



**Northeast Ohio  
Regional Sewer District**

# 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ending December 31, 2011  
A POLITICAL SUBDIVISION OF THE STATE OF OHIO



## LEGEND

- A** McManagle Administration Building – 3900 Euclid Avenue
- E** Environmental & Maintenance Services Center – 4747 E. 49th Street
- E** Easterly Treatment Plant – 14021 Lakeshore Boulevard
- S** Southerly Treatment Plant – 6000 Canal Road
- W** Westerly Treatment Plant – 5800 W. Memorial Shoreway

### EASTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

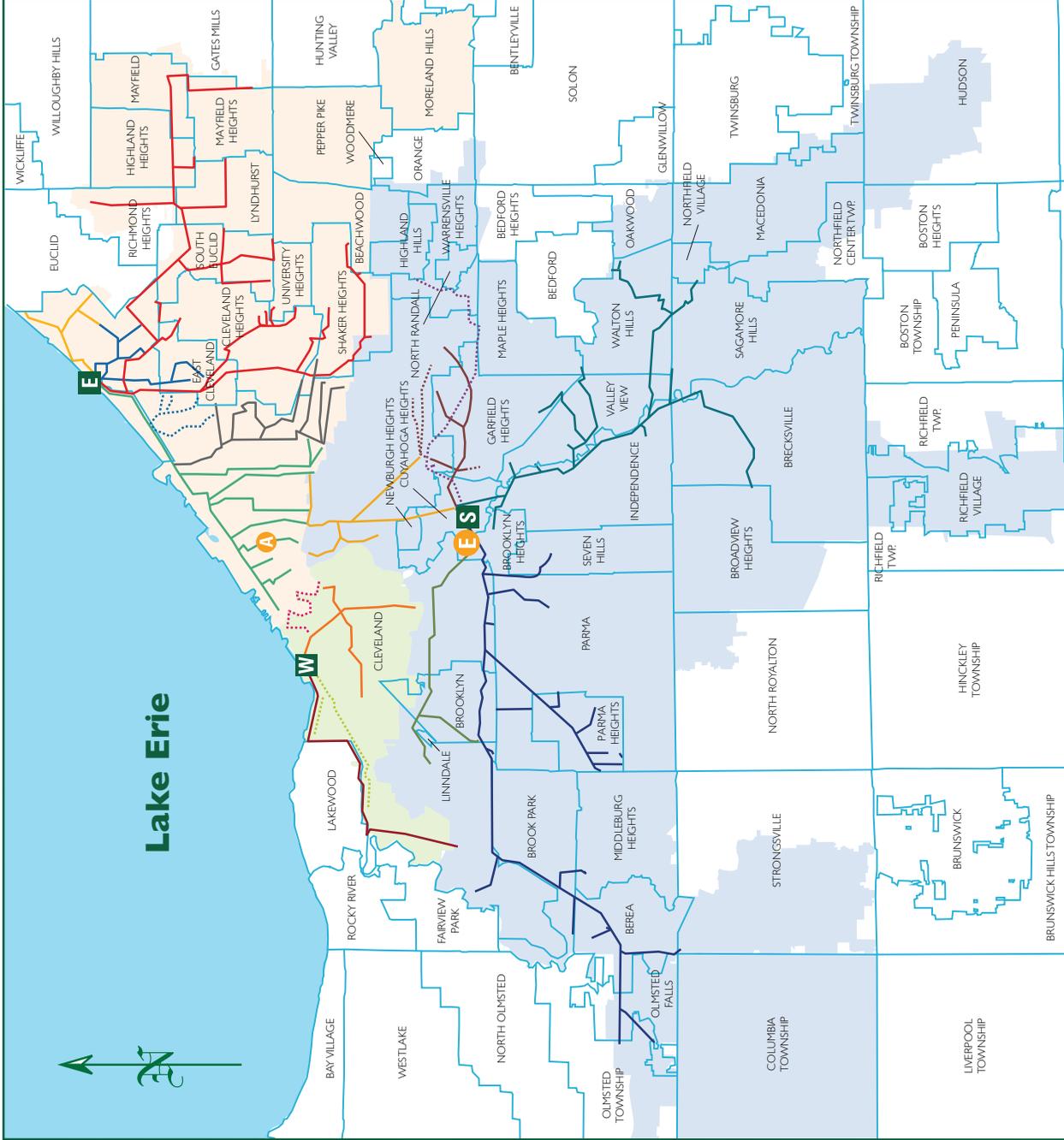
- Easterly Interceptor
- Doan Valley Interceptor
- Dugway Interceptor
- Heights-Hilltop Interceptors & ICRS
- E. 140th-Hayden/E. 152nd-Nanhoa Interceptors
- Lakeshore-Nottingham Interceptors

### SOUTHERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

- Big Creek Interceptor
- Cuyahoga Valley Interceptor
- Mill Creek Interceptor
- Mill Creek Tunnel Under construction
- Southwest, West Leg Interceptors & ICRS
- Southerly Interceptor

### WESTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

- Low Level Interceptor
- Northwest Interceptor
- Westerly Interceptor
- Walworth Run Interceptor
- Easterly service area
- Southerly service area
- Westerly service area



FOR MORE INFORMATION, VISIT [www.NEORSO.org](http://www.NEORSO.org) / REVISED 12/09

THIS INFORMATION IS FOR DISPLAY PURPOSES ONLY AND IS INTENDED TO GIVE CUSTOMERS AND INTERESTED PARTIES AN APPROXIMATE REPRESENTATION OF THE SEWER DISTRICT'S SERVICE AREA. FOR MORE DETAILED, TECHNICAL, OR BOUNDARY-RELATED INFORMATION, PLEASE CONTACT US AT (216) 881-6600. THANK YOU.

# **Northeast Ohio Regional Sewer District**

## **A Political Subdivision of the State of Ohio**

2011 Comprehensive Annual Financial Report  
For the Year Ended December 31, 2011

Prepared by the Department of Finance

Jennifer L. Demmerle, CPA  
Director of Finance



**NORTHEAST OHIO REGIONAL SEWER DISTRICT**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2011**

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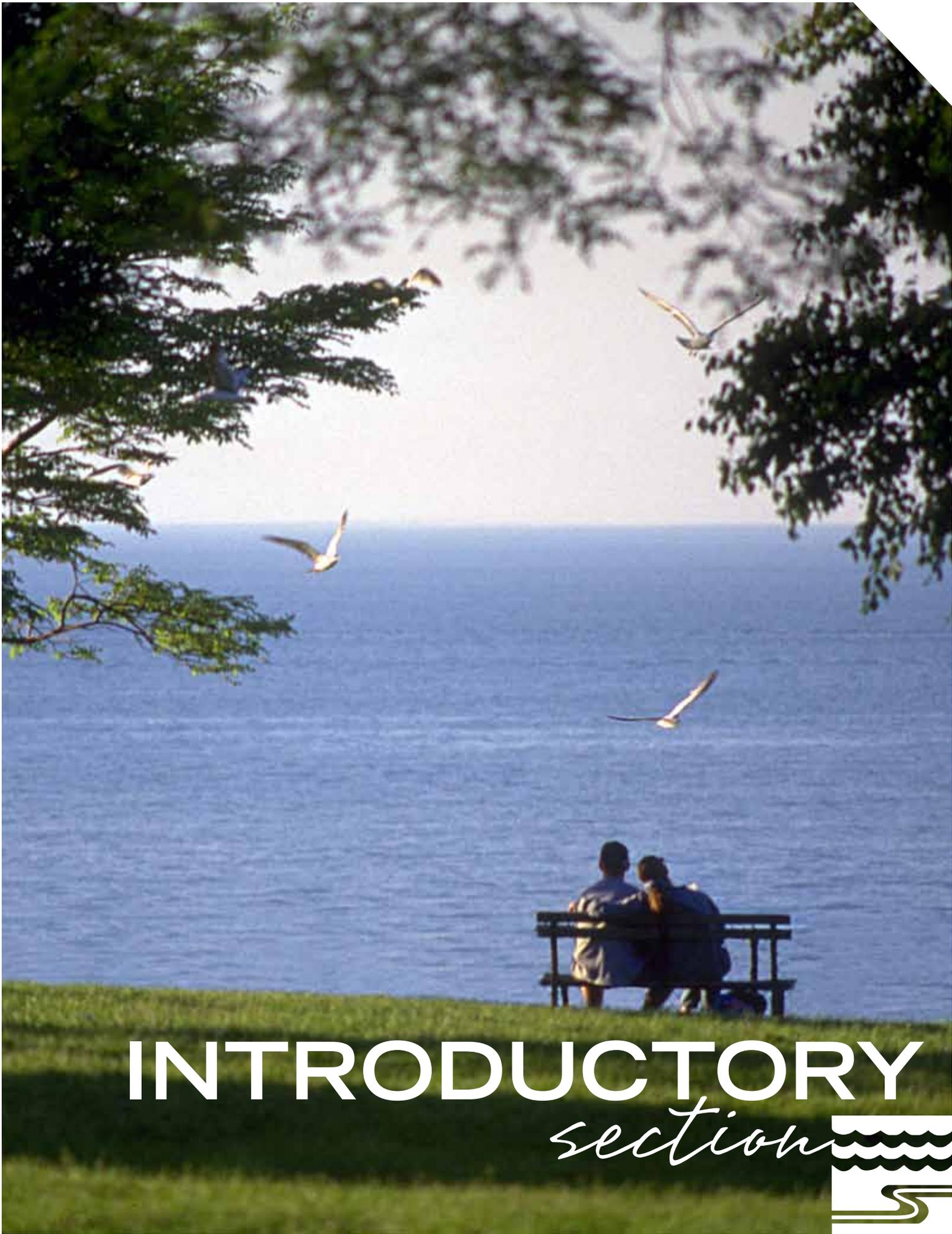
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**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2011**

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# INTRODUCTORY *section*







June 22, 2012

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. These financial statements are required to be presented in conformity with generally accepted accounting principles audited in accordance with standards generally accepted in the United States of America by 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, 2011.

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 the Auditor of the State of Ohio. 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, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The Auditor of the State concluded, based upon the audit, that there is reasonable basis for rendering an unqualified opinion that the Northeast Ohio Regional Sewer District's financial statements for the fiscal year ended December 31, 2011 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 Cuyahoga County Council; (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 51 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, the District does not file an annual Tax Budget because it does not levy any taxes.

## **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, 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 2011 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 7.1% was .8% lower than the seasonally adjusted rate for the State of Ohio 7.9% and .6% lower than the national rate of 8.5%. 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 2012 to 2016, primarily for improvements to our Southerly wastewater treatment plant and our CSO long-term control plan. This includes approximately \$369 million for the plants, \$544 million for the CSO projects, and \$61 million for the collection system improvements, and \$66 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 2010, the District completed a five year long-term financial and rate impact model for rates going in effect 2012-2016. The model incorporates specific year by year details to determine the sewer rates over the next five years.

## **Debt Administration**

At year-end, the District had bonded debt outstanding of \$492,450,000. The debt, net of applicable unamortized discounts and refunding costs, is \$494,501,645. 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, 2011, the outstanding loan balances were \$478,271,659 for the WPCLF. Outstanding revenue bonds of the District are rated AA+ by Standard & Poor's and Aa1 by Moody's rating agencies. Note 6 to the 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 statement of net assets 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 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. This information should be read in conjunction with Note 6 to the financial statements.

In 2010, the District issued \$336,930,000 Wastewater Improvement Revenue Bonds, Series 2010 as Federally Taxable Build America Bonds for the purpose of providing funds for the acquisition, construction and improvement of wastewater facilities or water management facilities, constituting Water Resource Projects. This information should be read in conjunction with Note 6 to the financial statements.

## **MAJOR INITIATIVES**

### **For the Year**

#### **2011 Awards**

During 2011, the District received awards for 2010 plant performance from the National Association of Clean Water Agencies (NACWA). NACWA honored all three of our Wastewater Treatment Plants (WWTP's) for excellent performance in 2010. Our Easterly, Southerly and Westerly plants all earned a Peak Performance Gold award.

A Gold honor recognizes facilities with no National Pollutant Discharge Elimination System permit exceedences in a year. Awards for 2011 performance have not been announced as of the date of this report.

During 2011, the Government Finance Officers Association (GFOA) presented the Distinguished Budget Presentation Award to the District for the fifth time for its 2011 Budget.

#### **Business Opportunity Program**

The Office of Contract Compliance, formed in 2008, tracks projects with women and minority small business goals, monitors prevailing wages and provides outreach services for certified firms. The Business Opportunity Program (BOP) of the Northeast Ohio Regional Sewer District is an outreach initiative to promote procurement opportunities for women and minority small businesses. The BOP was developed to continue to contribute to the economic health and vitality of the region by providing a greater opportunity to conduct 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 competitive bidding process which helps deliver the greatest value for the money spent.

#### **Vendor Registration**

The BOP, in conjunction with the Purchasing Department, developed and implemented an on-line vendor registration system that tracks the number of registered vendors conducting business with the District. In addition the system tracks vendor payments, as well as assists in the identification of potential vendors for the BOP. This real-time, on-line vendor registration system enables vendors to up-load and edit their vendor profile information as well entering BOP certification data. The District has over 2,360 registered vendors.

#### **Employee Relations**

Employees are the most valuable asset and are vital to accomplishing the District's mission and the strategic goals. The District continues to invest in its employees by funding training and development efforts. Those efforts provide skills in the areas of safety, technology, government relations and professional and career development. The goal is to maintain 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*

The District's Wellness Program was launched in 2009 at the District's Administration Building where various events were piloted. The 2011 Wellness Program began with the Annual Wellness Training Kick-off Event for all of the Wellness Committee mentors, coordinators and team members representing each of the five District locations. Bi-monthly events were scheduled for each facility based on a calendar of monthly topics created by the aggregate reports from the District's healthcare providers and surveys of employee needs for better health, financial awareness and mental wellness. The Annual Health & Wellness Fair continues to be the largest event of the year. Employees participate in health screenings, exercise/fitness demos and have the opportunity to converse one-on-one with a variety of vendors representing ways to improve employees' lifestyle choices for better health. The District's cost of healthcare premiums have decreased while increasing benefits to meet with new Federal and State regulations under Health Care Reform. The program continues to grow with the goal to improve the quality of life for employees and their families, control absenteeism, offer competitive benefits to attract and retain talent while managing the cost of healthcare.
- *Performance Management System*

At the two year point, the District continues to use the performance management tracking system for nonunion employees. Since its inception in 2010, management and all nonunion employees have received training on the benefits of using this system and the proper utilization of each component for assessing performance. The Human Resources staff continues to provide training modules to ensure supervisors are utilizing the performance appraisal form consistently and providing nonunion employees with clearly defined goals and meaningful evaluations. Annually the process and forms are reviewed and improvements are made as necessary to ensure that the system focuses on creating an environment that allows for aligning with both strategic and organization goals, skills and competency development, true performance tracking and the enhancement of manager's supervisory skills. In 2011, 332 employees were evaluated utilizing this system.
- *Diversity and Inclusion*

In 2011, the District implemented year two of the three-year Diversity & Inclusion strategic plan. 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. To show our dedication for communication, education, accountability and measurement and accomplishments, here are some of the District's 2011 accomplishments: created Spanish versions of e-cards on intranet; offered Spanish direct mail inserts to customers; hosted four Diversity Dialogue sessions on Employee Resource Groups (ERGs), Gay, Lesbian, Bi-Sexual, Transgender, and Allies (GLBTA), Islam and generational differences; continued rollout of connecting with respect workshops in three departments; completed diversity & inclusion workshop training of 494 employees (363 non-management and 131 managers/supervisors); established District's first Employee Resource Group; and implemented the Business Opportunity Program with MBE/WBE/SBE goals placed on projects. Most notably the District was honored by The Greater Cleveland Partnership as a member of its Commission 50 inaugural class. The Commission 50 designation recognizes the 50 organizations (25 for profit, 25 nonprofit-governments) with the highest combined scores on board, senior management, workforce and supplier diversity on the Commission's most recent Employers Survey on Diversity.

