



Northeast Ohio Regional Sewer District

For the years ended December 2016 and 2015
A political subdivision of the State of Ohio

2016

Comprehensive Annual Financial Report





Northeast Ohio Regional Sewer District

- A** McMonagle 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

- Combined Sewer Area
- Separate Sewer Area

EASTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

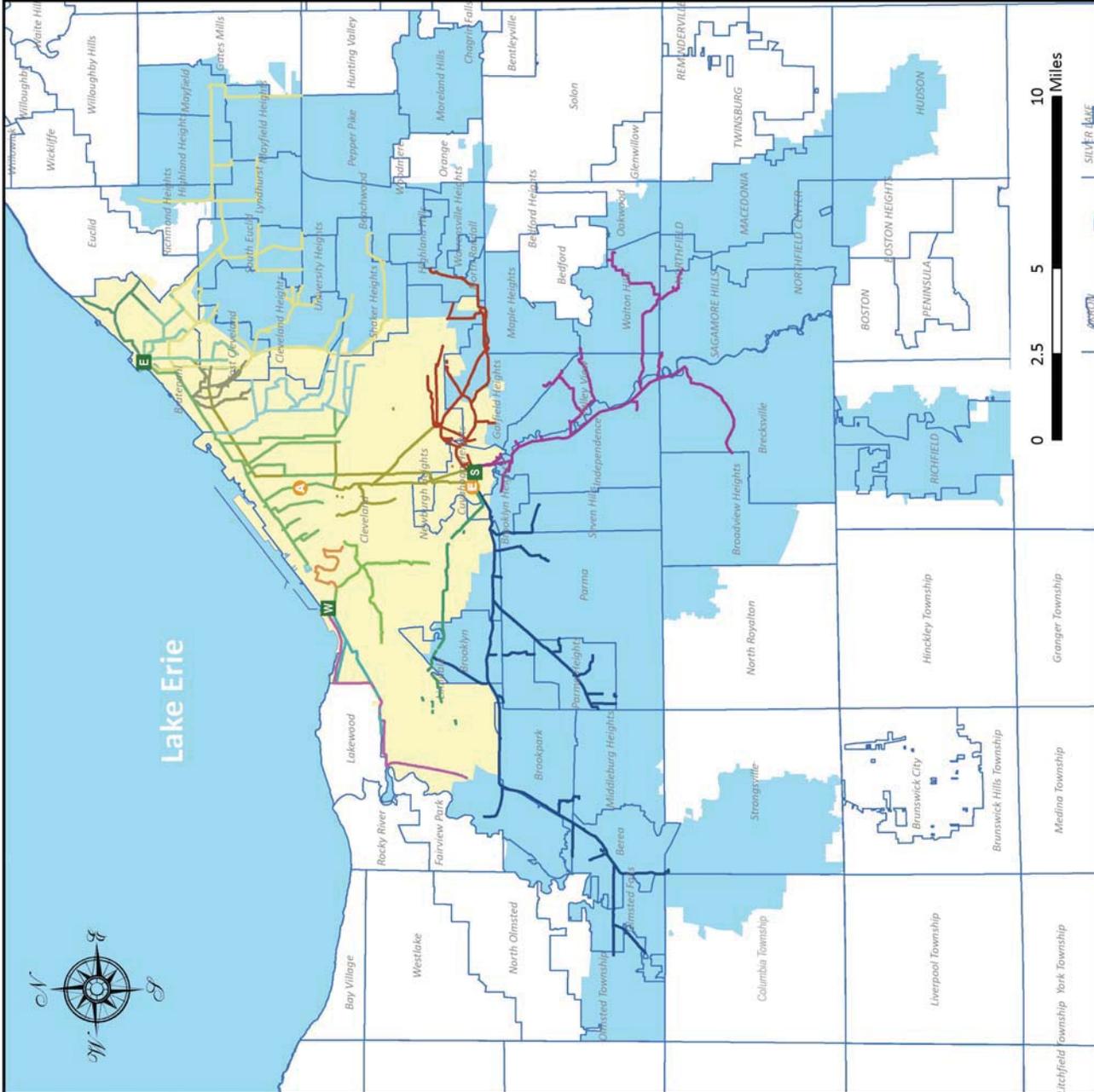
- E. 140th/E. 152nd-Ivanhoe Interceptors
- Easterly Interceptor
- Doan Valley Interceptor
- Dugway Interceptor
- Heights-Hilltop Interceptors & ICRS
- Lakeshore-Nottingham Interceptors

SOUTHERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

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

WESTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

- Low Level Interceptor
- Northwest Interceptor
- Walworth Run Interceptor
- Westerly Interceptor



Your Sewer District... **Keeping our Great Lake great.**

Northeast Ohio Regional Sewer District

A Political Subdivision of the State of Ohio

2016 Comprehensive Annual Financial Report
For the Years Ended December 31, 2016 and 2015

Prepared by the Department of Finance

Kenneth J. Duplay, CPA, CMA
Chief Financial Officer



NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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A photograph of two utility workers standing outdoors. They are wearing high-visibility yellow-green safety vests over dark blue shirts and matching hard hats. The worker on the left has a mustache and is pointing towards a white utility cabinet. The worker on the right has his arms crossed. The hard hat on the right has a blue label that says "HAMILTON". The hard hat on the left has a logo for "Northeast Ohio Regional Sewer District". The background shows a clear blue sky, power lines, and a utility pole with signs for "SPEED LIMIT 25" and "NO PARKING ANY TIME".

