>	<u>\$ 44,257</u>	<u>\$ 54,905</u>	<u>\$ 58,140</u>	<u>\$ 59,430</u>

**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
2000 - 2002	21.10	7.7	14.25	6.7	26.60	8.6
2003	22.70	7.6	15.30	7.4	27.95	5.1
2004	24.40	7.5	16.45	7.5	29.40	5.2
2005	26.20	7.4	17.70	7.6	30.95	5.3
2006	28.10	7.3	18.95	7.1	32.60	5.3
2007	30.85	9.8	20.75	9.5	35.10	7.7
2008	33.85	9.7	22.75	9.6	37.85	7.8
2009	37.15	9.7	24.95	9.7	40.90	8.1

(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, 2010 THROUGH 2019  
(In Thousands of Dollars)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b><u>USES OF FUNDS</u></b>				
Sewage Treatment Plant Improvements				
Westerly	\$ 1,509	\$ 1,489	\$ 7,588	\$ 5,172
Southerly	42,329	141,514	91,129	43,873
Easterly	15,226	22,388	29,461	26,118
Sub-Total	<u>59,064</u>	<u>165,391</u>	<u>128,178</u>	<u>75,163</u>
Interceptors/Rehabilitation	35,991	33,692	10,335	18,537
Combined Sewer Overflow Control Program	51,798	47,943	168,979	200,368
Information Technology & Other Minor Equipment	1,610	1,979	566	4
<b>TOTAL</b>	<b><u>\$ 148,463</u></b>	<b><u>\$ 249,005</u></b>	<b><u>\$ 308,058</u></b>	<b><u>\$ 294,072</u></b>
<b><u>SOURCES OF FUNDS</u></b>				
WPCLF Loans (1)	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
Net Bond Proceeds	36,347	111,754	156,044	145,554
Internally Generated Funds	37,116	62,251	77,015	73,518
<b>TOTAL</b>	<b><u>\$ 148,463</u></b>	<b><u>\$ 249,005</u></b>	<b><u>\$ 308,058</u></b>	<b><u>\$ 294,072</u></b>

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

Source: District accounting records.

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>TOTAL</u>
\$ 3,334	\$ 855	\$ 2,902	\$ 587	\$ 7,008	\$ 17,030	\$ 47,474
25,982	21,628	81,866	62,492	10,950	18,144	539,907
66,277	12,467	2,372	4,589	979	4,065	183,942
<u>95,593</u>	<u>34,950</u>	<u>87,140</u>	<u>67,668</u>	<u>18,937</u>	<u>39,239</u>	<u>771,323</u>
1,715	4,348	9,578	9,025	2,407	23,513	149,141
95,547	109,766	157,570	213,853	115,785	98,232	1,259,841
-	-	-	-	-	23,331	27,490
<u>\$ 192,855</u>	<u>\$ 149,064</u>	<u>\$ 254,288</u>	<u>\$ 290,546</u>	<u>\$ 137,129</u>	<u>\$ 184,315</u>	<u>\$ 2,207,795</u>
\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 750,000
69,641	36,798	115,716	142,910	27,847	63,236	905,846
48,214	37,266	63,572	72,637	34,282	46,079	551,949
<u>\$ 192,855</u>	<u>\$ 149,064</u>	<u>\$ 254,288</u>	<u>\$ 290,546</u>	<u>\$ 137,129</u>	<u>\$ 184,315</u>	<u>\$ 2,207,795</u>

**Project Manager**

Monica B. Johnson, CPA, Accounting Manager

**Other Contributors**

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Denis Zaharija, Engineer

**Map and Graphics**

John C. Gonzalez, Communications Specialist



# **Northeast Ohio Regional Sewer District**

**December 31, 2009**

# Northeast Ohio Regional Sewer District

For The Year Ended December 31, 2009

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**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters 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, 2009, and have issued our report thereon dated August 31, 2010, wherein we noted that the District adopted *GASB Statement Nos. 52, No. 55, and No. 56*. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the District’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we considered to be a significant deficiency in internal control over financial reporting: Finding 2009-1. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Trustees  
Northeast Ohio Regional Sewer District

### **Compliance and Other Matters**

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District, in a separate letter dated August 31, 2010.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, Management, others within the District, and the Auditor of State's Office and is not intended to be and should not be used by anyone other than these specified parties.

*Ciuni & Panichi, Inc.*

Cleveland, Ohio  
August 31, 2010

# Northeast Ohio Regional Sewer District

## Schedule of Audit Findings

**December 31, 2009**

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### 1. Summary of Auditors' Results

Type of Financial Statement Opinion	Unqualified
Were there any significant deficiencies reported at the financial statement level (GAGAS)?	Yes
Was there any material weaknesses reported at the financial statement level (GAGAS)?	No
Was there any material noncompliance reported at the financial statement level (GAGAS)?	No

### 2. Findings Related To the Financial Statements Required To Be Reported in Accordance With GAGAS

#### 2009-1 Oversight of District's Primary Billing Agent - Significant Deficiency

The majority of the District's sewerage fee revenue is billed by the City of Cleveland – Division of Water ("DOW"). As a result, the District relies heavily on the accuracy, timeliness, and completeness of the DOW's billing and meter reading processes to ensure the proper accounting for revenue and receivables is reflected within the District's records. During 2008 and 2009, it was noted in the City of Cleveland's SAS 70 and annual financial statement audits (2008), the DOW experienced instances in which the controls over billing and meter reading did not operate as designed. These instances were primarily related to estimated bills, suppressed bills, and out-of-order accounts. Since the District utilizes the DOW as its primary billing agent and it relies on the information provided by the DOW, these instances of processes not operating effectively had a direct effect on the revenue and receivable amounts recorded by the District. The District was aware the DOW's internal processes were not operating effectively and has attempted to detect or quantify the inaccuracies in the billing estimates provided by the City of Cleveland. The District has determined that inaccurate billing adjustments and estimates made by the DOW are not material to the overall financial statements as whole.

During 2009, the District has developed procedures to provide a higher level of oversight and monitoring over the information and reports provided by the City of Cleveland. These procedures include increasing the level of financial analysis and analytical procedures over the City of Cleveland submitted information. The District has inquired and request explanations for any unusual trends or adjustments, but due to the limited reporting capabilities of the DOW, the information has not been able to be obtained in a timely manner. As such, the District has experienced difficulty in providing timely financial statements.

#### *Management's Response*

The District has implemented additional procedures internally to analyze the City of Cleveland monthly reports and now follow-ups on unusual revenue or billing adjustment trends. The Finance Department has been active in the City of Cleveland's implementation of its new billing system, which is expected to reduce the level of adjustments and increase accuracy in billings.

### 3. Findings

None noted.

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**Mary Taylor, CPA**  
Auditor of State

**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  
DECEMBER 2, 2010**