- *Employee Recognition Program*

The Employee Recognition program which was implemented in late 2009 gained great acceptance during 2010 with all locations submitting monthly recommendations and hosting award presentations regularly. The program was created to foster a culture of appreciation, making recognition a part of our daily activities by highlighting demonstration of one of the Core Values. The goal is to motivate employees by reminding them of the value they add to furthering the mission, vision and core values of the District. During 2010, 67 employees were nominated by their managers or peers and 42 awards were presented. In 2010, a permanent work group was formed to review the Employee Recognition program and suggest enhancements to it. Based on the team's recommendations, a Quarterly Team Award and an Annual Spirit Award have been added to the monthly Employee of the Month Award. In 2011, 49 employees were given the Employee of the Month award; 20 teams were recognized; and five individuals were presented with Annual Spirit Awards.

### **CSO Long-Term Control Plan**

In addition to its three (3) wastewater treatment plants and approximately 300 miles of interceptor sewers, the District has responsibility for combined sewer overflows (CSOs) within its service area. The federal Clean Water Act and U.S. Environmental Protection Agency's (U.S. EPA) CSO Control Policy, along with the District's state-issued CSO NPDES permit, required the District to develop a Long-Term Control Plan (LTCP) to reduce or eliminate the number of overflows from its 126 permitted outfalls. In 2010, the District came to a negotiated agreement with Ohio and U.S. EPA, U.S. Department of Justice, and the Ohio Attorney General's Office on a 25-year, \$3 billion CSO LTCP for which the District obtained authorization from its Board of Trustees to enter into a Consent Decree with the state and federal agencies in December 2010. The District agreed to 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 – and reduce CSO volumes to less than 500 million gallons in a typical year.

In 2011, NEORSD began construction on its second large-scale storage 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 will expand secondary treatment capacity and include CE HRT and disinfection for treatment of additional wet weather flows. The District will upgrade the existing Westerly CSO Treatment Facility (CSOTF) with CE HRT and disinfection for further treatment of CSO 002, 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 MG of wet weather CSO flows beyond those captured by the tunnel systems.

## **Asset Management**

Asset management utilizes risk-based, consistent, testing methods for capital project planning, in order to evaluate the repair, renewal, and maintenance of assets to maintain the longest life of our at the lowest cost. Based on a study in which the District's asset-related practices were evaluated and benchmarked against "world's best practices", an Asset Management Implementation Plan was developed and is currently in its third year of implementation.

The main outcomes of this 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.
- Enhancement of financial planning by anticipating long-term financial needs from the repair and renewal plan.
- Development of a methodology for consistent life-cycle costing and a Business Case Evaluation procedure for evaluation of critical projects.

In addition to the formal implementation project, internally the District has started advancing our maintenance strategies by developing metrics to measure operations and maintenance performance, improving cost accounting to the asset level, and establishing standardized processes to improve maintenance and equipment effectiveness.

## **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. 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 WWTP with three new state-of-the-art fluidized bed incinerators. The final design of the project included a Renewable Energy Facility (REF) to house waste heat boilers and a turbine generator to create electricity that will supply power from the incineration process to the Southerly WWTP. The new REF and incinerator facility should be in service in 2013 and has a current total project cost estimate of approximately \$165 million.

## **For the Future**

### **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 to identify a capital improvement program for the solution of all intercommunity drainage problems (both storm and sanitary) in the District". The District initially focused on the sanitary sewage portion of this mandate, investing approximately \$3 billion since its inception on sanitary sewage-related projects. To address the regional stormwater portion of this mandate, the District procured services in 2007 to assist with the development and implementation of a Regional Stormwater Management Program. Tasks related to defining stormwater program roles and responsibilities, funding approaches, resource needs, legal issues, customer service requirements and data/billing issues were addressed, leading to the development of the District's Stormwater Code of Regulations (Title V), which the District's Board of Trustees approved in January 2010. The District is currently in litigation regarding program authority and issues related to stormwater fees. The District plans on implementing this program to address long-standing regional stormwater flooding, erosion and water quality issues, 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, 2010. This was the 16th 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,



Julius Ciaccia  
Executive Director



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



*2010 Comprehensive Annual Financial Reporting Award*



***2011 Government Finance Officers Association  
Distinguished Budget Award***



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
TABLE OF ORGANIZATIONS  
DECEMBER 31, 2011**

**BOARD OF TRUSTEES**



Darnell Brown,  
Board President



Ronald D. Sulik,  
Vice President



Mayor Dean E. DePiero,  
Secretary



Mayor Jack M. Bacci



Sheila J. Kelly



Walter O'Malley



Mayor Gary W. Starr

**DIRECTORS**



Julius Ciaccia  
Executive Director



F. Michael Bucci  
Deputy Executive Director  
District Administration:  
54 Employees



Jennifer L. Demmerle  
Director of Finance  
Finance: 41 Employees



Marlene Sundheimer  
Director of Law  
Legal: 10 Employees



Constance T. Haqq  
Director of Administration  
& External Affairs (AEA)  
AEA: 25 Employees



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



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



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



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

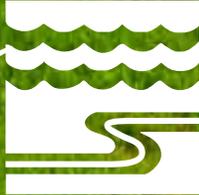


Humberto J. Sanchez  
Director of Information  
Technology  
Information Technology:  
19 Employees



# FINANCIAL

*section*







# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Northeast Ohio Regional Sewer District  
Cuyahoga County  
3900 Euclid Avenue  
Cleveland, Ohio 44115

To the Board of Trustees:

We have audited the accompanying financial statements of the Northeast Ohio Regional Sewer District, Cuyahoga County (the District), as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the Northeast Ohio Regional Sewer District, Cuyahoga County (the District), as of and for the year ended December 31, 2010 were audited by other auditors whose report dated June 24, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northeast Ohio Regional Sewer District, Cuyahoga County, Ohio as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The introductory section, the Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual, and the statistical section information provide additional analysis and are not a required part of the basic financial statements. The Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This statement was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not subject the introductory section and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.



**Dave Yost**  
Auditor of State

June 22, 2012

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

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, 2011. 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 \$1,297,128,887.
- Net assets increased by \$7,088,304.
- Investment in capital assets, net of related debt increased by \$20,274,018.
- Unrestricted net assets decreased \$13,158,714.
- Retirements of debt principal were \$36,595,809.
- Operating revenue increased by \$5,871,621.
- Operating expenses decreased by \$5,753,456.

**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. This report also contains required supplementary information and other supplementary information in addition to the basic 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 following tables provide a summary of the District's financial position and operations for 2011, 2010 and 2009, respectively. Certain reclassifications have been made to restate the 2009 financial statement in order to conform to the 2010 presentation. Certain amounts may vary slightly due to differences caused by rounding to thousands.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

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

	2011	2010	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 226,969	\$ 250,233	\$ (23,264)	(9.3%)
Capital Assets, Net	1,763,120	1,610,307	152,813	9.5%
Other Noncurrent Assets	333,176	427,048	(93,872)	(22.0%)
<b>Total Assets</b>	<b>2,323,265</b>	<b>2,287,588</b>	<b>35,677</b>	<b>1.6%</b>
<u>Liabilities</u>				
Current Liabilities	91,710	92,611	(901)	(1.0%)
Long-Term Debt	930,652	899,687	30,965	3.4%
Other Long-Term Liabilities	3,775	5,250	(1,475)	(28.1%)
<b>Total Liabilities</b>	<b>1,026,137</b>	<b>997,548</b>	<b>28,589</b>	<b>2.9%</b>
<u>Net Assets</u>				
Invested in Capital Assets	1,058,517	1,038,270	20,247	2.0%
Unrestricted Assets	238,611	251,770	(13,159)	(5.2%)
<b>Total Net Assets</b>	<b>\$ 1,297,128</b>	<b>\$ 1,290,040</b>	<b>\$ 7,088</b>	<b>0.5%</b>

Net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,297,128,887 as of December 31, 2011, of which \$1,058,517,337 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 2011, net assets increased by \$7,088,304. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$2,018,905.
- Receivables from Federal and State agencies decreased by \$16,441,702.
- Construction funds in the capital project account decreased by \$84,777,520.
- Capital assets increased by \$152,812,268 due mainly to construction additions to the wastewater treatment and conveyance system.
- Total debt increased by a net amount of \$34,959,409. Additions of \$71,725,623 were for WPCLF. The reductions of \$36,595,809 were for repayment of debt principal on General Obligation Bonds and WPCLF.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

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

	2010	2009	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 250,233	\$ 205,378	\$ 44,855	21.8%
Capital Assets, Net	1,610,307	1,527,939	82,368	5.4%
Other Noncurrent Assets	427,048	164,860	262,188	159.0%
<b>Total Assets</b>	<b>2,287,588</b>	<b>1,898,177</b>	<b>389,411</b>	<b>20.5%</b>
<u>Liabilities</u>				
Current Liabilities	92,611	65,838	26,773	40.7%
Long-Term Debt	899,687	548,749	350,938	64.0%
Other Long-Term Liabilities	5,250	4,000	1,250	31.3%
<b>Total Liabilities</b>	<b>997,548</b>	<b>618,587</b>	<b>378,961</b>	<b>61.3%</b>
<u>Net Assets</u>				
Invested in Capital Assets	1,038,270	1,006,102	32,168	3.2%
Unrestricted Assets	251,770	273,487	(21,717)	(7.9%)
<b>Total Net Assets</b>	<b>\$ 1,290,040</b>	<b>\$ 1,279,589</b>	<b>\$ 10,451</b>	<b>0.8%</b>

Net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,290,040,583 as of December 31, 2010, of which \$1,038,270,319 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 2010, net assets increased by \$10,451,587. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$10,814,485.
- Receivables from Federal and State agencies increased by \$14,141,046.
- Construction funds in the capital project account increased by \$247,089,696.
- Capital assets increased by \$82,368,164 due mainly to construction of the wastewater treatment and conveyance system.
- Total debt increased by a net amount of \$353,074,346. Additions of \$39,404,437 and \$336,930,000 were for WPCLF and for General Obligation Bonds, respectively. The reductions of \$23,076,540 were for repayment of debt principal on General Obligation Bonds and WPCLF loans.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

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

	2011	2010	Change	
			Amount	%
<b><u>Operating Revenue</u></b>				
Sewer Service Fees				
Billing Agents				
City of Cleveland	\$ 144,327	\$ 140,060	\$ 4,267	3.0%
Other Billing Agents	11,016	10,644	372	3.5%
Total Billing Agents	155,343	150,704	4,639	3.1%
Direct Billed Sewer Service Fees	16,275	14,663	1,612	11.0%
Total Sewer Service Fees	171,618	165,367	6,251	3.8%
Other Operating Revenue				
Septic Tank and Municipal Sludge Fees	458	693	(235)	(33.9%)
Miscellaneous	646	791	(145)	(18.3%)
Total Other Operating Revenue	1,104	1,484	(380)	(25.6%)
<b>Total Operating Revenue</b>	<b>172,722</b>	<b>166,851</b>	<b>5,871</b>	<b>3.5%</b>
<b><u>Non-Operating Revenue</u></b>				
Interest Revenue	3,825	3,292	533	16.2%
Proceeds from Insurance Claim	622	-	622	100.0%
Federal Subsidy Revenue	6,912	858	6,054	705.6%
Non-Operating Grant Revenue	677	1,732	(1,055)	(60.9%)
Decrease in Fair Value of Investments	(151)	(19)	(132)	(694.7%)
<b>Total Non-Operating Revenue</b>	<b>11,885</b>	<b>5,863</b>	<b>6,022</b>	<b>102.7%</b>
<b>Total Revenue</b>	<b>184,607</b>	<b>172,714</b>	<b>11,893</b>	<b>6.9%</b>
<b><u>Operating Expenses</u></b>				
Salaries and Wages	39,190	38,061	1,129	3.0%
Benefits	12,939	12,748	191	1.5%
Utilities	15,512	16,042	(530)	(3.3%)
Professional and Contractual	18,766	23,034	(4,268)	(18.5%)
Other	3,907	7,393	(3,486)	(47.2%)
Depreciation	47,272	46,062	1,210	2.6%
<b>Total Operating Expenses</b>	<b>137,586</b>	<b>143,340</b>	<b>(5,754)</b>	<b>(4.0%)</b>
<b><u>Non-Operating Expenses</u></b>				
Interest Expense on Long-Term Debt	43,209	26,583	16,626	62.5%
Non-Operating Grant Expenses	677	1,732	(1,055)	(60.9%)
Loss on Extraordinary Event	1,188	-	1,188	100.0%
Loss on Disposals of Equipment	1,021	46	975	2119.6%
<b>Total Non-Operating Expenses</b>	<b>46,095</b>	<b>28,361</b>	<b>17,734</b>	<b>62.5%</b>
<b>Total Expenses</b>	<b>\$ 183,681</b>	<b>\$ 171,701</b>	<b>\$ 11,980</b>	<b>7.0%</b>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

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

	2011	2010	Change	
			Amount	%
<b>Income Before Contributions</b>	\$ 926	\$ 1,013	\$ (87)	(8.6%)
Capital Contributions	6,162	9,438	(3,276)	(34.7%)
<b>Change in Net Assets</b>	7,088	10,451	(3,363)	(32.2%)
Net Assets at Beginning of Year	1,290,040	1,279,589	10,451	0.8%
<b>Net Assets at End of Year</b>	<u>\$ 1,297,128</u>	<u>\$ 1,290,040</u>	<u>\$ 7,088</u>	<u>0.5%</u>

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, 2011:

- Operating revenue increased by \$5,871,621 (3.5%) compared to 2010. The increase was due to higher billing rates in 2011, coupled with a decrease in consumption and an increase in delinquencies.
- Non-operating revenue increased by \$6,022,242 (102.7%). This increase was mainly due to \$6,912,478 in federal subsidy revenue funds for 2011. The decrease in fair value of investments for 2011 was \$131,631 (691.6%) more than experienced in 2010. The fair value is expected to increase toward face value in the future since these investments in obligations of the U.S. Treasury and its agencies are held to maturity. Non-operating revenue consists of interest income, grant revenue and the change in fair value of investments. Interest incomes increased by \$532,552 (16.2%) due to an increase in funds available for investment. Non-operating grant revenue decreased by \$1,055,061 (60.9%) due to the receipt of fewer funds for Water Resource Sponsorship Programs.
- Operating expenses decreased \$5,753,456 (4.0%) compared to 2010. Main components of operating expenses are as follows:
  - Salary and wages increased \$1,129,235 (3.0%).
  - Fringe benefits increased \$191,119 (1.5%).
  - Professional and Contractual Services decreased \$4,267,884 (18.5%) due to more Project Management costs being capitalized.
  - Utilities decreased \$530,642 (3.3%) due to a new utility contract. Decreases in Other Expenses include \$1,036,269 (98.5%) for Judgments and Awards; \$1,343,152 (61.3%) for Solids Handling waste removal; and \$460,973 (15.9%) for Repairs and Maintenance. The decreases were offset by increases in Other Expenses of \$65,914 (5.7%) for Insurance to manage our risk of loss; and \$35,177 (2.7%) for Chemicals used in the treatment processes at the Wastewater Treatment Plants.
- Non-operating expenses increased \$17,734,548 (62.5%). Interest expense increased by \$16,626,073 (62.5%) due to the addition of the 2010 Build America Bond debt. Losses on equipment disposals increased \$975,048 (2,135.6%) due to disposals of obsolete equipment in 2011. Non-operating grant expense decreased \$1,055,061 (60.9%). A loss on extraordinary event of \$1,188,489 (100%) occurred due to transfer of ownership of an asset.