Introductory section





June 23, 2017

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 (GAAP) 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 years ended December 31, 2016 and 2015.

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 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. Because the cost of internal controls should not outweigh their benefits, the Northeast Ohio Regional Sewer District's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Northeast Ohio Regional Sewer District's financial statements have been audited by Ciuni and Panichi, Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Northeast Ohio Regional Sewer District for the fiscal years ended December 31, 2016 and 2015, 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 independent auditor concluded, based upon the audit, that there is reasonable basis for rendering an unmodified opinion that the Northeast Ohio Regional Sewer District's financial statements for the fiscal years ended December 31, 2016 and 2015 are fairly presented in conformity with GAAP. The Independent Auditor's 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 Auditor's 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 includes more than 350 square miles, 330 miles of sewers, and a 420-mile regional stormwater system. The District encompasses nearly all 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 near one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District manages stormwater and 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 Chief Executive Officer 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 Position – Budget to Actual on page 66 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 the District 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, the District's revenue is expected to remain relatively stable due to the 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 annual unemployment rate in 2016 (per the Bureau of Labor Statistics) for Cuyahoga County, which is significantly the same as the District's service area, was 5.4%. Cuyahoga County's unemployment rate was 0.4% higher than the rate of 5.0% for the State of Ohio and 0.7% higher than the national rate of 4.7%. Although the City of Cleveland and Cuyahoga County have experienced an outward migration of residents to neighboring suburbs and counties, the presence of corporate, cultural and entertainment facilities continue 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 20 years, of approximately \$3 billion in new Combined Sewer Overflow (CSO) controls and wastewater facility improvements.

The District maintains a long-range financing plan for its Operating and Capital budgets. The District's five-year financing plan for the capital budget provides for nearly \$1.4 billion in capital project expenditures from 2017 to 2021, primarily for improvements to our Southerly wastewater treatment plant and our CSO long-term control plan. This includes approximately \$109.4 million for the plants, \$1.0 billion for the CSO projects, \$146.5 million for the collection system improvements and \$99.9 million for miscellaneous District-wide improvements and minor capital purchases. 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 2016, the District completed a five-year, long-term financial and rate impact model for rates in effect from 2017-2021. The model incorporates specific year by year details to determine the sewer rates over the five-year rate period.

Debt Administration

At year-end, the District had bonded debt outstanding of \$1,038,030,000. The debt, including applicable bond premium costs and discounts, is \$1,097,642,854. The District has also obtained loans through the State of Ohio Water Pollution Control Loan Fund (WPCLF). As of December 31, 2016, the outstanding loan balance was \$490,848,795 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, would be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, were excluded from the District's statement of net position since the District had legally satisfied its obligations as a result of the refunding transactions. The final payment was made for this bond issue in November 2016 and is fully retired. 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, 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.

In 2013, the District issued \$249,535,000 Wastewater Improvement Revenue Bonds, Series 2013, 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.

In 2014, the District issued \$419,030,000 of Wastewater Improvement Revenue and Refunding Bonds, Series 2014. The Wastewater Improvement Revenue and Refunding Bonds, Series 2014 Bonds were comprised of \$350,570,000 (2014A) for new bonds and \$68,460,000 (2014B) to refund a portion of the 2007 Wastewater Improvement Revenue Bonds previously issued. The Wastewater Improvement Revenue and Refunding Bonds, Series 2014 were issued 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.

In 2016, the District issued \$25,015,00 of Wastewater Improvement Revenue Refunding Bonds, Series 2016. The Series 2016 Bonds were comprised of \$25,015,00 to refund a portion of the 2007 Wastewater Improvement Revenue Bonds previously issued. The Refunding Bonds, Series 2016 were issued to advance refund the outstanding Series 2007 Bonds and achieve uniform debt service savings. This information should be read in conjunction with Note 6 to the financial statements.

MAJOR INITIATIVES

For the Year

2016 Awards

During 2016, the District received awards for 2015 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 2015.

The Southerly, Easterly and Westerly Plants all earned Peak Performance Silver awards that recognizes facilities with no more than five violations per calendar year. Awards for 2016 performance have not been announced as of the date of this report.

During 2016, the Government Finance Officers Association of the United States and Canada (GFOA) presented the Distinguished Budget Presentation Award to the District for the tenth time for its 2016 Budget.