The following table on the next page summarizes the changes in revenues and expenses for the District between 2010 and 2009.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

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

	2010	2009	Change	
			Amount	%
<u>Operating Revenue</u>				
Sewer Service Fees				
Billing Agents				
City of Cleveland	\$ 140,060	\$ 141,082	\$ (1,022)	(0.7%)
Other Billing Agents	10,644	10,050	594	5.9%
Total Billing Agents	150,704	151,132	(428)	(0.3%)
Direct Billed Sewer Service Fees	14,663	12,698	1,965	15.5%
Total Sewer Service Fees	165,367	163,830	1,537	0.9%
Other Operating Revenue				
Septic Tank and Municipal Sludge Fees	693	599	94	15.7%
Miscellaneous	791	347	444	128.0%
Total Other Operating Revenue	1,484	946	538	56.9%
<b>Total Operating Revenue</b>	<b>166,851</b>	<b>164,776</b>	<b>2,075</b>	<b>1.3%</b>
<u>Non-Operating Revenue</u>				
Interest Revenue	3,292	7,240	(3,948)	(54.5%)
Federal Subsidy Revenue	858	-	858	100.0%
Non-Operating Grant Revenue	1,732	1,431	301	21.0%
(Decrease) Increase in Fair Value of Investments	(19)	(3,874)	3,855	(99.5%)
<b>Total Non-Operating Revenue</b>	<b>5,863</b>	<b>4,797</b>	<b>1,066</b>	<b>22.2%</b>
<b>Total Revenue</b>	<b>172,714</b>	<b>169,573</b>	<b>3,141</b>	<b>1.9%</b>
<u>Operating Expenses</u>				
Salaries and Wages	38,061	37,024	1,037	2.8%
Benefits	12,748	11,714	1,034	8.8%
Utilities	16,042	18,924	(2,882)	(15.2%)
Professional and Contractual	23,034	17,696	5,338	30.2%
Other	7,393	8,194	(801)	(9.8%)
Depreciation	46,062	45,411	651	1.4%
<b>Total Operating Expenses</b>	<b>143,340</b>	<b>138,963</b>	<b>4,377</b>	<b>3.1%</b>
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	26,583	24,599	1,984	8.1%
Non-Operating Grant Expenses	1,732	1,431	301	21.0%
Other Non-Operating Expenses	-	3,000	(3,000)	(100.0%)
Loss on Disposals of Equipment	46	2,014	(1,968)	(97.7%)
<b>Total Non-Operating Expenses</b>	<b>28,361</b>	<b>31,044</b>	<b>(2,683)</b>	<b>(8.6%)</b>
<b>Total Expenses</b>	<b>\$ 171,701</b>	<b>\$ 170,007</b>	<b>\$ 1,694</b>	<b>1.0%</b>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

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

	2010	2009	Change	
			Amount	%
<b>Income (Loss) Before Contributions</b>	\$ 1,013	\$ (434)	\$ 1,447	333.4%
Capital Contributions	9,438	3,963	5,475	138.2%
<b>Change in Net Assets</b>	10,451	3,529	6,922	196.1%
Net Assets at Beginning of Year	1,279,589	1,276,060	3,529	0.3%
<b>Net Assets at End of Year</b>	<u>\$ 1,290,040</u>	<u>\$ 1,279,589</u>	<u>\$ 10,451</u>	<u>0.8%</u>

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, 2010:

- Operating revenue increased by \$2,074,384 (1.3%) compared to 2009. The increase was due to higher billing rates in 2010, coupled with a decrease in consumption and an increase in delinquencies.
- Non-operating revenue increased by \$1,066,576 (22.2%). This increase was mainly due to lesser reductions in fair value of investments compared to 2009. The decrease in fair value of investments for 2010 was \$3,855,309 (99.5%) less than experienced in 2009. The fair value is expected to increase toward face value in the future since these investments in obligations of the U.S. Treasury and its agencies are held to maturity. Non-operating revenue consists of interest income, grant revenue and the change in fair value of investments. Interest income decreased by \$3,947,877 (54.5%) due to lower interest rates available for investment. Non-operating grant revenue increased by \$301,110 (21.0%) due to the receipt of funds for Water Resource Sponsorship Programs for 2010. Federal Subsidy revenue increased to \$858,034 (100%) during 2010.
- Operating expenses increased \$4,375,611 (3.1%) compared to 2009. Main components of operating expenses are as follows:
  - Salary and wages increased \$1,037,055 (2.8%).
  - Fringe benefits increased \$1,033,254 (8.8%).
  - Professional and Contractual Services increased \$5,337,859 (30.2%) due mainly to increased Program Management costs.
  - Utilities decreased \$2,881,973 (15.2%) due to a new utility contract.
  - Decreases in Other Expenses include \$978,323 (48.3%) for Judgments and Awards; \$321,479 (19.9%) for Chemicals used in the treatment processes at the Wastewater Treatment Plants; and \$10,519 (2.0%) for Travel and Education. The decreases were offset by increases in Other Expenses of \$379,639 (11.1%) for Materials and Supplies to operate and maintain facilities; and \$148,520 (8.0%) for Repair and Maintenance to buildings, equipment, sewer and roads.
- Non-operating expenses decreased \$2,682,693 (8.6%). Interest expense increased by \$1,984,238 (8.1%). Losses on equipment disposals decreased \$1,968,041 (97.7%) due mainly to disposals of obsolete equipment parts in 2009. Non-operating grant expense increased \$301,110 (21.1%). Other non-operating expense decrease \$3,000,000 (100.0%) due to a one time grant expense to another government agency.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

**Capital Assets**

At the end of 2011, the District had \$1,763,119,697 invested in capital assets. This amount represents a net increase of approximately \$152 million, or 9.5% over 2010. 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)**

	2011	2010	Change	
			Amount	%
Land	\$ 13,901	\$ 13,901	\$ -	0.0%
Construction in Progress	364,958	314,092	50,866	16.2%
Interceptor Sewer Lines	894,432	787,124	107,308	13.6%
Buildings, Structures and Improvements	338,655	353,921	(15,266)	(4.3%)
Sewage Treatment and Other Equipment	151,174	141,269	9,905	7.0%
<b>Total</b>	<b>\$ 1,763,120</b>	<b>\$ 1,610,307</b>	<b>\$ 152,813</b>	<b>9.5%</b>

Major Additions Placed into Service in 2011, at Cost Included:

Mill Creek Tunnel #3 (MCT-3, MCT-3C)	\$ 70,266
Dugway East Interceptor Relief Sewer (DEIRS-1)	22,429
Mill Creek Interceptor Repair and Re-Routing (MCI-VB/MB)	8,322
Southerly Substation Replacements (SSE-1)	8,044
I-90 Walworth Run Interceptor Relocation (WRIR)	7,839
Easterly Primary Tank Rehabilitation (PST-3)	5,821
Easterly Aeration Tank Rehabilitation (ART-3)	5,367
District Incinerator Rehabilitations (IR-13A/B)	3,781
Easterly Interceptor Agreement (EISAC)	3,489
CSO Rehabilitation Contract Early Action Project (CSORC-EAP)	2,831
Big Creek Interceptor Liner Replacement (BCI-3D-LR)	1,876
	<u>\$ 140,065</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

**Capital Assets**

At the end of 2010, the District had \$1,610,307,429 invested in capital assets. This amount represents a net increase of approximately \$82 million, or 5.4% over 2009. 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)**

	2010	2009	Change	
			Amount	%
Land	\$ 13,901	\$ 9,473	\$ 4,428	46.7%
Construction in Progress	314,092	236,792	77,300	32.6%
Interceptor Sewer Lines	787,124	782,918	4,206	0.5%
Buildings, Structures and Improvements	353,921	355,161	(1,240)	(0.3%)
Sewage Treatment and Other Equipment	141,269	143,595	(2,326)	(1.6%)
<b>Total</b>	<b>\$ 1,610,307</b>	<b>\$ 1,527,939</b>	<b>\$ 82,368</b>	<b>5.4%</b>

Major Additions Placed into Service in 2010, at Cost Included:

Southerly & Westerly Interceptor Repair Projects	\$ 1,386
Westerly Interceptor Box Culvert (WIBCR)	6,804
Train Avenue Relief Sewer (TARS)	2,823
CVI Lift Station Improvements (LS-1)	10,180
Easterly Primary Settling Tank Rehabilitation (PST-2)	2,674
Huntington Garage CSO-093 Rehabilitation	1,464
Final Clarifier Rehabilitation (FCR-5)	2,908
Flats East Bank Project (FEB)	10,049
Easterly Substation Replacements (ESR-1)	1,822
Westerly Low-Level Interceptor Riverbed Bypass Pump	1,161
Costs Incurred in Preparing Land for REF Project	3,785
	<u>\$ 45,056</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**Management's Discussion and Analysis**  
**Unaudited**

**Debt Administration**

At December 31, 2011, the District had total debt outstanding net of premiums and refunding loss, of \$970,721,659 compared to \$935,591,844 at December 31, 2010. This represents an increase of \$35,129,815 for total debt. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$42,914,815; total debt retirements were \$36,595,809. The carrying value of the long-term portion of debt at December 31, 2011 was \$930,651,925 and the fair value of the long-term debt was \$1,044,439,747.

At December 31, 2010, the District had total debt outstanding net of premiums and refunding loss, of \$935,591,844 compared to \$582,333,948 at December 31, 2009. This represents an increase of \$353,257,896. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$23,812,896; total debt retirements were \$23,076,540. The carrying value of the long-term portion of debt at December 31, 2010 was \$899,686,742 and the fair value of the long-term debt was \$883,511,546.

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)

	2011	2010	2009
Revenue Bonds	\$ 492,450	\$ 500,235	\$ 170,790
Water Pollution Loans Payable	478,272	435,357	411,544
Total Debt	\$ 970,722	\$ 935,592	\$ 582,334

**Economic Factors**

In June, 2011 the District's Board of Trustees approved a schedule of rate increases for the five years 2012 through 2016. 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 \$1 billion in federally mandated capital projects between 2012 and 2016, 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, 2010, rates charged to District customers increased 9.7 percent to \$40.75 per mcf for City of Cleveland customers, and 8.2 percent to \$44.25 per mcf for the suburban customers. Effective January 1, 2011, rates charged to District customers increased 9.8 percent to \$44.75 per mcf for City of Cleveland customers, and 8.5 percent to \$48.00 per mcf for the suburban customers.

**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

## Statements of Net Assets

**December 31, 2011 and 2010**

	<u>Assets</u>	
	2011	2010
<b>Current Assets:</b>		
Cash	\$ 48,763,945	\$ 38,914,168
Short-Term Investments	67,508,630	86,331,934
Sewage Service Fees Receivable, Less Allowance for Doubtful Accounts of \$31,000,000 in 2011 and \$28,000,000 in 2010	97,228,933	95,210,028
Receivables from Federal, State and Other Agencies	7,005,857	23,447,559
Inventory, Prepaid Expenses and Other	6,461,972	6,329,773
Total Current Assets	226,969,337	250,233,462
 <b>Noncurrent Assets:</b>		
Capital Assets:		
Interceptor Sewer Lines	1,080,505,056	959,767,867
Buildings, Structures and Improvements and Equipment	711,825,768	706,513,403
Sewage Treatment and Other Equipment	374,038,147	355,644,547
	2,166,368,971	2,021,925,817
Less Accumulated Depreciation	(782,107,715)	(739,611,245)
	1,384,261,256	1,282,314,572
Land	13,900,789	13,900,789
Construction in Progress	364,957,652	314,092,068
Net Capital Assets	1,763,119,697	1,610,307,429
Unamortized Deferred Debt Expense	3,270,056	3,460,193
Construction Funds	306,871,017	391,648,537
Revenue Bond Debt Service Deposit	23,035,364	31,938,694
Total Noncurrent Assets	2,096,296,134	2,037,354,853
Total Assets	\$ 2,323,265,471	\$ 2,287,588,315

Continued

The accompanying notes are an integral part of these basic financial statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets (Continued)

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 4,786,455	\$ 5,638,931
Construction Contracts and Retainages Payable	28,724,245	29,839,578
Accrued Interest	10,826,315	11,479,578
Other Accrued Liabilities	5,251,265	7,525,750
Current Maturities of Long-Term Debt	42,121,379	38,127,152
Total Current Liabilities	<u>91,709,659</u>	<u>92,610,989</u>
Noncurrent Liabilities:		
Long-Term Debt	930,651,925	899,686,743
Other Accrued Long-Term Liabilities	3,775,000	5,250,000
Total Liabilities	<u>1,026,136,584</u>	<u>997,547,732</u>
Net Assets:		
Invested in Capital Assets, net of Related Debt	1,058,517,337	1,038,270,319
Unrestricted	238,611,550	251,770,264
Total Net Assets	<u>\$ 1,297,128,887</u>	<u>\$ 1,290,040,583</u>

The accompanying notes are an integral part of these basic financial statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the years ended December 31, 2011 and 2010

	2011	2010
Operating Revenues:		
Billing Agents, net	\$ 155,342,800	\$ 150,703,554
Direct Billed	16,275,002	14,663,082
Other	1,104,565	1,484,110
Total Operating Revenues, net	172,722,367	166,850,746
Operating Expenses:		
Salaries and Wages	39,190,544	38,061,309
Fringe Benefits	12,939,019	12,747,900
Utilities	15,511,558	16,042,200
Professional and Contractual Services	18,766,341	23,034,225
Other	3,907,002	7,392,509
Depreciation	47,271,807	46,061,584
Total Operating Expenses	137,586,271	143,339,727
Operating income	35,136,096	23,511,019
Non-Operating Revenues (Expenses):		
Interest income	3,825,074	3,292,522
Decrease in Fair Value of Investments, net	(150,665)	(19,034)
Non-Operating Grant Revenue	676,833	1,731,894
Non-Operating Grant Expenses	(676,833)	(1,731,894)
Proceeds on Insurance Claims	621,938	-
Loss on Disposals of Equipment	(1,020,704)	(45,657)
Loss on Extraordinary Event	(1,188,489)	-
Federal Subsidy Revenue	6,912,478	858,034
Interest on Long-Term Debt	(43,209,246)	(26,583,173)
Total Non-Operating Expenses	(34,209,614)	(22,497,308)
Income before Contributions	926,482	1,013,711
Capital Contributions	6,161,822	9,437,876
Change in Net Assets	7,088,304	10,451,587
Net Assets at Beginning of Year	1,290,040,583	1,279,588,996
Net Assets at End of Year	\$ 1,297,128,887	\$ 1,290,040,583

The accompanying notes are an integral part of these basic financial statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Cash Flows

**For the years ended December 31, 2011 and 2010**

	2011	2010
Cash Flows from Operating Activities:		
Cash Received From Customers	\$ 170,776,220	\$ 156,290,211
Cash Payments to Suppliers for Goods and Services	(43,403,692)	(42,581,737)
Cash Payments to Employees for Services	(54,477,867)	(51,409,760)
Net Cash Provided by Operating Activities	72,894,661	62,298,714
Cash Flows from Investing Activities:		
Purchase of Investments	(1,902,907,746)	(680,854,029)
Issuance of Note Receivable to Other Governmental Agency	(745,221)	(313,541)
Proceeds from Maturities of Investments	2,015,417,227	437,560,001
Interest on Investments	3,659,442	3,691,469
Net Cash Provided by (Used in) Investing Activities	115,423,702	(239,916,100)
Cash Flows from Non-Capital Financing Activities		
Grant Payments	(676,833)	(1,731,894)
Grants Received	668,326	1,601,642
Net Cash Used In Non-Capital Financing Activities	(8,507)	(130,252)
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(36,595,808)	(36,806,879)
Interest Payments on Long-Term Debt	(33,497,401)	(24,013,907)
Proceeds from Issuance of Series 2010 Bonds	-	334,946,286
Proceeds from Water Pollution Control Loans	84,951,998	39,404,437
Deferred Debt Expense Series 2010 Bond Payments	-	(427,600)
Acquisition and Construction of Capital Assets	(202,786,663)	(108,496,112)
Proceeds from Capital Grants	9,467,795	9,753,218
Net Cash (Used in) Provided by Capital and Related Financing Activities	(178,460,079)	214,359,443
Net Increase in Cash	9,849,777	36,611,805
Cash at Beginning of Year	38,914,168	2,302,363
Cash at End of Year	\$ 48,763,945	\$ 38,914,168

Continued

The accompanying notes are an integral part of these basic financial statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Cash Flows (Continued)

**For the years ended December 31, 2011 and 2010**

	2011	2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 35,136,096	\$ 23,511,019
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	47,271,807	46,061,584
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(1,946,147)	(10,560,535)
Inventory and Prepaid Expenses	(132,199)	(321,546)
Accounts Payable and Other Accrued Liabilities	(7,434,896)	3,608,192
Total Adjustments	37,758,565	38,787,695
Net Cash Provided by Operating Activities	\$ 72,894,661	\$ 62,298,714
 <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	\$ 3,630,284	\$ 17,598,300
Long-Term Debt (Decreased) Increased due to Accrued Construction Interest and Recorded Receivables and Principal Adjustment	\$ (13,396,780)	\$ 13,546,789
Capital Contributions Recorded in Accounts Receivables	\$ 341,764	\$ 3,647,737
Capital Assets Increased (Decreased) due to Capitalized Costs, Recorded Accounts Payable, and Asset Reclassifications	\$ 1,093,993	\$ (20,013,157)
Decrease in Fair Value of Investments, net	\$ (150,665)	\$ (19,034)
Deferred Debt Expense Series 2010 Bond Proceeds	\$ -	\$ 1,986,714

The accompanying notes are an integral part of these basic financial statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

### 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 Cuyahoga County Council; (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, 2011 and 2010

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

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.

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) ASC Topics issued or amended 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.

#### **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 revenue, expenses, and 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. Contribution revenue is primarily recognized on a cost-reimbursement basis or in accordance with the terms of grant agreements. Expenses are recognized at the time they are incurred.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

### 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 non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. Non-participating investment contracts such as non-negotiable certificates of deposit are reported at cost plus accrued interest.

The District invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2011 and 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio'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 non-negotiable certificates of deposit, obligations of Federal agencies, and STAR Ohio.

#### **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 STAR Ohio 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, 2011 and 2010

### 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, 2011 were \$930,651,925 and \$1,044,439,747, respectively. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2010 were \$899,686,743 and \$883,511,546, 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, 2011 and 2010, these funds consisted of cash, non-negotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAR Ohio. 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 Series 2005 Wastewater Improvement Revenue Refunding Bonds, 2007 Series Wastewater Improvement Revenue Bonds, and the 2010 Series 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, 2011 and 2010 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, historical collection rates, economical trends, and current year operating revenues. The allowance amounts are \$31,000,000 at December 31, 2011 and \$28,000,000 at December 31, 2010.

#### I. Inventory

Inventory consists of supplies not yet placed 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, 2011 and 2010

### 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 expensed as incurred. 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 effective interest 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 \$19,734 for 2011 and \$50,492 for 2010.

#### **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 2011 or 2010.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

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

#### L. Net Assets (continued)

The District's Board of Trustees adopted a reserve policy in July 2009 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. A summary of reserve amounts have been designated by the Board of Trustees at December 31, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
General Operating Reserve	\$ 23,943,415	\$ 24,354,578
Debt Service Reserve	23,035,365	31,938,694
Equipment Repair and Replacement Reserve	55,201,391	54,935,902
Insurance Reserve	21,804,993	21,847,323
Rate Stabilization Account	\$ 6,000,000	\$ 3,000,000

During 2011, the District transferred \$3 million from the General Operating Reserve to the Rate Stabilization Account. The Debt Service Reserve decreased \$8,903,329 due to capitalized interest payments. The Equipment Repair and Replacement Reserve increased \$265,489 due to interest income. The Insurance Reserve had a net decrease of \$42,330 due to the flood at the Southerly WWTP.

During 2010, the District transferred \$1 million from the General Operating Reserve to the Equipment Repair and Replacement Reserve.

#### 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 \$4,979,165 in 2011 and \$8,340,207 in 2010. 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 investing activities, capital and related financing activities, and non-capital financing activities.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

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

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, 2011 and 2010 are unbilled sewage service fees of \$23,856,579 and \$25,579,632, 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, 2007 Wastewater Improvement Revenue Bond Resolution and the 2010 Wastewater Improvement Revenue Bond Resolution which requires that the current year "net revenues" be at least 115% 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 is expensed but is included as non-operating on the statement of revenues, expenses, and changes in net assets as incurred.

#### **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.

#### **P. Comparative Data/Reclassifications**

Comparative data for the prior years are presented in order to provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2009 financial statements in order to conform to the 2010 presentation.

#### **Q. Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 22, 2012, the date the financial statements were available to be issued.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

### 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, 2011, the carrying amount of the District's deposits, including certificates of deposit of \$3,207,875, was \$157,507,915 and the bank balance was \$159,891,777. Of the bank balance, \$500,000 was covered by Federal depository insurance and \$159,391,777 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. At December 31, 2010, the carrying amount of the District's deposits, including certificates of deposit of \$21,661,734 was \$362,959,082 and the bank balance was \$367,217,606. Of the bank balance, \$500,000 was covered by Federal depository insurance and \$366,717,606 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, 2011 and 2010**

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

**Investments**

The District's investment policies are currently governed by its Series 2010 and 2007 Wastewater Improvement 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, 2007 and 2010 Series Bonds.

At December 31, 2011 the District's investment balances and maturities were as follows:

Investment Type	Fair Value	% of Total	Maturities (in years)	
			Less than 1	1 through 5
Federal Home Loan Bank	\$ 79,992,711	27%	\$ 46,464,274	\$ 33,528,437
Federal National Mortgage Assoc.	65,601,835	23%	35,176,325	30,425,510
Federal Home Loan Mortgage Corp.	63,151,135	22%	40,277,430	22,873,705
State Treasury Asset Reserve	17,940,491	6%	17,940,491	-
Forward Delivery Agreement	8,103,492	3%	8,103,492	-
Guaranteed Investment Contracts	7,175,938	2%	-	7,175,938
U.S. Treasury Bills	7,063,233	2%	7,063,233	-
Federal Farm Credit Bank	5,069,530	2%	5,069,530	-
U.S. Bankcorp FDIC GTD	5,040,700	2%	5,040,700	-
Morgan Stanley FDIC GTD	5,043,779	2%	5,043,779	-
John Deer FDIC GTD	5,060,692	2%	5,060,692	-
PNC FDIC GTD	5,050,975	2%	5,050,975	-
U.S. Treasury Note	5,024,405	2%	5,024,405	-
General Electric Bond	4,614,387	2%	-	4,614,387
Procter & Gamble Bond	4,045,037	1%	4,045,037	-
Dreyfus Cash Management	692,701	0%	692,701	-
	<u>\$ 288,671,041</u>		<u>\$ 190,053,064</u>	<u>\$ 98,617,977</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2011 and 2010**

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

At December 31, 2010 the District's investment balances and maturities were as follows:

Investment Type	Fair Value	% of Total	Maturities (in years)	
			Less than 1	1 through 5
Federal Home Loan Bank	\$ 35,707,674	19%	\$ -	\$ 35,707,674
State Treasury Asset Reserve	27,160,517	15%	27,160,517	-
Federal National Mortgage Assoc.	30,277,324	16%	5,033,578	25,243,746
Federal Home Loan Mortgage Corp.	25,378,807	14%	5,036,950	20,341,857
U.S. Treasury Bills	16,662,783	9%	16,662,783	-
General Electric Bond	10,079,242	5%	10,079,242	-
Citi Group Bond	10,050,622	5%	10,050,622	-
Forward Delivery Agreement	8,100,335	4%	8,100,335	-
Guaranteed Investment Contracts	7,175,938	4%	-	7,175,938
Federal Farm Credit Bank	5,086,030	3%	-	5,086,030
Morgan Stanley Bond	5,101,229	3%	-	5,101,229
U.S. Bancorp Bond	5,093,750	3%	-	5,093,750
	<u>\$ 185,874,251</u>		<u>\$ 82,124,027</u>	<u>\$ 103,750,224</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, 2011 and 2010

### 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, 2011, the District's investment in U.S. instrumentalities ( Federal Farm Credit Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank) were all rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. Investments backed by the Federal Deposit Insurance Corporation were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. Investments in General Electric were rated AA+ by Standard & Poor's and Aa2 by Moody's. Investments in Proctor & Gamble Bonds were rates AA- by Standard & Poor's and Aa3 by Moody's. Investments in U.S. Treasury Notes were 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 \$247,695,186 has maturities of \$156,253,147 in less than one year and \$91,442,039 within two years. U.S. agencies are held in the account of PNC National 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 \$23,035,364 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 Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

### 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 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 90,110,577	\$ 70,917,856
Amounts billed to District customers by the City during the year	147,845,456	145,753,041
Cash collected from District customers by the City and remitted to the District during the year	(145,413,546)	(130,135,450)
Write off of inactive accounts	(1,813,537)	-
Cash collected directly by the District on invoices rendered by the City and other adjustments	<u>1,944,479</u>	<u>3,575,130</u>
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	<u>\$ 92,673,429</u>	<u>\$ 90,110,577</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.

As a result of the City implementing a new billing system, certain billing estimates were revised from 2009 and prior. The effect of the revision continues to result in an overall significant increase in the balance due from customers in sewage service fees receivable balance as of December 31, 2011.

Fees paid to the City for billing and collection services in 2011 and 2010 were \$5,553,336 and \$5,386,184, respectively.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2011 and 2010**

**Note 5: Capital Assets and Depreciation**

Capital Asset Activity for the year ended December 31, 2011 was as follows:

	Balance December 31, 2010	Additions	Retirements	Transfers	Balance December 31, 2011
Non-depreciable:					
Land	\$ 13,900,789	\$ -	\$ -	\$ -	\$ 13,900,789
Construction in Progress	314,092,068	198,579,231	-	(147,713,647)	364,957,652
	<u>327,992,857</u>	<u>198,579,231</u>	<u>-</u>	<u>(147,713,647)</u>	<u>378,858,441</u>
Depreciable:					
Interceptor Sewer Lines	959,767,867	-	-	120,737,189	1,080,505,056
Buildings, Structures & Improvements & Equip.	706,513,403	442,644	(1,965,835)	6,835,556	711,825,768
Sewage Treatment & Other Equipment	355,644,547	2,401,853	(4,149,155)	20,140,902	374,038,147
	<u>2,021,925,817</u>	<u>2,844,497</u>	<u>(6,114,990)</u>	<u>147,713,647</u>	<u>2,166,368,971</u>
Total Historical Cost	<u>2,349,918,674</u>	<u>201,423,728</u>	<u>(6,114,990)</u>	<u>-</u>	<u>2,545,227,412</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(172,643,734)	(13,428,890)	-	-	(186,072,624)
Buildings, Structures & Improvements	(352,591,665)	(19,076,424)	-	(1,502,523)	(373,170,612)
Sewage Treatment & Other Equipment	(214,375,846)	(14,766,493)	4,775,337	1,502,523	(222,864,479)
Total Accumulated Depreciation	<u>(739,611,245)</u>	<u>(47,271,807)</u>	<u>4,775,337</u>	<u>-</u>	<u>(782,107,715)</u>
Capital Assets, Net	<u>\$ 1,610,307,429</u>	<u>\$ 154,151,921</u>	<u>\$ (1,339,653)</u>	<u>\$ -</u>	<u>\$ 1,763,119,697</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 47,271,807</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2011 and 2010**

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

Capital Asset Activity for the year ended December 31, 2010 was as follows:

	Balance December 31, 2009	Additions	Retirements	Transfers	Balance December 31, 2010
<b>Non-depreciable:</b>					
Land	\$ 9,472,660	\$ 373,628	\$ -	\$ 4,054,501	\$ 13,900,789
Construction in Progress	236,792,502	124,531,910	-	(47,232,344)	314,092,068
	<u>246,265,162</u>	<u>124,905,538</u>	<u>-</u>	<u>(43,177,843)</u>	<u>327,992,857</u>
<b>Depreciable:</b>					
Interceptor Sewer Lines	942,407,230	10,715	-	17,349,922	959,767,867
Buildings, Structures & Improvements & Equip.	689,157,153	503,539	-	16,852,711	706,513,403
Sewage Treatment & Other Equipment	344,345,689	3,089,477	(765,829)	8,975,210	355,644,547
	<u>1,975,910,072</u>	<u>3,603,731</u>	<u>(765,829)</u>	<u>43,177,843</u>	<u>2,021,925,817</u>
Total Historical Cost	<u>2,222,175,234</u>	<u>128,509,269</u>	<u>(765,829)</u>	<u>-</u>	<u>2,349,918,674</u>
<b>Less Accumulated Depreciation For:</b>					
Interceptor Sewer Lines	(159,488,855)	(13,154,879)	-	-	(172,643,734)
Buildings, Structures & Improvements	(333,996,341)	(18,595,324)	-	-	(352,591,665)
Sewage Treatment & Other Equipment	(200,750,773)	(14,311,381)	686,308	-	(214,375,846)
Total Accumulated Depreciation	<u>(694,235,969)</u>	<u>(46,061,584)</u>	<u>686,308</u>	<u>-</u>	<u>(739,611,245)</u>
Capital Assets, Net	<u>\$ 1,527,939,265</u>	<u>\$ 82,447,685</u>	<u>\$ (79,521)</u>	<u>\$ -</u>	<u>\$ 1,610,307,429</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 46,061,584</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2011 and 2010**

**Note 6: Long-Term Obligations**

A summary of long-term debt outstanding at December 31, 2011 and 2010 follows:

	Interest Rate	2011	2010
Wastewater Improvement			
Revenue Refunding Bonds, 2005			
Serial Bonds Maturing 2011 through 2016	4.00% - 5.00%	\$ 38,190,000	\$ 43,660,000
Wastewater Improvement			
Revenue Bonds, 2007			
Serial Bonds Maturing 2011 through 2037	4.25%-4.50%	117,330,000	119,645,000
Wastewater Improvement			
Revenue Bonds, 2010			
Serial Bonds Maturing 2011 through 2040	5.438% - 6.038%	336,930,000	336,930,000
Water Pollution Control Loans Payable			
Through 2032	3.20% - 5.20%	478,271,659	435,356,845
Total Debt		970,721,659	935,591,845
Less Current Maturities		42,121,379	38,127,152
Bond Premium, Net		2,051,645	2,222,050
Total Long-Term Debt		\$ 930,651,925	\$ 899,686,743

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.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

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

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") were 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.

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.

Wastewater Improvement Revenue Bonds, Series 2010 "Build America Bonds"

On November 17, 2010, the District issued \$336,930,000 of Wastewater Improvement Revenue Bonds, Series 2010 (the "Series 2010 Bonds") as Federally Taxable - "Build America Bonds" for purposes consistent with the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") and to receive a cash subsidy from the United States Treasury in connection therewith (the "Direct Payment"). Pursuant to the Recovery Act, the District is entitled to receive Direct Payments rebating a portion of the interest on the Build America Bonds from the United States Treasury equal to 35% of the interest payable on the Series 2010 Bonds. The Series 2010 Bonds are being issued for the purpose of (i) providing funds for the acquisition, construction and improvement of waste water facilities or water management facilities, constituting Water Resource Projects, including without limitation, the financing of 24 months of capitalized interest and (ii) paying the costs of issuance of the Series 2010 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.