Business Opportunity Program

The Office of Contract Compliance was formed in 2008. After receiving the recommendations from the Disparity Study in 2010, the Business Opportunity Program (BOP) was created which allows Minority Business Enterprise (MBE), Women Business Enterprise (WBE) and Small Business Enterprise (SBE) goals to be placed on projects. The Office of Contract Compliance monitors payments, prevailing wages and provides outreach services for certified firms. The BOP is designed 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 District's procurement process enhances the competitive bidding process which helps deliver the greatest value. The District awarded over \$40 million worth of business to MBE/WBE/SBE to Construction and engineering firms in 2016. The payments to small firms were indirect or direct in the areas of goods, professional services, construction and engineering.

Supplier Registration

In November 2013, the Purchasing Department implemented the new Oracle eBusiness Suite which included Purchasing, Sourcing and the iSupplier online registration system. Suppliers will benefit from a more streamlined purchasing process that involves electronic communication. They will be able to view all purchase order activity for their company, provide quotes and see awarded quotes, create invoices and track payment status using iSupplier. The system tracks product and services provided by the registered supplier for future quoting opportunities and suppliers interested in participating in the Business Opportunity Program. The District currently has over 5,400 registered suppliers.

Human Resources Programs

The mission of the Human Resources (HR) Department is to contribute to the success of the District by creating an engaging and satisfying environment where our most valuable resource – our workforce – flourishes. In an effort to be nationally recognized for implementing HR strategies that promote the District as an Employer of Choice, we must deploy top-notch programs that:

- Enhance workforce effectiveness and proactively anticipate changing needs

- Enhance HR service delivery
- Maintain legal and organizational compliance
- Attract top talent through proactive and innovative recruitment strategies
- Embrace diversity and encourage inclusion

2016 program highlights/successes are as follows:

Enhance workforce effectiveness and proactively anticipate changing needs

- As of the close of 2016, the Oracle Learning Management System documented 3,825.75 hours of training delivered and 570 employees who completed various trainings across the district. The average number of training hours per employee that participated was 6.7.
- We launched a strategy called “learning at your fingertips” which resulted in the inaugural development and launch of eight computer-based training modules (CBT’s) on six (6) subjects of for maintenance trainees who work across our three plants.
- We encourage our employees to pursue life-long learning for professional and personal development through the Tuition Assistance Program. We see this as a mutually-beneficial recruitment and retention tool. Fifty-five (55) employees participated in 2016 where reimbursement totaled over \$284,000. Forty-seven (47) of these employees pursued graduate or undergraduate degrees.
- We increased our understanding of the chronic health conditions that impact our workforce and hosted wellness activities to promote a healthier workforce, 1,099 attendees participated in wellness activities spanning six (6) different events.
- In accordance with our Strategic and Operational Action Plan (SOAP), we successfully implemented a pay for performance process for over 400 non-union employees.

Enhance HR service delivery

- Through careful planning and increased scrutiny, we reduced healthcare costs by 2%. This savings was passed on to employees effective January 2017.
- Periodically we seek external validation of our compensation practices to confirm our wage competitiveness. It was confirmed in 2016 that our practices align with the job market.

Maintain legal and organizational compliance

- Due diligence is exercised to ensure compliance with policies, laws and collective bargaining agreements. Training was delivered on topics such as the coaching and continuous feedback, the disciplinary process, ethics and substance abuse to educate the workforce and maintain a positive and productive working environment.

Attract top talent through proactive and innovative recruitment strategies

- Our talent acquisition and workforce planning team deploys various strategies to attract top talent to the District. We realized a cost savings of approximately \$119,000 using internal expertise.
- Not only were 137 positions filled through the hiring and selection process, we streamlined the process which resulted in a reduced average time to fill from 45 days in 2015 to 37 days in 2016.

Embrace diversity and encourage inclusion

- The District's Diversity and Inclusion (D&I) Team continued to address the initiatives as set forth in the Diversity Strategic Plan – initiatives with both an internal and external focus.
 - Externally, the Business Opportunity Program (BOP) provides procurement opportunities to minority-owned, women-owned and small business enterprises.
 - Internally, we had 1,246 attendees participate in 57 D&I events. As well, three (3) new Employee Resource Groups (ERG) were launched – Women's ERG, Good Neighbor Ambassador ERG and Latino Professional Network, bringing the total number of ERGs to six (6).

Awards and recognition

Awards and recognition cultivate a culture of appreciation. The District's internal program awarded 15 employees and 19 teams for their contributions. In addition, two (2) employees received Annual Spirit Awards for consistently demonstrating professionalism and promoting a positive workplace environment. External awards and recognition for 2016 include:

- The Cleveland Plain Dealer Top Workplace Award
- Commission on Economic Inclusion
 - Best in Class Supplier Diversity
 - Hall of Fame (for multi-year Best-in-Class awards)
- Who's Who in Black Cleveland recognized three (3) employees
- Crain's Archer Awards for two (2) employees
- YWCA Woman of Professional Excellence
- HR Awards (sponsored by ERC and CSHRM)

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 National Pollution Discharge Elimination System (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.