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.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

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

Build America Bonds Subsidy

Under the Build America Bonds agreement, the District is to receive 35% of the Bond interest as the Build America Bonds Subsidy. The amount received in 2011 was \$6,912,478. Below is a schedule of the amounts to be received in future years:

<u>Year Ending December 31,</u>	<u>Subsidy Amount</u>
2012	6,941,400
2013	6,941,401
2014	6,941,401
2015	6,941,401
2016 - 2020	34,707,005
2021 - 2025	34,707,002
2026 - 2030	33,219,265
2031 - 2035	25,883,265
2036 - 2040	11,469,844
	<u>\$ 167,751,984</u>

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, 2007 and 2010 Series Bonds and are payable from the revenues of the District, after payment of operating and maintenance costs and are secured by a pledge of and lien on such net revenues. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

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

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 5 SRF loan awards related to projects, 8 of which were not complete as of December 31, 2011. 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, 2011 follow:

Completion or Expected Completion Year of Projects	Number of Projects	Current Amount Including Accrued Construction Period Interest	Additional Available Borrowings Including Construction Period Interest
1993 – 2010	54	\$ 339,876,421	\$ 5,747,240
2011	5	69,515,237	10,415,541
2014	3	68,880,001	21,167,427
		\$ <u>478,271,659</u>	\$ <u>37,330,208</u>

### 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 monies 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.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2011 and 2010**

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

In 2005, the District issued \$68,280,000 in Wastewater Improvement Revenue Refunding bonds, Series 2005 to advance refund and defease the Series 1995 Wastewater Improvement Refunding Bonds of \$64,164,000. 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, 2011, \$33,800,000 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 statement of net assets 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 \$594,484 at December 31, 2011 and \$823,830 at December 31, 2010. 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, 2011 and 2010**

**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, 2011 follows:

	Wastewater Improvement Revenue Refunding Bonds Series 2005		Wastewater Improvement Revenue Bonds Series 2007		Wastewater Improvement Revenue Bonds Series 2010	
	Principal	Interest	Principal	Interest	Principal	Interest *
2012	\$ 5,665,000	\$ 1,852,850	\$ 2,400,000	\$ 5,454,113	\$ -	\$ 127
2013	5,890,000	1,626,250	2,500,000	5,358,113	-	12,891,173
2014	6,190,000	1,331,750	2,625,000	5,233,113	-	12,891,173
2015	6,495,000	1,022,250	2,755,000	5,101,863	-	12,891,173
2016	13,950,000	697,500	2,890,000	4,964,112	-	12,891,173
2017-2021	-	-	16,700,000	22,579,914	-	64,455,865
2022-2026	-	-	20,810,000	18,470,100	1,540,000	64,455,865
2027-2031	-	-	26,170,000	13,106,100	64,625,000	60,161,027
2032-2040	-	-	40,480,000	6,660,337	270,765,000	59,622,174
	<u>\$ 38,190,000</u>	<u>\$ 6,530,600</u>	<u>\$ 117,330,000</u>	<u>\$ 86,927,765</u>	<u>\$ 336,930,000</u>	<u>\$ 300,259,750</u>

\*Interest includes federal subsidy payments

	Water Pollution Control Loans		Total Future Debt Service Requirements	
	Principal	Interest	Principal	Interest
2012	\$ 34,056,379	\$ 15,044,803	\$ 42,121,379	\$ 22,351,893
2013	34,971,293	14,830,387	43,361,293	34,705,923
2014	36,368,085	14,097,421	45,183,085	33,553,457
2015	35,532,444	13,166,742	44,782,444	32,182,028
2016	33,482,532	12,327,136	50,322,532	30,879,921
2017-2021	141,177,911	44,653,018	157,877,911	131,688,797
2022-2026	109,171,101	20,953,888	131,521,101	103,879,853
2027-2031	42,388,880	5,526,382	133,183,880	78,793,509
2032-2040	11,123,034	608,217	322,368,034	66,890,728
	<u>\$ 478,271,659</u>	<u>\$ 141,207,994</u>	<u>\$ 970,721,659</u>	<u>\$ 534,926,109</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2011 and 2010**

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

Bond premium, loss on defeasance activity for the year:

<u>December 31, 2011</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2005	\$ 783,836	\$ (218,999)	\$ -	\$ -	\$ 564,837
Bond Premium, Series 2007	2,262,044	(180,752)	-	-	2,081,292
Loss on Refunding, Series 2005	(823,830)	229,346	-	-	(594,484)
Total	<u>\$ 2,222,050</u>	<u>\$ (170,405)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,051,645</u>

<u>December 31, 2010</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2005	\$ 1,048,787	\$ (264,951)	\$ -	\$ -	\$ 783,836
Bond Premium, Series 2007	2,458,064	(196,020)	-	-	2,262,044
Loss on Refunding, Series 2005	(1,101,250)	277,420	-	-	(823,830)
Total	<u>\$ 2,405,601</u>	<u>\$ (183,551)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,222,050</u>

Long-term debt activity for the year:

<u>December 31, 2011</u>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in 2012
Wastewater Improvement Revenue Refunding Bonds, Series 2005	\$ 43,660,000	\$ -	\$ (5,470,000)	\$ 38,190,000	\$ 5,665,000
Wastewater Improvement Revenue Bonds, Series 2007	119,645,000	-	(2,315,000)	117,330,000	2,400,000
Wastewater Improvement Revenue Bonds, Series 2010	336,930,000	-	-	336,930,000	-
Water Pollution Control Loans	435,356,845	71,725,623	(28,810,809)	478,271,659	34,056,379
Total	<u>\$ 935,591,845</u>	<u>\$ 71,725,623</u>	<u>\$ (36,595,809)</u>	<u>\$ 970,721,659</u>	<u>\$ 42,121,379</u>

<u>December 31, 2010</u>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in 2011
Wastewater Improvement Revenue Refunding Bonds, Series 2005	\$ 48,925,000	\$ -	\$ (5,265,000)	\$ 43,660,000	\$ 5,470,000
Wastewater Improvement Revenue Bonds, Series 2007	121,865,000	-	(2,220,000)	119,645,000	2,315,000
Wastewater Improvement Revenue Bonds, Series 2010	-	336,930,000	-	336,930,000	-
Water Pollution Control Loans	411,543,948	39,404,437	(15,591,540)	435,356,845	30,342,152
Total	<u>\$ 582,333,948</u>	<u>\$ 376,334,437</u>	<u>\$ (23,076,540)</u>	<u>\$ 935,591,845</u>	<u>\$ 38,127,152</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

### 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, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

Authority to establish and amend benefits is provided 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 visiting <https://www.opers.org/investments/cafr.shtml>, 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 2011, 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 payroll to fund pension obligations in 2011. The 2011 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, 2011, 2010 and 2009 were \$5,562,696, \$5,445,060, and \$5,317,654, 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, 2011 and 2010

### Note 8: Post-Employment Benefits

#### Ohio Public Employees Retirement System

##### A. Plan Description

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 visiting <https://www.opers.org/investments/cafr.shtml>, 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.

##### B. Funding Policy

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 2011 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.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during the calendar year 2011.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2011 and 2010**

**Note 8: Post-Employment Benefits (continued)**

The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during the calendar year 2011. The portion of the employer contributions allocated to the health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

**C. District Contributions**

The rates stated in Section B, above, are the contractually required contribution rates for OPERS. As part of this disclosure, it will be necessary for the employer to disclose the employer contributions actually made to fund post-employment benefits. The portion of your employer contributions that were used to fund post-employment benefits can be approximated by multiplying actual employer contributions for calendar year 2011 by 0.2857 for state and local employers.

**D. OPERS Retirement Board Implements its Health Care Preservation Plan**

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

	<u>Contribution Rate as a % of covered salaries</u>	<u>2011</u>	<u>Contribution Rate as a % of covered salaries</u>	<u>2010</u>	<u>Contribution Rate as a % of covered salaries</u>	<u>2009</u>
By Statutory Authority	14.00%	\$5,562,696	14.00%	\$5,445,060	14.00%	\$5,317,654
Less Healthcare Portion	4.00%	<u>(1,589,342)</u>	5.0-5.5%	<u>(1,976,920)</u>	5.5-7.0%	<u>(2,231,686)</u>
Required-Employer Contribution		<u>\$3,973,354</u>		<u>\$3,468,140</u>		<u>\$3,085,968</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

### 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 Plan (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, 2011 and 2010, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

### 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:

	Beginning Balance	Claims Paid	Increase in Estimate	Ending Balance
2010	\$ 114,107	\$ (59,752)	\$ -	\$ 54,355
2011	54,355	-	36,348	90,703

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 ending December 31, 2012. The District's insurance reserve as of December 31, 2011 and 2010 was \$21,804,993, and \$21,847,323, respectively, and is included in short-term investments on the District's statement of net assets.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

### 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 million 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 the year ended December 31, 2009 the conditions were met for the long-term partnership for the Cleveland Metroparks Stewardship Center. During 2010, it was determined that the project would be completed during the year ending December 31, 2011. As such, the District has reclassified \$3 million dollars to other accrued current liabilities from other accrued long-term liabilities.

#### **City of Pepper Pike, Ohio – SOM Center Relief Sewer Project**

In August 2009, the Board of Trustees approved to enter into a Project and Financing Agreement with the City of Pepper Pike for a maximum loan amount of \$1,715,000 at a simple interest rate of 3.5%. As of December 31, 2011 and 2010, \$1,058,762 and \$313,541, respectively, was due from the City of Pepper Pike. A repayment schedule will be agreed upon by both parties at the completion of the project.

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

The District finalized Consent Decree negotiations with Ohio and US EPA, US Department of Justice, and the Ohio Attorney General's Office. The Board of Trustees authorized the signature of the Consent Decree and it was lodged with the US District Court in December 2010. The Consent Decree was approved by the Court on July 7, 2011.

Implementation of the Combined Sewer Overflows Long-Term Control Plan under the Consent Decree began 30 days after approval by the US District Court, although the District had already begun work on certain projects 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 District received a 25-year implementation schedule.

Upon approval of the Consent Decree, the District paid civil penalties to the United States and State of Ohio in cash in the amount of \$1.2 million. To mitigate additional civil penalties, the District implemented a federal Supplemental Environmental Project (SEP) in the amount of \$1 million to provide for the collection and disposal of household hazardous waste. In 2010, the District entered into an agreement with the Cuyahoga County Solid Waste Management District to satisfy the federal SEP obligation. The District was obligated to implement a State SEP known as the Canal Pump Station Operation and Maintenance Project, estimated at \$800,000, or implement an Alternate SEP by making a cash payment of \$800,000 to Ohio EPA. The District implemented an Alternative SEP and made a cash payment of \$800,000 to Ohio EPA. As such, the District has recorded \$906,672 and \$3 million as other accrued liabilities on the accompanying statement of net assets as of December 31, 2011 and 2010 respectively.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

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

#### 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, Travelers Casualty and Surety Company of America (Travelers) 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 sought 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 this report date, the parties are finalizing a Settlement Agreement and Release resolving the lawsuit. Pursuant to the Agreement, KMM&K Joint Venture members agree to pay the District the sum of \$12 million dollars of which \$6 million shall be paid within 30 days of the execution of the Agreement, and the balance paid in installments of \$1 million each year for six consecutive years. The parties agreed to a mutual release of all contractual claims raised in the lawsuit arising out of the Mill Creek Tunnel-2 (MCT-2) and MCT-3 projects. The release specifically excludes any claims and rights the District has or may have against Travelers under fidelity insurance policies issued by Travelers regarding the four legal settlements. The District filed a proof of loss with Travelers and is pursuing its insurance claims under a separate action.

#### 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 entered a plea agreement on May 18, 2010, and he pleaded guilty to all charges on October 19, 2010. He was sentenced to 70 months in federal prison. 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. Mr. Schatz was ordered to make restitution to the District in the amount of \$849,070; however, as of December 31, 2011, the District has received no funds from Mr. Schatz pursuant to the restitution order.

The District did receive payment of restitution in the amount of \$682,130 from Robert J. Kassouf, who was convicted of paying bribes to Mr. Schatz in connection with the District’s Mill Creek Tunnel-2 and -3 contracts. The District will recognize the restitution when received.

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, Travelers Casualty and Surety Company of America (Travelers), under various policies of crime and fidelity insurance, for claims relating to the District’s financial losses. The District is seeking to recover a sum of \$7,176,506 from this action. The fidelity insurance claim is pending.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2011 and 2010

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

#### Regional Stormwater Management Program Litigation

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 were 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 filed motions to dismiss the complaint or transfer venue to the Cuyahoga County court. This case is in inactive status.

On May 11, 2011 the Court, in granting the District's motion for partial summary judgment, ruled that R.C. Chapter 6119 authorizes the District to address intercommunity flooding, erosion and stormwater-related water quality issues. Subsequently, on February 15, 2012, after three weeks of trial on the legality of the District's stormwater fee, the Court again ruled in favor of the District in an interim Opinion that the District's stormwater fee is authorized under R.C. Chapter 6119 and is not an unlawful imposition of a tax. The Court scheduled a final hearing on March 19, 2012 to resolve all pending issues; however, upon issuance of the February 15, 2012 Opinion, several opposition parties filed appeals. The District's motions to dismiss the appeals and subsequent motions for reconsideration were granted for lack of a final appealable order. A final hearing on this matter has been scheduled for May 30, 2012 and the District is waiting for the Court's final order.

In the interim, the District engaged in extensive non-binding mediations facilitated by both the Cuyahoga County Executive's Office and the Court. At this time, the District has executed settlement agreements with the Cleveland Catholic Diocese and the Cleveland Municipal School District. Discussions with Summit County member communities are on-going.

The District is moving forward with upgrades to the billing system to issue stormwater bills through agreements with the Cleveland Water Division, its billing agent. 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

## Notes to Financial Statements

December 31, 2011 and 2010

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

#### Other Litigation

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

### Note 12: Change in Governmental Accounting Principles

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 government 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 implementation of this Statement did not affect the presentation of the 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 November 2010, the GASB issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this Statement did not affect the presentation of the financial statements of the District.

In November 2010, the GASB issued Statement No. 61, "The Financial Reporting Entity: Omnibus." The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. The District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

In December 2010, the GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

In June 2011, the GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. 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, 2011 and 2010**

**Note 12: Change in Governmental Accounting Principles (continued)**

In June 2011, the GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an Amendment of GASB Statement No. 53." 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

**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.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2011 and 2010**

**Note 13: Fair Value Measurements (continued)**

Financial assets consisted of the following:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total at 12/31/11</b>
<u>Cash &amp; Cash Equivalents</u>				
Money Market & Savings	\$ 48,763,945	\$ -	\$ -	\$ 48,763,945
<u>Short -Term Investments</u>				
Money Market Funds	17,940,492	-	-	17,940,492
CDs	3,207,768	-	-	3,207,768
US Gov't Obligations	-	46,360,370	-	46,360,370
<u>Long-Term Construction Fund</u>				
Money Market Funds	105,536,201	-	-	105,536,201
US Gov't Obligations	-	201,334,816	-	201,334,816
<u>Revenue Debt Service Fund</u>				
Fixed Income Security	-	7,175,938	-	7,175,938
US Gov't Obligations	-	15,166,726	-	15,166,726
Money Market Funds	-	692,700	-	692,700
	\$ 175,448,406	\$ 270,730,550	\$ -	\$ 446,178,956
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total at 12/31/10</b>
<u>Cash &amp; Cash Equivalents</u>				
Money Market & Savings	\$ 38,914,168	\$ -	\$ -	\$ 38,914,168
<u>Short -Term Investments</u>				
Money Market Funds	27,160,517	-	-	27,160,517
CDs	21,661,734	-	-	21,661,734
US Gov't Obligations	-	37,509,683	-	37,509,683
<u>Long-Term Construction Fund</u>				
Money Market Funds	302,383,542	-	-	302,383,542
US Gov't Obligations	-	89,264,995	-	89,264,995
<u>Revenue Debt Service Fund</u>				
Fixed Income Security	-	7,175,938	-	7,175,938
US Gov't Obligations	-	24,762,756	-	24,762,756
	\$ 390,119,961	\$ 158,713,372	\$ -	\$ 548,833,333

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2011 and 2010**

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

In June 2011, the Board of Trustees approved rate increases scheduled for the years 2012 through 2016. Effective January 1, 2012 the minimum charge will be eliminated and a base charge will be added to all quarterly bills. Rates charged to customers will increase approximately 13% for customers in the City of Cleveland, and 12% for the suburban customers. In addition to the current rate reduction Homestead Program, the District has added two new affordability programs - the Crisis Voucher Program and a Wastewater Affordability Program for those households with income level at or below 200% poverty level.

# 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, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
User Charges:				
Billed	\$ 165,298,717	\$ 165,298,717	\$ 167,929,442	\$ 2,630,725
Unbilled	3,000,000	3,000,000	3,688,360	688,360
Other Revenue	859,485	859,485	1,104,565	245,080
 Total Revenues	 169,158,202	 169,158,202	 172,722,367	 3,564,165
<u>Expenses:</u>				
Salary and Wages	41,701,993	41,701,993	39,190,544	2,511,449
Benefits	13,419,095	13,419,095	12,939,019	480,076
Power	10,497,873	10,497,873	9,258,484	1,239,389
Materials and Supplies	5,004,960	5,004,960	4,564,897	440,063
Collection Fees	6,032,550	6,032,550	5,975,072	57,478
Gas	5,193,240	5,193,240	4,254,679	938,561
Chemicals	1,485,388	1,485,388	1,329,150	156,238
Repairs and Maintenance	3,000,850	3,000,850	2,440,310	560,540
Solids Handling	796,381	796,381	847,246	(50,865)
Water	1,165,787	1,165,787	1,147,687	18,100
Professional Services	11,380,361	11,380,361	8,407,259	2,973,102
Insurance	1,293,500	1,293,500	1,227,736	65,764
Judgements and Awards	67,600	67,600	16,114	51,486
Other Operating Expenses	5,115,522	5,115,522	4,490,821	624,701
Capitalized Construction Costs	(4,152,714)	(4,152,714)	(5,774,554)	1,621,840
Depreciation	46,000,000	46,000,000	47,271,807	(1,271,807)
 Total Operating Expenses	 148,002,386	 148,002,386	 137,586,271	 10,416,115
 Excess of Revenues Over Operating Expenses	 \$ 21,155,816	 \$ 21,155,816	 \$ 35,136,096	 \$ 13,980,280

# 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, 2011

### Reconciliation to Change in Net Assets:

Excess of Revenues Over Operating Expenses	\$	35,136,096
Non-Operating Grant Revenue		676,833
Interest Income		3,825,074
Decrease in Fair Value of Investments		(150,665)
Non-Operating Grant Expenses		(676,833)
Loss on Disposals of Equipment		(1,020,704)
Proceeds on Insurance Claims		621,938
Loss on Extraordinary Event		(1,188,489)
Federal Subsidy Revenue		6,912,478
Interest Expense on Long-Term Debt		<u>(43,209,246)</u>
Income before Contribution		926,482
Capital Contributions		<u>6,161,822</u>
Change in Net Assets		7,088,304
Net Assets at Beginning of Year		<u>1,290,040,583</u>
Net Assets at End of Year	\$	<u><u>1,297,128,887</u></u>

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

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

**For the year ended December 31, 2011**

### **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.

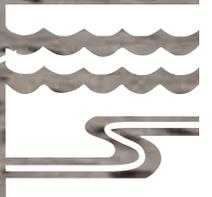
The annual Capital Plan outlines estimated cost by project. These projects are already authorized or to be considered by the Board of Trustees. Approval of the budgets by the Board of Trustees does not in itself authorize expenses for operations and maintenance or expenditures for capital projects. Requests 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.





**STATISTICAL**  
*section*

UNAUDITED





## 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>	56
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant revenue source, user charges.</i>	60
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>	68
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>	70
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>	72
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>	80

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>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Invested in Capital Assets, Net of Related Debt	\$ 1,058,517,337	\$ 1,038,270,319	\$ 1,006,102,174	\$ 995,487,741
Unrestricted	<u>238,611,550</u>	<u>251,770,264</u>	<u>273,486,822</u>	<u>280,572,507</u>
Total	<u><u>\$ 1,297,128,887</u></u>	<u><u>\$ 1,290,040,583</u></u>	<u><u>\$ 1,279,588,996</u></u>	<u><u>\$ 1,276,060,248</u></u>

Note:

2006 and 2007 restated to comply with GASB 51.

Source: District accounting records.

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 978,861,950	\$ 980,197,219	\$ 937,597,258	\$ 899,552,635	\$ 836,065,355	\$ 799,299,807
<u>281,436,951</u>	<u>259,740,301</u>	<u>285,112,392</u>	<u>307,707,118</u>	<u>357,871,693</u>	<u>370,368,464</u>
<u><u>\$ 1,260,298,901</u></u>	<u><u>\$ 1,239,937,520</u></u>	<u><u>\$ 1,222,709,650</u></u>	<u><u>\$ 1,207,259,753</u></u>	<u><u>\$ 1,193,937,048</u></u>	<u><u>\$ 1,169,668,271</u></u>

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

	2011	2010	2009	2008
<u>Operating Revenues</u>				
Billing Agents	\$ 155,342,800	\$ 150,703,554	\$ 151,132,069	\$ 147,605,404
Direct Billed	16,275,002	14,663,082	12,697,756	13,832,074
Other (2)	1,104,565	1,484,110	946,537	833,463
Total Operating Revenues	<u>172,722,367</u>	<u>166,850,746</u>	<u>164,776,362</u>	<u>162,270,941</u>
<u>Operating Expenses</u>				
Salaries & Wages (1)	39,190,544	38,061,309	37,024,254	35,102,015
Fringe Benefits	12,939,019	12,747,900	11,714,646	11,493,925
Utilities	15,511,558	16,042,200	18,924,173	20,632,885
Professional & Contractual	18,766,341	23,034,225	17,696,366	18,727,176
Other (2)	3,907,002	7,392,509	8,194,326	5,757,037
Depreciation (1)	47,271,807	46,061,584	45,410,351	44,448,564
Total Operating Expenses	<u>137,586,271</u>	<u>143,339,727</u>	<u>138,964,116</u>	<u>136,161,602</u>
Operating Income	35,136,096	23,511,019	25,812,246	26,109,339
<u>Non-Operating Revenues (Expenses)</u>				
Interest Income	3,825,074	3,292,522	7,240,399	11,714,888
(Decrease) Increase in Fair Value of Investments	(150,665)	(19,034)	(3,874,343)	2,332,208
Non-Operating Grant Revenue (2)	676,833	1,731,894	1,430,784	1,592,151
Non-Operating Grant Expenses (2)	(676,833)	(1,731,894)	(1,430,784)	(1,204,204)
Other Non-Operating (Expenses) Revenues (3)	-	-	(3,000,000)	-
Proceeds on Insurance Claims (4)	621,938	-	-	-
Loss on Disposals of Equipment	(1,020,704)	(45,657)	(2,013,698)	(180,689)
Loss on Extraordinary Event	(1,188,489)	-	-	-
Federal Subsidy Revenue (5)	6,912,478	858,034	-	-
Interest on Long-Term Debt	(43,209,246)	(26,583,173)	(24,598,935)	(24,602,346)
Total Non-Operating (Expenses) Revenues	<u>(34,209,614)</u>	<u>(22,497,308)</u>	<u>(26,246,577)</u>	<u>(10,347,992)</u>
Capital Contributions	<u>6,161,822</u>	<u>9,437,876</u>	<u>3,963,079</u>	<u>-</u>
Change in Net Assets	<u>\$ 7,088,304</u>	<u>\$ 10,451,587</u>	<u>\$ 3,528,748</u>	<u>\$ 15,761,347</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) Beginning in 2007 Reclassified Non-Operating Grant Revenue and Expenses.

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

(4) Proceeds from the flood at the Southerly WWTP

(5) Beginning in 2010 Reclassified Build America Bonds Subsidy. Refer to Note 6.

Source: District accounting records.

2007	2006	2005	2004	2003	2002
\$ 145,221,599	\$ 135,732,973	\$ 131,938,350	\$ 122,078,222	\$ 117,755,171	\$ 119,515,859
13,062,958	13,220,817	12,623,945	11,442,284	11,504,702	10,277,561
769,744	1,200,272	734,253	762,782	615,506	964,619
<u>159,054,301</u>	<u>150,154,062</u>	<u>145,296,548</u>	<u>134,283,288</u>	<u>129,875,379</u>	<u>130,758,039</u>
33,724,279	33,021,551	31,283,367	29,127,972	27,542,022	25,977,019
10,732,240	11,225,384	10,944,618	9,916,038	8,521,645	7,790,909
18,893,296	17,814,509	17,595,315	15,053,259	14,517,622	13,865,509
14,808,434	14,076,004	13,389,541	12,272,328	11,731,572	10,793,057
7,046,216	6,917,693	5,566,881	4,439,180	4,019,822	3,625,200
43,261,151	40,093,478	35,968,351	35,668,913	34,167,297	29,749,276
<u>128,465,616</u>	<u>123,148,619</u>	<u>114,748,073</u>	<u>106,477,690</u>	<u>100,499,980</u>	<u>91,800,970</u>
30,588,685	27,005,443	30,548,475	27,805,598	29,375,399	38,957,069
12,417,477	8,645,525	8,816,261	11,264,860	12,267,626	14,247,954
3,157,199	1,774,960	(3,190,247)	(6,662,611)	(5,709,818)	5,457,490
35,430	-	-	-	-	-
(940,016)	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(468,601)	(4,216,914)	(776,203)	(1,025,183)	(123,555)	(1,317,155)
-	-	-	-	-	-
-	-	-	-	-	-
<u>(24,428,793)</u>	<u>(20,641,227)</u>	<u>(19,821,947)</u>	<u>(19,352,880)</u>	<u>(19,289,590)</u>	<u>(18,283,691)</u>
<u>(10,227,304)</u>	<u>(14,437,656)</u>	<u>(14,972,136)</u>	<u>(15,775,814)</u>	<u>(12,855,337)</u>	<u>104,598</u>
-	6,359,637	45,133	1,703,878	9,402,297	5,253,943
<u>\$ 20,361,381</u>	<u>\$ 18,927,424</u>	<u>\$ 15,621,472</u>	<u>\$ 13,733,662</u>	<u>\$ 25,922,359</u>	<u>\$ 44,315,610</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Operating Revenues</u>				
Sewer Service Fees				
City of Cleveland Billing Agent	\$ 144,326,900	\$ 140,059,765	\$ 141,082,193	\$ 137,760,081
Other Billing Agents	11,015,900	10,643,789	10,049,876	9,845,323
Other Sewer Service Fees	16,275,002	14,663,082	12,697,756	13,832,074
Other Operating Revenue	<u>1,104,565</u>	<u>1,484,110</u>	<u>946,537</u>	<u>833,463</u>
Total Operating Revenue	172,722,367	166,850,746	164,776,362	162,270,941
<u>Non-Operating Revenues</u>				
Interest Income	3,825,074	3,292,522	7,240,399	11,714,888
(Decrease) Increase in Fair Value of Investments	(150,665)	(19,034)	(3,874,343)	2,332,208
Proceeds from Insurance Claim (1)	621,938	-	-	-
Federal Subsidy Revenue (2)	6,912,478	858,034	-	-
Non-Operating Grant Revenue (3)	<u>676,833</u>	<u>1,731,894</u>	<u>1,430,784</u>	<u>1,592,151</u>
Total Non-Operating Revenues (3)	11,885,658	5,863,416	4,796,840	15,639,247
Capital Contributions	<u>6,161,822</u>	<u>9,437,876</u>	<u>3,963,079</u>	<u>-</u>
Total Revenues	<u><u>\$ 190,769,847</u></u>	<u><u>\$ 182,152,038</u></u>	<u><u>\$ 173,536,281</u></u>	<u><u>\$ 177,910,188</u></u>

(1) Proceeds from Southerly Flood event

(2) Beginning in 2010 Reclassified Build America Bonds Subsidy. Refer to Note 6.

(3) Beginning in 2007 Reclassified Non-Operating Grant Revenue.

Source: District accounting records.

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 135,185,688	\$ 123,897,778	\$ 120,578,807	\$ 110,815,131	\$ 107,662,424	\$ 109,416,694
10,035,911	11,835,195	11,359,543	11,263,091	10,092,747	10,099,165
13,062,958	13,220,817	12,623,945	11,442,284	11,504,702	10,277,561
<u>769,744</u>	<u>1,200,272</u>	<u>734,253</u>	<u>762,782</u>	<u>615,506</u>	<u>964,619</u>
159,054,301	150,154,062	145,296,548	134,283,288	129,875,379	130,758,039
12,417,477	8,645,525	8,816,261	11,264,860	12,267,626	14,247,954
3,157,199	1,774,960	(3,190,247)	(6,662,611)	(5,709,818)	5,457,490
-	-	-	-	-	-
-	-	-	-	-	-
<u>35,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
15,610,106	10,420,485	5,626,014	4,602,249	6,557,808	19,705,444
<u>-</u>	<u>6,359,637</u>	<u>45,133</u>	<u>1,703,878</u>	<u>9,402,297</u>	<u>5,253,943</u>
<u>\$ 174,664,407</u>	<u>\$ 166,934,184</u>	<u>\$ 150,967,695</u>	<u>\$ 140,589,415</u>	<u>\$ 145,835,484</u>	<u>\$ 155,717,426</u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Salaries and Wages	\$ 39,190,544	\$ 38,061,309	\$ 37,024,254	\$ 35,102,015
Benefits	12,939,019	12,747,900	11,714,646	11,493,925
Power	9,258,484	9,879,693	10,591,495	11,101,067
Materials and Supplies	4,564,897	4,729,166	4,190,172	4,261,239
Collection Fees	5,975,072	5,805,347	5,725,215	5,435,973
Gas	4,254,679	4,292,298	6,600,201	7,801,361
Chemicals	1,329,150	1,293,973	1,615,452	1,268,036
Repairs and Maintenance	2,440,310	2,901,283	2,362,155	3,036,704
Solids Handling	847,246	2,190,398	1,831,793	861,768
Water	1,147,687	1,054,989	1,007,356	1,021,701
Professional Services	8,407,259	11,998,519	7,886,179	8,991,475
Insurance	1,227,736	1,161,822	997,672	1,097,763
All Other Expenses (2)	4,506,935	5,107,521	5,466,842	3,758,449
Capitalized Construction Costs	(5,774,554)	(3,946,075)	(3,459,667)	(3,518,438)
Depreciation	<u>47,271,807</u>	<u>46,061,584</u>	<u>45,410,351</u>	<u>44,448,564</u>
Total Operating Expenses	<u>\$ 137,586,271</u>	<u>\$ 143,339,727</u>	<u>\$ 138,964,116</u>	<u>\$ 136,161,602</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) Beginning in 2007 Reclassified Non-Operating Grant Expenses.

Source : District accounting records.

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 33,724,279	\$ 33,021,551	\$ 31,283,367	\$ 29,127,972	\$ 27,542,022	\$ 25,977,019
10,732,240	11,225,384	10,944,618	9,916,038	8,521,645	7,790,909
10,087,278	9,698,130	9,612,943	9,230,045	9,370,436	9,147,231
4,498,829	4,467,163	4,136,824	3,981,807	3,599,091	3,383,852
5,558,472	5,577,407	5,344,377	4,977,801	5,598,772	4,977,231
7,094,373	6,411,117	6,311,146	4,085,469	3,587,102	3,805,104
1,523,535	1,419,372	1,156,059	735,715	777,478	742,794
4,008,618	3,109,610	2,649,356	2,287,614	2,505,875	2,435,869
1,462,056	1,282,171	1,665,083	989,915	782,822	1,181,476
1,070,362	1,036,930	1,101,448	1,242,143	1,128,576	500,030
4,469,991	4,083,289	3,228,625	3,132,075	2,488,843	2,097,685
1,120,774	1,139,139	1,138,447	1,087,302	1,005,164	908,484
3,624,958	4,262,270	3,432,862	3,301,927	2,857,775	2,668,495
(3,771,300)	(3,678,392)	(3,225,433)	(3,287,046)	(3,432,918)	(3,564,485)
<u>43,261,151</u>	<u>40,093,478</u>	<u>35,968,351</u>	<u>35,668,913</u>	<u>34,167,297</u>	<u>29,749,276</u>
<u>\$ 128,465,616</u>	<u>\$ 123,148,619</u>	<u>\$ 114,748,073</u>	<u>\$ 106,477,690</u>	<u>\$ 100,499,980</u>	<u>\$ 91,800,970</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
COMMUNITIES SERVED BY THE DISTRICT AND  
ESTIMATED POPULATION SERVED  
DECEMBER 31, 2011**

Municipality	Estimated Service Population <sup>(1)</sup>	Municipality	Estimated Service Population <sup>(1)</sup>
<b>SUBDISTRICT 1</b>			
Cleveland City	396,815		
<b>SUBDISTRICT 2</b>		<b>SUBDISTRICT 2</b>	
Bath Township	- <sup>(3)</sup>	Mayfield Village	3,460
Beachwood City	11,953	Middleburg Heights City	15,946
Bedford City	- <sup>(3)</sup>	Newburgh Heights Village	2,167
Bedford Heights City	- <sup>(3)</sup>	North Randall Village	1,027
Berea City	19,093	North Royalton City	4,749 <sup>(2)</sup>
Boston Heights Village	553 <sup>(2)</sup>	Northfield Center Township	5,444
Bratenahl Village	1,197	Northfield Village	3,677
Brecksville City	13,656	Oakwood Village	1,570 <sup>(2)</sup>
Broadview Heights City	15,701 <sup>(2)</sup>	Olmsted Falls City	7,866 <sup>(2)</sup>
Brook Park City	19,212	Olmsted Township	5,032 <sup>(2)</sup>
Brooklyn City	11,169	Orange Village	584 <sup>(2)</sup>
Brooklyn Heights Village	1,543	Parma City	81,601
Cleveland Heights City	46,121	Parma Heights City	20,718
Columbia Township	944 <sup>(2)</sup>	Pepper Pike City	2,028 <sup>(2)</sup>
Cuyahoga Heights Village	638	Richfield Township	575 <sup>(2)</sup>
East Cleveland City	17,843	Richfield Village	1,575 <sup>(2)</sup>
Euclid City	181 <sup>(2)</sup>	Richmond Heights City	4,284 <sup>(2)</sup>
Garfield Heights City	28,849	Sagamore Hills Township	10,947
Gates Mills Village	276 <sup>(2)</sup>	Seven Hills City	11,804
Glenwillow Village	30 <sup>(2)</sup>	Shaker Heights City	28,448
Highland Heights City	8,345	Solon City	171 <sup>(2)</sup>
Highland Hills Village	1,130	South Euclid City	21,784 <sup>(2)</sup>
Hudson City	8,819 <sup>(2)</sup>	Strongsville City	25,915 <sup>(2)</sup>
Independence City	7,133	Twinsburg City	6 <sup>(2)</sup>
Lakewood City	- <sup>(3)</sup>	Twinsburg Township	632 <sup>(2)</sup>
Linndale Village	179	University Heights City	13,539
Lyndhurst City	14,001	Valley View Village	2,034
Macedonia City	11,188	Walton Hills Village	2,281
Maple Heights City	23,138	Warrensville Heights City	13,542
Mayfield Heights City	19,155	Willoughby Hills City	- <sup>(3)</sup>
		Total Subdistrict 2	575,453
<b>Total Estimated Service Population</b>			<b>972,268</b>