Prior to the CSO LTCP, the District had already invested an estimated \$850 million and reduced CSO volumes by half – from 9 to 4.5 billion gallons since 1972. The District's CSO LTCP will further control CSOs reducing the number of overflows to four or less per year (three or less at priority CSOs) resulting in an estimated 98.0% capture of all wet weather flows and reducing CSO volumes to less than 500 million gallons in a typical year.

In 2017, the District commenced the construction of the Doan Valley Storage Tunnel, the third of seven large-scale tunnels to be constructed under the Consent Decree. The fourth large-scale tunnel, the Westerly Storage Tunnel and associated pump station, is scheduled for construction commencement in late 2017. This tunnel system when complete will have the capacity to store 36 million gallons of combined sewage for treatment at the District's Westerly Wastewater Treatment Plant controlling approximately 300 million gallons of CSO in a typical year. Additionally, the District continued to advance the construction of its second large-scale tunnel, the Dugway Storage Tunnel. This tunnel along

with previously completed Euclid Creek tunnel will have the capacity to store 117 million gallons of combined sewage for treatment at the District's Easterly Wastewater Treatment Plant controlling approximately 1 billion gallons of CSO in a typical year. Ultimately, the District will construct seven tunnels under its Consent Decree, 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 previously constructed Mill Creek Tunnel, a structure that has 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 other major CSO projects the District is advancing under its Consent Decree outside of the storage tunnels include the expansion of the Easterly WWTP secondary treatment capacity which will provide full treatment to an additional 700 million gallons of wet weather flow in a typical year when the improvements become fully operational in 2017. Additionally, design of a chemically enhanced high rate treatment (CEHRT) facility for treatment and disinfection of flows that exceed the capacity of the Easterly WWTP will be completed in 2017 and the District has commenced design of upgrades to the existing Westerly CSO Treatment Facility (CSOTF) with CEHRT and disinfection for further treatment of CSO 002, the third largest of the District's CSOs.

The District plan also includes a commitment to a minimum of \$42 million in green infrastructure projects to reduce a minimum of 44 million gallons of wet weather CSO flows beyond those captured by the tunnel systems. In total, nine (9) green infrastructure projects will be constructed. Many of the projects, which are required to be constructed by 2019, are fully operational or under construction. The last three (3) projects will commence construction in 2017.

Asset Management

Asset Management is the practice of managing the entire life cycle of assets with the objective of providing the best service while balancing acceptable risk and overall costs. Asset management principals have been incorporated into the District's capital and maintenance activities.

Capital Planning:

The District has been utilizing a risk-based, consistent method for validating and prioritizing its Engineering Capital Improvement Program for the past several years. Additionally, the District has collected data for all of its plant and collection system assets to understand each asset's condition, criticality, repair and/or replacement costs and estimated year of renewal. The District has used this data to forecast long-term asset-related expenditures by year for incorporation into the Capital Improvement Program planning process.

Maintenance Activities:

The District has developed and implemented Key Performance Indicator (KPI) metrics to measure operations and maintenance performance against desired targets/goals. KPIs allow the District to objectively improve cost accounting to the asset level, increase proactive/planned maintenance while reducing unplanned breakdowns, monitor work order backlog management, audit process sustainment and ultimately ensure that the right maintenance is performed in the right amounts, at the right time in order to maintain critical assets at the acceptable level of risk at minimum cost.

Regional Stormwater Management Program

The District's founding 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 over \$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 (the "Stormwater 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.

From 2010-2012, the Stormwater Program was in litigation in the Cuyahoga County Common Pleas Court over issues related to the District's "authority" to implement the program as an Ohio Revised Code 6119 entity, and "fee versus tax" issues related to the District's stormwater fee. The District prevailed in the litigation and began the Stormwater Program in January 2013.

The Stormwater Program is designed to address long-standing regional stormwater flooding, erosion and water quality issues resulting from the incremental increases in stormwater runoff from hard surfaces that make their way into storm sewers and streams. The fees collected from the Stormwater Program will be used to fund construction projects to solve regional stream flooding and erosion problems, for operation and maintenance activities to minimize the potential for flooding and erosion and for master planning studies to outline a long-term construction and maintenance program along regional streams. Twenty-five percent (25.0%) of cash collected from each municipality within the service area will be returned to the respective member community for funding of local stormwater management projects through the Community Cost Share program (CCS).

In July 2012, parties opposed to the District's Regional Stormwater Management Program filed an appeal to the 8th Appellate District to seek a halt to the Regional Stormwater Management Program. On September 26, 2013, the Appellate Court halted the District's Regional Stormwater Management Program by a 2 to 1 decision with a strong dissent. The District immediately suspended its program and placed all fees collected into an interest-bearing escrow account pending an appeal to the Supreme Court of Ohio. The District filed its notice of appeal in November 2013, and the Supreme Court accepted the case in February 2014. Oral arguments before the Supreme Court took place on September 9, 2014. In December 2015 the Ohio Supreme Court issued its final opinion that the District has the authority to implement the Regional Stormwater Management Program and collect the impervious surface fee. The District has restarted the Stormwater Program and resumed billing in July of 2016. The anticipated yearly estimated revenue from the Stormwater Program is over \$40 million.