(1) Based on 2010 U.S. Census Data

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

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



**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**LARGEST CUSTOMERS OF THE DISTRICT**  
**AS OF DECEMBER 31, 2011**  
**and NINE YEARS PRIOR**

	2011			
	CONSUMPTION	AMOUNT	RANK	PERCENTAGE OF
	MCF (1)	BILLED		OPERATING
				REVENUE
<b><u>SUBDISTRICT 1</u></b>				
Cuyahoga Metropolitan Housing Agency (2)	79,576.2	\$3,542,165	1	2.1%
City of Cleveland Water Filtration Plants	28,710.7	1,818,143	2	1.1%
Cleveland Clinic (2)	33,143.3	1,489,684	4	0.9%
Case Western Reserve University	20,003.1	896,273	5	0.5%
Cuyahoga County (2)	19,427.6	865,793	6	0.5%
Arcelor Mittal Steel (ISG Cleveland)	13,686.5	722,491	8	0.4%
Cleveland Board of Education	13,027.6	575,051	10	0.3%
Ferro Corporation (2)	9,690.7	440,914	12	0.3%
Inland Waters of Ohio	4,748.6	356,282	15	0.2%
Veterans Administration Hospitals (2)	6,275.4	290,169	16	0.2%
Cleveland Metroparks Zoo	5,058.9	289,774	17	0.2%
MetroHealth Medical Centers	4,768.7	269,854	18	0.2%
Cleveland State University	5,842.1	256,676	19	0.1%
Columbus Road Realty	5,404.5	244,647	20	0.1%
University Hospitals	-	-	-	-
Cleveland Thermal Energy Corporation	-	-	-	-
Synthetic Products	-	-	-	-
General Electric Company	-	-	-	-
Ninth Street - Euclid Ltd	-	-	-	-
Holiday Inn	-	-	-	-
New Longwood Association	-	-	-	-
Clean Harbors	-	-	-	-
Total Subdistrict 1	249,363.9	\$12,057,916		7.1%
<b><u>SUBDISTRICT 2</u></b>				
Aluminum Corporation of America	35,005.1	\$ 1,673,308	3	1.0%
Ford Motor Corporation	15,397.6	736,903	7	0.4%
NASA John H Glenn Research Center	15,775.3	592,951	9	0.3%
Forest City Management (2)	10,505.9	494,184	11	0.3%
Charter Steel	8,304.9	395,327	13	0.2%
Eaton Estates / Nagy Park	8,286.5	392,265	14	0.2%
Fairhill Towers LLC (Zehman & Wolfe Management)	4,937.1	229,162	21	0.1%
General Motors Corporation	-	-	-	-
Total Subdistrict 2	98,212.4	\$ 4,514,100		2.5%
Grand Total	347,576.3	\$16,572,016		9.6%

(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.

2002

CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
100,276.6	\$ 2,825,027	1	2.2%
34,657.5	1,048,481	5	0.8%
47,640.0	1,330,894	3	1.0%
29,332.7	825,500	10	0.6%
31,377.4	845,920	9	0.6%
35,400.9	1,019,931	6	0.8%
34,825.1	982,549	7	0.8%
18,840.5	528,783	13	0.4%
-	-	-	0.0%
15,235.1	343,711	18	0.3%
-	-	-	0.0%
28,732.2	695,862	11	0.5%
13,745.3	382,594	17	0.3%
-	-	-	0.0%
21,911.2	574,810	12	0.4%
21,296.0	508,224	14	0.4%
14,067.6	399,335	16	0.3%
8,021.8	235,697	19	0.2%
8,393.2	198,738	21	0.2%
7,149.8	196,980	22	0.2%
6,572.6	185,617	23	0.1%
2,722.7	166,736	25	0.1%
480,198.2	\$ 13,295,389		10.2%
35,040.7	\$ 932,177	8	0.7%
52,797.5	1,420,525	2	1.1%
49,691.1	1,319,722	4	1.0%
17,956.0	499,140	15	0.4%
-	-	-	0.0%
-	-	-	0.0%
6,207.8	167,394	24	0.1%
10,122.8	233,032	20	0.2%
171,815.9	\$ 4,571,990		3.5%
652,014.1	\$ 17,867,379		13.7%

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Debt by Type, In Thousands</b>				
Revenue Bond Issues				
\$97,830 Series 1995	\$ -	\$ -	\$ -	\$ -
\$68,280 Series 2005 (A)	38,190	43,660	48,925	53,985
\$126,055 Series 2007 (B)	117,330	119,645	121,865	124,000
\$336,930 Series 2010 (C)	336,930	336,930	-	-
Total Revenue Bonds	<u>492,450</u>	<u>500,235</u>	<u>170,790</u>	<u>177,985</u>
Ohio Water Development Authority Loans	-	-	-	-
Water Pollution Control Loans	478,272	435,356	411,544	417,080
Other	-	-	-	-
<b>Total All Debt</b>	<b><u>\$ 970,722</u></b>	<b><u>\$ 935,591</u></b>	<b><u>\$ 582,334</u></b>	<b><u>\$ 595,065</u></b>
<b>Number of Customer Accounts (1)</b>	323,567	315,794	319,629	328,856
<b>Outstanding Debt Per Customer Account</b>	<b>\$ 3,000</b>	<b>\$ 2,963</b>	<b>\$ 1,822</b>	<b>\$ 1,810</b>

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

Historical Number of Customer Accounts (see pages 80 & 81)	309,820	302,838	306,791	311,937
Less Master Meter Communities	(3)	(3)	(3)	(3)
Add estimated number of customers in Master Meter Communities	<u>13,750</u>	<u>12,959</u>	<u>12,841</u>	<u>16,922</u>
<b>Number of Customer Accounts</b>	<b><u>323,567</u></b>	<b><u>315,794</u></b>	<b><u>319,629</u></b>	<b><u>328,856</u></b>

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

Note: This schedule should be read in conjunction with Note 6 to the Audited Financial Statements  
for December 31, 2011.

(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.

(C) The Series 2010 Bonds were issued on November 17, 2010.

Source: District accounting records.

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ -	\$ -	\$ -	\$ 68,415	\$ 72,415	\$ 76,175
58,850	63,525	68,280	-	-	-
126,055	-	-	-	-	-
-	-	-	-	-	-
<u>184,905</u>	<u>63,525</u>	<u>68,280</u>	<u>68,415</u>	<u>72,415</u>	<u>76,175</u>
194	573	932	1,274	1,599	1,907
418,262	417,777	387,380	350,908	346,073	329,332
-	-	-	-	-	-
<u><u>\$ 603,361</u></u>	<u><u>\$ 481,875</u></u>	<u><u>\$ 456,592</u></u>	<u><u>\$ 420,597</u></u>	<u><u>\$ 420,087</u></u>	<u><u>\$ 407,414</u></u>
334,850	325,389	328,417	330,190	325,292	325,022
\$ 1,802	\$ 1,481	\$ 1,390	\$ 1,274	\$ 1,291	\$ 1,253
318,515	308,769	312,093	313,043	308,197	308,809
(4)	(4)	(4)	(4)	(4)	(4)
<u>16,339</u>	<u>16,624</u>	<u>16,328</u>	<u>17,151</u>	<u>17,099</u>	<u>16,217</u>
<u><u>334,850</u></u>	<u><u>325,389</u></u>	<u><u>328,417</u></u>	<u><u>330,190</u></u>	<u><u>325,292</u></u>	<u><u>325,022</u></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)
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%	52,802,000	41,391
2010	1,280,122	9.5%	52,898,050	41,347
2011	1,025,881	9.9%	n/a	n/a

(1) Sources are District administrative records, 2010 U.S.Census, 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, 2011  
and NINE YEARS PRIOR**

Employer Name (1)	2011			2002		
	Number of Employees (1) FTE*	Rank (1)	Percentage of Total County Employment (2)	Number of Employees (1) FTE*	Rank (1)	Percentage of Total County Employment (2)
	12-31-2011			12-31-2002		
Cleveland Clinic Health System	34,000	1	5.14%	21,500	1	2.74%
U.S. Office of Personnel Management	15,095	2	2.28%	10,820	2	1.38%
University Hospitals	13,726	3	2.07%	8,256	6	1.05%
Giant Eagle Inc.	10,311	4	1.56%	- (3)		-
Progressive Corp.	8,612	5	1.30%	- (3)		-
Summa Health System	8,000	6	1.21%	- (3)		-
Cuyahoga County	7,859	7	1.19%	9,750	3	1.24%
State of Ohio	7,792	8	1.18%	9,582	4	1.22%
United State Postal Service	7,362	9	1.11%	9,000	5	1.15%
Group Management Services Inc.	7,242	10	1.09%	- (3)		-
Cleveland Municipal School District	-	-	-	7,980	7	1.02%
Metro Health System	-	-	-	6,450	8	0.82%
Ford Motor Company	-	-	-	6,425	9	0.82%
LTV Corporation	-	-	-	5,450	10	0.69%
Total	119,999		18.13%	95,213		12.13%
Total Cuyahoga County Employment (2)			662,000			785,000

\* Full-Time Equivalent.

(1) Sources are *Crain's Cleveland Business*, December 2011 and March 2002.

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.

(3) Employment outside of top ten for noted reporting year, therefore no data is presented.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b><u>TREATMENT PLANT FLOW</u></b>				
<b>Billions of gallons of sewage treated per plant:</b>				
Easterly	41.9	30.9	31.2	36.1
Southerly	51.5	39.2	39.1	43.8
Westerly	12.6	9.0	10.1	10.8
Total	<u>106.0</u>	<u>79.1</u>	<u>80.4</u>	<u>90.7</u>
<b>Total sewage treated, in MCFs (1)</b>	<u>14,171,123</u>	<u>10,574,866</u>	<u>10,748,663</u>	<u>12,125,668</u>
<b>MCFs billed, total District (6)</b>	<u>4,096,885</u>	<u>4,195,507</u>	<u>4,267,959</u>	<u>4,507,357</u>
<b><u>STAFFING LEVELS</u></b>				
<b>Number of employees:</b>				
Plant Operations & Maintenance (5)	352	357	353	363
Engineering	52	54	56	57
Finance (7) (8)	41	47	47	47
Human Resources (2) (4)	17	17	19	14
Information Technology (2)	19	20	21	19
District Administration (4) (7) (9)	54	50	47	46
Legal (9)	10	14	13	14
Administration & External Affairs (8)	25	18	16	16
Watershed Programs (5)	72	63	62	58
Total	<u>642</u>	<u>640</u>	<u>634</u>	<u>634</u>
<b>Budgeted employees, total District</b>	<u>680</u>	<u>679</u>	<u>668</u>	<u>660</u>

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

(2) Reclassified from District Administration beginning in 2002.

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

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

(5) Watershed Programs reclassified from Plant Operations & Maintenance to Watershed Programs.

(6) Restated 2010 MCF's billed.

(7) Reclassified Internal Audit from Finance to District Administration in 2009.

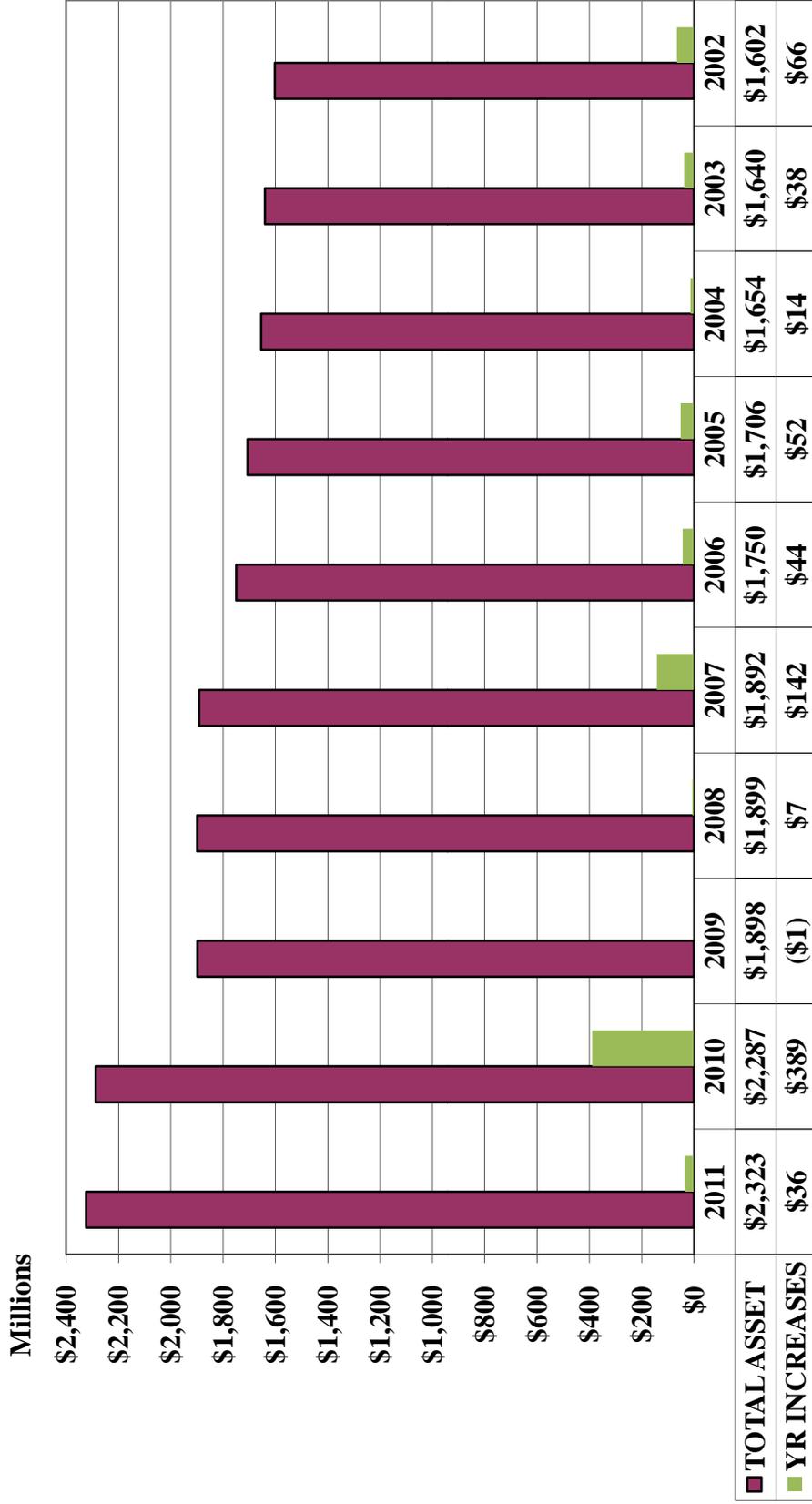
(8) Reclassified Customer Service from Finance to Administration & External Affairs in 2011.

(9) Reclassified Records Management from Legal to District Administration in 2011.

Source: Various District records.

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
35.3	34.4	38.4	40.6	40.4	37.3
45.3	45.8	46.6	44.2	43.1	37.2
10.0	9.6	10.4	10.5	11.0	10.4
<u>90.6</u>	<u>89.8</u>	<u>95.4</u>	<u>95.3</u>	<u>94.5</u>	<u>84.9</u>
<u>12,112,299</u>	<u>12,005,348</u>	<u>12,754,011</u>	<u>12,740,642</u>	<u>12,633,690</u>	<u>11,350,267</u>
<u>4,756,809</u>	<u>4,745,269</u>	<u>4,969,948</u> (3)	<u>4,930,817</u>	<u>5,094,136</u>	<u>5,191,506</u>
396	404	412	404	383	382
65	70	66	66	61	54
42	50	49	50	49	48
15	17	21	47	44	41
21	20	19	18	20	19
56	44	43	17	18	20
8	8	9	8	8	9
8	7	4	-	-	-
-	-	-	-	-	-
<u>611</u>	<u>620</u>	<u>623</u>	<u>610</u>	<u>583</u>	<u>573</u>
<u>662</u>	<u>676</u>	<u>672</u>	<u>677</u>	<u>637</u>	<u>634</u>

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





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

	2011	2010	2009
<b>Number of Buildings</b>			
<u>Operations</u>			
Southerly Plant	39	39	39
Easterly Plant	18	18	18
Westerly Plant	16	16	16
Outlying Pump Buildings	7	7	5
<b>Total Operations</b>	<u>80</u>	<u>80</u>	<u>78</u>
<u>Administration</u>			
District Administration	1	1	1
Environmental Maintenance and Services Center	4	4	4
<b>Total Offices</b>	<u>5</u>	<u>5</u>	<u>5</u>
<b>Total Buildings</b>	<u><u>85</u></u>	<u><u>85</u></u>	<u><u>83</u></u>
 <b>Miles of Interceptor Sewers Installed Annually*</b>	 <u><u>5.55</u></u>	 <u><u>3.95</u></u>	 <u><u>0.40</u></u>
<b>Number of Outlying Systems</b>			
<u>Sewage Collection System</u>			
Interceptor Sewers & Tunnels	21	21	21
Inter-Community Relief Sewers	27	26	25
Automated Regulators	25	25	25
Pumping Stations	7	7	6
Force Mains	4	4	3
<b>Total Sewage Collection System</b>	<u>84</u>	<u>83</u>	<u>80</u>
<u>Support Facilities</u>			
Floatables Control Sites	10	10	10
Biofilter Odor Control Sites	8	8	8
Rain Gauge Sites	25	25	25
Lakeview Dam	1	1	1
<b>Total Support Facilities</b>	<u>44</u>	<u>44</u>	<u>44</u>
<b>Total Outlying Systems</b>	<u><u>128</u></u>	<u><u>127</u></u>	<u><u>124</u></u>
 <b>Acres of Land</b>			
<u>Operations</u>			
Southerly Plant	311.2	311.2	311.2
Easterly Plant	92.6	92.6	77.7
Westerly Plant	13.4	13.4	14.5
<u>Administration</u>			
District Administration	2.6	2.6	2.6
Environmental Maintenance and Services Center	14.7	14.7	14.7
<b>Total Acres, Operations and Administration</b>	<u><u>434.5</u></u>	<u><u>434.5</u></u>	<u><u>420.7</u></u>

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

2008	2007	2006	2005	2004	2003	2002
38	36	36	36	35	36	36
18	18	18	18	18	18	16
16	16	16	17	17	17	17
5	5	5	5	5	6	6
<u>77</u>	<u>75</u>	<u>75</u>	<u>76</u>	<u>75</u>	<u>77</u>	<u>75</u>
1	1	1	1	1	2	2
4	4	4	4	4	4	4
5	5	5	5	5	6	6
<u>82</u>	<u>80</u>	<u>80</u>	<u>81</u>	<u>80</u>	<u>83</u>	<u>81</u>
<u>0.99</u>	<u>0.89</u>	<u>3.52</u>	<u>5.04</u>	<u>0.53</u>	<u>3.75</u>	<u>0</u>
21	21	21	21	21	21	21
24	24	24	21	18	17	17
25	25	25	25	25	27	27
6	6	6	6	6	7	7
3	3	3	3	3	3	3
<u>79</u>	<u>79</u>	<u>79</u>	<u>76</u>	<u>73</u>	<u>75</u>	<u>75</u>
10	10	10	10	5	5	5
8	8	8	8	7	5	5
25	25	25	25	25	25	25
1	1	1	1	1	1	1
<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>38</u>	<u>36</u>	<u>36</u>
<u>123</u>	<u>123</u>	<u>123</u>	<u>120</u>	<u>111</u>	<u>111</u>	<u>111</u>
311.2	311.2	311.2	311.2	311.2	311.2	311.2
77.7	77.7	77.7	77.7	77.7	77.7	77.7
14.5	14.5	14.5	14.5	14.5	14.5	14.5
2.6	2.6	2.6	2.6	2.6	1.5	1.5
14.7	14.7	14.7	14.7	14.7	14.7	14.7
<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>419.6</u>	<u>419.6</u>



## CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Subdistrict 1</u>				
Cleveland (1)	125,832	121,009	122,201	128,142
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	3	3	3	3
Direct Service - Suburbs (1)	<u>183,985</u>	<u>181,826</u>	<u>184,587</u>	<u>183,792</u>
Subtotal	<u>183,988</u>	<u>181,829</u>	<u>184,590</u>	<u>183,795</u>
Total Customers	<u><u>309,820</u></u>	<u><u>302,838</u></u>	<u><u>306,791</u></u>	<u><u>311,937</u></u>

(1) 2002 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>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
130,616	129,428	133,054	137,746	132,541	133,611
4	4	4	4	4	4
<u>187,895</u>	<u>179,337</u>	<u>179,035</u>	<u>175,293</u>	<u>175,652</u>	<u>175,194</u>
<u>187,899</u>	<u>179,341</u>	<u>179,039</u>	<u>175,297</u>	<u>175,656</u>	<u>175,198</u>
<u><u>318,515</u></u>	<u><u>308,769</u></u>	<u><u>312,093</u></u>	<u><u>313,043</u></u>	<u><u>308,197</u></u>	<u><u>308,809</u></u>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Subdistrict 1</u>				
Cleveland	1,881,996	1,946,380 (4)	1,915,736	2,127,084
<u>Subdistrict 2</u>				
Direct Service - Suburbs (3)	2,005,569	2,078,834 (4)	2,189,464	2,184,458
Master Meter - Suburbs (1)	<u>209,320</u>	<u>170,293</u>	<u>162,759</u>	<u>195,815</u>
Subtotal	<u>2,214,889</u>	<u>2,249,127</u>	<u>2,352,223</u>	<u>2,380,273</u>
Total Service Area	<u><u>4,096,885</u></u>	<u><u>4,195,507</u></u>	<u><u>4,267,959</u></u>	<u><u>4,507,357</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 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) Restated 2010 for consumption adjustment.

<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
2,217,887	2,209,563	2,370,567	2,379,632	2,495,126	2,662,602
2,250,184	2,215,147	2,288,026 (2)	2,241,819	2,287,825	2,231,962
<u>288,738</u>	<u>320,559</u>	<u>311,109</u>	<u>309,366</u>	<u>311,185</u>	<u>296,942</u>
<u>2,538,922</u>	<u>2,535,706</u>	<u>2,599,135</u>	<u>2,551,185</u>	<u>2,599,010</u>	<u>2,528,904</u>
<u><u>4,756,809</u></u>	<u><u>4,745,269</u></u>	<u><u>4,969,702</u></u>	<u><u>4,930,817</u></u>	<u><u>5,094,136</u></u>	<u><u>5,191,506</u></u>

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

	2011	2010	2009
Operating Revenue	\$ 172,722	\$ 166,851	\$ 164,776
Non-Operating Revenue	3,674	3,273	3,366
Total Revenues	<u>176,396</u>	<u>170,124</u>	<u>168,142</u>
Operating Expenses (Exclusive of depreciation) (2)	90,314	97,278	93,554
Transfer to Rate Stabilization Account	3,000	-	-
Total Expenses	<u>93,314</u>	<u>97,278</u>	<u>93,554</u>
Net Revenues Available for Debt Service	<u>\$ 83,082</u>	<u>\$ 72,846</u>	<u>\$ 74,588</u>
Total Revenue Bond Debt Service (1),(3)	\$ 15,370	\$ 15,375	\$ 15,373
Coverage on Revenue Bond Debt Service	5.41	4.74	4.85
Total All Debt Service (1)	\$ 59,974	\$ 60,821	\$ 59,430
Coverage on Total Debt Service	1.39	1.20	1.26

(1) 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, 2011 were:

	2011	2010	2009
Revenue Bond Issues and Debt Service			
\$97,830 Series 1995	\$ -	\$ -	\$ -
\$68,280 Series 2005 (A)	7,514	7,520	7,517
\$126,055 Series 2007 (B)	7,856	7,855	7,856
\$336,930 Series 2010 (C)	-	-	-
Total Revenue Bond Debt Service	<u>15,370</u>	<u>15,375</u>	<u>15,373</u>
OWDA Debt Service	-	-	-
WPCLF Debt Service	<u>44,604</u>	<u>45,446</u>	<u>44,057</u>
Total All Debt Service	<u>\$ 59,974</u>	<u>\$ 60,821</u>	<u>\$ 59,430</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.

(C) The Series 2010 Bonds were issued on November 17, 2010.

(2) 2002 restated for December 31, 2002 prior period adjustment of \$144,800 accrued payroll.

(3) 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.

2008	2007	2006	2005	2004	2003	2002
\$ 162,271	\$ 159,055	\$ 150,154	\$ 145,297	\$ 134,283	\$ 129,875	\$ 130,758
14,047	15,575	10,421	4,850	3,577	6,434	18,388
<u>176,318</u>	<u>174,630</u>	<u>160,575</u>	<u>150,147</u>	<u>137,860</u>	<u>136,309</u>	<u>149,146</u>
91,713	85,205	82,319	78,780	70,808	66,333	62,052
-	-	-	-	-	-	-
<u>91,713</u>	<u>85,205</u>	<u>82,319</u>	<u>78,780</u>	<u>70,808</u>	<u>66,333</u>	<u>62,052</u>
<u>\$ 84,605</u>	<u>\$ 89,425</u>	<u>\$ 78,256</u>	<u>\$ 71,367</u>	<u>\$ 67,052</u>	<u>\$ 69,976</u>	<u>\$ 87,094</u>
\$ 15,375	\$ 10,174	\$ 7,490	\$ 7,935	\$ 7,935	\$ 7,930	\$ 7,934
5.61	8.79	10.45	8.99	8.45	8.82	10.98
\$ 58,140	\$ 54,905	\$ 44,257	\$ 42,552	\$ 42,029	\$ 35,886	\$ 35,984
1.46	1.63	1.77	1.68	1.60	1.95	2.42

2008	2007	2006	2005	2004	2003	2002
\$ -	\$ -	\$ -	\$ 7,935	\$ 7,935	\$ 7,930	\$ 7,934
7,517	7,514	7,490	-	-	-	-
7,858	2,660	-	-	-	-	-
-	-	-	-	-	-	-
<u>15,375</u>	<u>10,174</u>	<u>7,490</u>	<u>7,935</u>	<u>7,935</u>	<u>7,930</u>	<u>7,934</u>
204	409	409	409	409	408	3,136
42,561	44,322	36,358	34,208	33,685	27,548	24,914
<u>\$ 58,140</u>	<u>\$ 54,905</u>	<u>\$ 44,257</u>	<u>\$ 42,552</u>	<u>\$ 42,029</u>	<u>\$ 35,886</u>	<u>\$ 35,984</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		
2002	21.10	7.7	14.25	6.7	26.60	8.6	17.80	6.6
2003	22.70	7.6	15.30	7.4	27.95	5.1	18.70	5.1
2004	24.40	7.5	16.45	7.5	29.40	5.2	19.70	5.3
2005	26.20	7.4	17.70	7.6	30.95	5.3	20.80	5.6
2006	28.10	7.3	18.95	7.1	32.60	5.3	21.90	5.3
2007	30.85	9.8	20.75	9.5	35.10	7.7	23.55	7.5
2008	33.85	9.7	22.75	9.6	37.85	7.8	25.40	7.9
2009	37.15	9.7	24.95	9.7	40.90	8.1	27.45	8.1
2010	40.75	9.7	27.35	9.6	44.25	8.2	29.70	8.2
2011	44.75	9.8	30.05	9.9	48.00	8.5	32.25	8.6

(1) Per thousand cubic feet (MCF) of water consumed.

(2) These rates were first established in the 1991 fiscal year.

Industrial Waste Surcharge

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

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

Minimum Quarterly Billing

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

Source: District accounting records.



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
CAPITAL IMPROVEMENT PROGRAM  
USES AND SOURCES OF FUNDS  
FOR THE YEARS ENDED DECEMBER 31, 2012 THROUGH 2021  
(In Thousands of Dollars)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b><u>USES OF FUNDS</u></b>				
Sewage Treatment Plant Improvements				
Westerly	\$ 636	\$ 11,059	\$ 6,150	\$ 780
Southerly	68,258	84,093	30,568	37,632
Easterly	24,047	25,980	29,198	3,435
Sub-Total	<u>92,941</u>	<u>121,132</u>	<u>65,916</u>	<u>41,847</u>
Interceptors/Rehabilitation	21,724	17,917	1,144	7,772
Combined Sewer Overflow Control Program	114,952	125,034	149,910	83,512
Information Technology & Other Minor Equipment	19,292	18,224	11,138	11,617
TOTAL	<u><u>\$ 248,909</u></u>	<u><u>\$ 282,307</u></u>	<u><u>\$ 228,108</u></u>	<u><u>\$ 144,748</u></u>
<b><u>SOURCES OF FUNDS</u></b>				
WPCLF Loans (1)	\$ 61,823	\$ 53,536	\$ 35,000	\$ 35,000
Net Bond Proceeds	179,086	224,771	155,108	109,298
Internally Generated Funds	8,000	4,000	38,000	450
TOTAL	<u><u>\$ 248,909</u></u>	<u><u>\$ 282,307</u></u>	<u><u>\$ 228,108</u></u>	<u><u>\$ 144,748</u></u>

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

Source: District accounting records.

<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>TOTAL</u>
\$ 6,729	\$ 6,135	\$ 2,411	\$ 2,155	\$ 2,423	\$ 3,279	\$ 41,757
35,427	61,941	24,337	21,753	24,459	33,105	421,573
5,102	21,236	8,344	7,458	8,386	11,350	144,536
<u>47,258</u>	<u>89,312</u>	<u>35,092</u>	<u>31,366</u>	<u>35,268</u>	<u>47,734</u>	<u>607,866</u>
12,266	39,795	27,253	30,309	23,581	23,331	205,092
70,306	100,317	193,144	245,849	120,280	46,277	1,249,581
5,335	1,500	1,500	1,500	1,500	1,500	73,106
<u>\$ 135,165</u>	<u>\$ 230,924</u>	<u>\$ 256,989</u>	<u>\$ 309,024</u>	<u>\$ 180,629</u>	<u>\$ 118,842</u>	<u>\$ 2,135,645</u>
\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 395,359
96,665	188,924	205,989	266,024	128,629	65,842	1,620,336
3,500	7,000	16,000	8,000	17,000	18,000	119,950
<u>\$ 135,165</u>	<u>\$ 230,924</u>	<u>\$ 256,989</u>	<u>\$ 309,024</u>	<u>\$ 180,629</u>	<u>\$ 118,842</u>	<u>\$ 2,135,645</u>

## **Prepared by the Department of Finance**

**Project Manger:** Monica B. Johnson, CPA, Manager of Accounting & Reporting

### **Special thanks to the following staff for their contributions to this effort:**

Janetta R. Griffin, Administrator of Revenue and User Support

Brandon J. Knittle, Manager of Debt & Treasury

Kenneth J. Duplay, CPA, Manager of Finance & Budget

James C. Ringenbach, Senior Accountant

Lutraila P. Hobbs, Cash & Investment Administrator

Robert Radd, Financial Analyst

Melissa Penning, Administrative Assistant

### **Other Department Contributors:**

John C. Gonzalez, Communications Specialist

Denis Zaharija, Senior Project Engineer



*Your Sewer District...*

**Keeping our  
Great Lake  
great.** 



**Northeast Ohio  
Regional Sewer District**

NORTHEAST OHIO REGIONAL SEWER DISTRICT  
3900 EUCLID AVENUE, CLEVELAND, OH 44115  
216.881.6600 • [neorsd.org](http://neorsd.org)