Strategic and Operational Action Plan

In early 2016, Chief Executive Officer Julius Ciaccia, along with the Senior Staff, updated and revised the District's Strategic and Operational Action Plan to chart the organization's direction for the next three years. The Strategic and Operational and Plan covers 2016 through 2018.

Through a series of facilitated work sessions, the Senior Staff re-affirmed the District's: mission, vision statement and core values. The Strategic and Operational Action Plan was constructed around four quadrants: Systems; Business; Community; and Customers. All strategic goals were aligned to one of these four quadrants.

The Strategic and Operational Action Plan provides a navigational guide for the District through 2018. The continually changing environment in which the District operates will require annual review in order for the plan to remain timely and useful. With the implementation of the strategies in this plan there is every reason to believe that the District will understand and meet customer 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, 2015. This was the 21st 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.

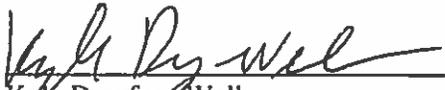
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Also, for the first time, the GFOA presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to the District for the fiscal year ended December 31, 2015. To receive this Outstanding Achievement Award, a government must publish an easily readable Popular Annual Financial Report meeting many qualifications.

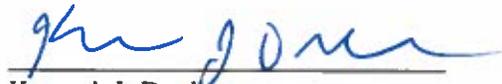
ACKNOWLEDGEMENTS

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,



Kyle Dreyfus-Wells
Chief Executive Officer



Kenneth J. Duplay
Chief Financial Officer

2015 Comprehensive Annual Financial Reporting Award



***2016 Government Finance Officers Association
Distinguished Budget Award***



**NORTHEAST OHIO REGIONAL SEWER DISTRICT
TABLE OF ORGANIZATION
DECEMBER 31, 2016**

BOARD OF TRUSTEES



Darnell Brown
Board President



Ronald D. Sulik
Vice President



Walter O'Malley
Secretary



Mayor Jack Bacci



Mayor Timothy DeGeeter



Sharon A. Dumas



Mayor Robert A. Stefanik

OFFICERS



Julius Ciaccia
Chief Executive Officer



Jennifer L. Demmerle
Chief Financial Officer
45 employees



Kellie C. Rotunno
Chief Operating Officer
528 employees



Eric Luckage
Chief Legal Officer
10 employees

DIRECTORS



James Bunsey
Director of Engineering and
Construction
67 employees



Angela Smith
Director of Human
Resources
30 employees



Francis P. Greenland
Director of Watershed
Programs
94 employees



Constance T. Haqq
Director of Administration
and External Affairs
33 employees



Chandrasekhar Yadati
Director of Information
Technology
24 employees



Raymond Weeden
Director of Operations and
Maintenance
437 employees



Financial section



Independent Auditor's Report

Board of Trustees
Northeast Ohio Regional Sewer District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Northeast Ohio Regional Sewer District (the "District"), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2016 and 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16 and the schedules of the District's proportionate share of the net pension asset (liability) and schedules of the District's contributions on pages 62 through 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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 assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, budgetary comparison information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Board of Trustees
Northeast Ohio Regional Sewer District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 23, 2017

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NORTHEASTOHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

The following discussion provides a summary overview of the financial activities of the Northeast Ohio Regional Sewer District (the "District") for the years ended December 31, 2016 and 2015. This information should be read in conjunction with the letter of transmittal and basic financial statements included in this report.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,426,355,542.
- Net position increased by \$68,449,357.
- Net investment in capital assets increased by \$204,014,548.
- Unrestricted net position decreased by \$135,565,191.
- Retirements of debt principal were \$76,369,115.
- Operating revenues, net increased by \$32,606,678.
- Operating expenses increased by \$23,533,604.

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 position, the statements of revenues, expenses and changes in net position, the statements of cash flow and the accompanying notes to the basic 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 position present the District's financial position and report the resources owned by the District (assets and deferred outflows of resources) and obligations owed by the District (liabilities and deferred inflows of resources) and District net position (the difference between assets, and deferred outflows of resources, and liabilities and deferred inflows of resources). The statements of revenues, expenses and changes in net position present a summary of how the District's net position changed during the year. Revenues are 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. It summarizes net changes in cash resulting from operating, investing and financing activities. The notes to the basic 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 2016 and 2015 and 2014, respectively. Certain amounts may vary slightly due to differences caused by rounding to thousands.

NORTHEASTOHIO REGIONAL SEWER DISTRICT
Management's Discussion and Analysis

Condensed Statements of Net Position
December 31,
(In Thousands)

	2016	2015	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 452,073	\$ 530,427	\$ (78,354)	(14.8%)
Capital Assets, Net	2,517,872	2,367,996	149,876	6.3%
Other Noncurrent Assets	137,102	161,390	(24,288)	(15.0%)
Total Assets	3,107,047	3,059,813	47,234	1.5%
<u>Deferred Outflows of Resources</u>				
Pension	22,394	8,988	13,406	149.2%
Deferred Charge on Refunding	-	53	(53)	(100.0%)
Total Deferred Outflows of Resources	22,394	9,041	13,353	147.7%
Total Assets and Deferred Outflows of Resources	3,129,441	3,068,854	60,587	2.0%
<u>Liabilities</u>				
Current Liabilities	103,799	103,588	211	0.2%
Long-Term Debt	1,537,926	1,564,757	(26,831)	(1.7%)
Net Pension Liability	58,226	40,528	17,698	43.7%
Other Long-Term Liabilities	1,400	1,300	100	7.7%
Total Liabilities	1,701,351	1,710,173	(8,822)	(0.5%)
<u>Deferred Inflows of Resources</u>				
Pension	1,734	775	959	123.7%
<u>Net Position</u>				
Net Investment in Capital Assets	990,665	786,650	204,015	25.9%
Unrestricted	435,691	571,256	(135,565)	(23.7%)
Total Net Position	\$ 1,426,356	\$ 1,357,906	\$ 68,450	5.0%

The District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

NORTHEASTOHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Condensed Statements of Net Position December 31, (continued) (In Thousands)

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefit

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. In addition, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,426,355,542 as of December 31, 2016, of which \$990,664,879 is for net investment in capital assets.

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

NORTHEASTOHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

During 2016, net position increased by \$68,449,357. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$11,327,099 due to the increase in sewer rates and an increase in billed consumption. In July 2016, the District resumed billing for Stormwater Program resulting in an increase of \$13,995,179 in stormwater service fees.
- Capital assets increased by \$149,876,473 due mainly to construction in progress and additions to the wastewater treatment and conveyance systems.
- Total debt increased by new debt incurred in the amount of \$71,612,493. Additions of \$25,015,000 were for 2016 wastewater revenue refunding bonds, \$28,899,633 were for WPCLF and \$17,697,860 for net pension liability – OPERS. The reductions of \$76,369,115 were for the repayment of debt principal on revenue bonds and WPCLF.
- The District's net pension liability and deferred inflows of resources related to pension increased \$17,697,860 and \$958,782, respectively; however, these increases were offset by increases to deferred outflows of resources related to pension of \$13,405,975 and in net pension asset of \$52,341.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2015.

Condensed Statements of Net Position December 31, (continued) (In Thousands)

	2015	2014	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 530,427	\$ 737,809	\$ (207,382)	(28.1%)
Capital Assets, Net	2,367,996	2,208,571	159,425	7.2%
Other Noncurrent Assets	161,390	77,513	83,877	108.2%
Total Assets	3,059,813	3,023,893	35,920	1.2%
<u>Deferred Outflows of Resources</u>				
Pension	8,988	5,881	3,107	52.8%
Deferred Charge on Refunding	53	139	(86)	(61.9%)
Total Deferred Outflows of Resources	9,041	6,020	3,021	50.2%
Total Assets and Deferred Outflows of Resources	3,068,854	3,029,913	38,941	1.3%
<u>Liabilities</u>				
Current Liabilities	103,588	122,078	(18,490)	(15.1%)
Long-Term Debt	1,564,757	1,561,574	3,183	0.2%
Net Pension Liability	40,528	39,557	971	2.5%
Other Long-Term Liabilities	1,300	3,300	(2,000)	(60.6%)
Total Liabilities	1,710,173	1,726,509	(16,336)	(0.9%)
<u>Deferred Inflows of Resources</u>				
Pension	775	-	775	100.0%
<u>Net Position</u>				
Net Investment in Capital Assets	786,650	1,018,734	(232,084)	(22.8%)
Unrestricted	571,256	284,670	286,586	100.7%
Total Net Position	\$ 1,357,906	\$ 1,303,404	\$ 54,502	4.2%

NORTHEASTOHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

The District's assets and deferred outflows of resources exceeded liabilities by \$1,357,906,185 as of December 31, 2015, of which \$786,650,331 is for net investment in capital assets.

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

During 2015, net position increased by \$54,502,371. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$4,811,202.
- Receivables from Federal and State agencies increased by \$5,172,013.
- Long-term investments decreased by \$77,157,703.
- Capital assets increased by \$159,424,632 due mainly to construction in progress and additions to the wastewater treatment and conveyance systems.
- Total debt increased by new debt incurred in the amount of \$65,992,732. Additions of \$65,077,333 were for WPCLF and \$915,399 for net pension liability – OPERS. The reductions of \$46,084,980 were for the repayment of debt principal on revenue bonds and WPCLF.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016.

Condensed Statements of Revenues, Expenses and Changes in Net Position For the Year Ended December 31, (In Thousands)

	2016	2015	Change	
			Amount	%
<u>Operating Revenues, Net</u>				
Sewer and Stormwater Service Fees:				
Billing Agents				
City of Cleveland	\$ 275,276	\$ 242,171	\$ 33,105	13.7%
Other Billing Agents	17,053	15,824	1,229	7.8%
Total Billing Agents	292,329	257,995	34,334	13.3%
Direct Billed Sewer and Stormwater Service Fees	18,736	17,007	1,729	10.2%
Total Sewer and Stormwater Service Fees	311,065	275,002	36,063	13.1%
Other Operating Revenue:				
Septic Tank and Municipal Sludge Fees	608	501	107	21.4%
Miscellaneous	1,364	4,927	(3,563)	(72.3%)
Total Other Operating Revenue	1,972	5,428	(3,456)	(63.7%)
Total Operating Revenues, Net	313,037	280,430	32,607	11.6%
<u>Non-Operating Revenues</u>				
Interest Revenue	2,902	2,526	376	14.9%
Proceeds from Insurance Claim	65	-	65	100.0%
Federal Subsidy Revenue	6,466	6,469	(3)	(0.0%)
Non-Operating Grant Revenue	223	1,383	(1,160)	(83.9%)
Increase (Decrease) in Fair Value of Investments, Net	495	(1,173)	1,668	142.2%
Total Non-Operating Revenues	10,151	9,205	946	10.3%
Total Revenues	\$ 323,188	\$ 289,635	\$ 33,553	11.6%

NORTHEASTOHIO REGIONAL SEWER DISTRICT
Management's Discussion and Analysis

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, (continued)
(In Thousands)

	2016	2015	Change	
			Amount	%
<u>Operating Expenses</u>				
Salaries and Wages	\$ 50,469	\$ 47,918	\$ 2,551	5.3%
Fringe Benefits	22,578	14,563	8,015	55.0%
Utilities	14,188	16,284	(2,096)	(12.9%)
Professional and Contractual Services	34,360	21,988	12,372	56.3%
Other	2,638	3,726	(1,088)	(29.2%)
Depreciation	66,606	62,826	3,780	6.0%
Total Operating Expenses	190,839	167,305	23,534	14.1%
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	60,318	62,617	(2,299)	(3.7%)
Non-Operating Grant Expenses	188	708	(520)	(73.4%)
Stormwater Community Cost Share Disbursement	72	-	72	100.0%
Loss on Disposals of Equipment	3,320	4,323	(1,003)	(23.2%)
Total Non-Operating Expenses	63,898	67,648	(3,750)	(5.5%)
Total Expenses	254,737	234,953	19,784	8.4%
Income Before Extraordinary Item	68,451	54,682	13,769	25.2%
Loss - Information Technology Fire	(1)	(180)	179	(99.4%)
Change in Net Position	68,450	54,502	13,948	25.6%
Net Position at Beginning of Year	1,357,906	1,303,404	54,502	4.2%
Net Position at End of Year	\$ 1,426,356	\$ 1,357,906	\$ 68,450	5.04%

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2016 statements report pension expense of \$8,917,575. Consequently, in order to compare 2016 total program expenses to 2015, the following adjustments are needed:

	District's Operating Activities (In Thousands)
Total 2016 operating expenses under GASB 68	\$ 190,839
Pension expense under GASB 68	(8,918)
2016 contractually required contribution	6,484
Adjusted 2016 operating expenses	188,405
Total 2015 operating expenses under GASB 27	167,305
Increase in operating expenses not related to pension	\$ 21,100

NORTHEASTOHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Operating revenues, net consist mainly of user charges for sewage and stormwater service fees. Sewage service fees are based on water consumption and stormwater service fees are based on the square footage of impervious surface area on a parcel of land. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2016:

- Operating revenues increased by \$32,606,678 (11.6%) compared to 2015. The increase was due to higher sewer billing rates in 2016, coupled with a lower decrease than expected in budgeted billed water consumption. Another important factor that increased operating revenues in 2016 is the restart of billing in July 2016 for Stormwater Program, which generated an increase of \$5.5 million compared to stormwater revenue recognized in 2015.
- Non-operating revenues increased by \$944,270 (10.3%). Non-operating revenues consist of interest revenue, the change in fair value of investments, grant revenue, proceeds on insurance claims and Federal subsidy revenue. Interest revenue increased by \$375,711 (14.9%) due to an increase in investments. The fair value of investments for 2016 increased by \$1,667,854 (142.2 %). Non-operating grant revenue decreased by \$1,160,422 (83.8%) due to the decrease of funds received for Water Resource Sponsorship Programs. Federal subsidy revenue decreased by \$3,470 (0.1%).
- Operating expenses increased \$23,533,604 (14.1%) compared to 2015. Main components of operating expenses are as follows:
 - Salary and wages increased \$2,550,594 (5.3%) due to new positions for both the wastewater and stormwater programs and general salary increases.
 - Fringe benefits increased \$8,015,417 (55.0%) due to increase in healthcare and short-term disability claims, increased OPERs and medical expenses.
 - Utilities decreased \$2,096,609 (12.9%) mainly due to decreases in power cost by \$1,419,989 (11.8%) and gas by \$503,815 (27.8%) due to climatic weather uses experienced in 2016.
 - Professional and contractual services increased \$12,371,450 (56.3%) due to the Sewer Service Evaluation Study Project (SSES).
 - Other Expenses decreased due the net effect of the changes of its subcategory expenses: Communications decreased by \$265,038 (18.7%), Chemicals decreased \$474,871 (16.6%), License and Fees decreased \$253,860 (76.6%), Community Outreach and Education decreased \$204,894 (24.9%), and Repairs and Maintenance decreased \$864,302 (27.4%). These decreases were offset by the increases in following other expenses: Solid handling waste removal increased \$592,657 (50.6%). Judgments and Awards increased \$35,508 (285.3%) due to an increase in litigation costs, \$1,144,090 (20.2%) in Materials and Supplies, \$67,703 (91.0%) in Reimbursable Expenses and \$1,314,538 (15.0%) in Capitalized Payroll.
- Non-operating expenses decreased \$3,751,231 (5.5%). Losses on equipment disposals decreased \$1,004,496 (23.2%) due to decreases in disposals of obsolete equipment in 2016. Non-operating grant expense decreased \$519,741 (73.5%). Interest expense decreased by \$2,299,184 (3.7%).

The following table on the next page summarizes the changes in revenues and expenses for the District between 2015 and 2014.

NORTHEASTOHIO REGIONAL SEWER DISTRICT
Management's Discussion and Analysis

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, (continued)
(In Thousands)

	2015	2014	Change	
			Amount	%
<u>Operating Revenues, Net</u>				
Sewer and Stormwater Service Fees				
Billing Agents				
City of Cleveland	\$ 242,171	\$ 206,720	\$ 35,451	17.1%
Other Billing Agents	15,824	13,901	1,923	13.8%
Total Billing Agents	257,995	220,621	37,374	16.9%
Direct Billed Sewer and Stormwater Service Fees	17,007	17,686	(679)	(3.8%)
Total Sewer and Stormwater Service Fees	275,002	238,307	36,695	15.4%
Other Operating Revenue				
Septic Tank and Municipal Sludge Fees	501	452	49	10.8%
Miscellaneous	4,927	426	4,501	1056.6%
Total Other Operating Revenue	5,428	878	4,550	518.2%
Total Operating Revenues, Net	280,430	239,185	41,245	17.2%
<u>Non-Operating Revenues</u>				
Interest Revenue	2,526	994	1,532	154.1%
Federal Subsidy Revenue	6,469	6,438	31	0.5%
Non-Operating Grant Revenue	1,383	1,304	79	6.1%
(Decrease) Increase in Fair Value of Investments, Net	(1,173)	296	(1,469)	496.3%
Total Non-Operating Revenues	9,205	9,032	173	1.9%
Total Revenues	289,635	248,217	41,418	16.7%
<u>Operating Expenses</u>				
Salaries and Wages	47,918	46,227	1,691	3.7%
Fringe Benefits	14,563	14,611	(48)	(0.3%)
Utilities	16,284	15,267	1,017	6.7%
Professional and Contractual Services	21,988	22,286	(298)	(1.3%)
Other	3,726	3,807	(81)	(2.1%)
Depreciation	62,826	57,172	5,654	9.9%
Total Operating Expenses	167,305	159,370	7,935	4.98%
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	62,617	59,923	2,694	4.5%
Non-Operating Grant Expenses	708	4,259	(3,551)	(83.4%)
Loss on Disposals of Equipment	4,323	3,913	410	10.5%
Total Non-Operating Expenses	67,648	68,095	(447)	(0.7%)
Total Expenses	234,953	227,465	7,488	3.3%
Income Before Extraordinary Item	54,682	20,752	33,930	163.5%
Loss - Information Technology Fire	(180)	-	(180)	(100.0%)
Change in Net Position	54,502	20,752	33,750	162.6%
Net Position at Beginning of Year - Restated (See Note 3)	1,303,404	N/A	N/A	N/A
Net Position at End of Year	\$ 1,357,906	\$ 1,303,404	N/A	N/A

NORTHEASTOHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 operating expenses still include pension expense of \$5,880,630 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$4,534,955. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	District's Operating Activities (In Thousands)
Total 2015 operating expenses under GASB 68	\$ 167,305
Pension expense under GASB 68	(4,535)
2015 contractually required contribution	6,205
Adjusted 2015 operating expenses	168,975
Total 2014 operating expenses under GASB 27	159,370
Increase in operating expenses not related to pension	\$ 9,605

Operating revenues consist mainly of user charges for sewage and stormwater service fees. Sewage service fees are based on water consumption and stormwater service fees are based on the square footage of impervious surface area on a parcel of land. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2015:

- Operating revenues increased by \$41,244,758 (17.2%) compared to 2014. The increase was due to higher sewer billing rates in 2015, coupled with a lower decrease than expected in budgeted billed water consumption. Another important factor that increased operating revenues in 2015 is the ruling of the Ohio Supreme Court in favor of the District to manage stormwater and to impose a fee for this purpose (see *Northeast Ohio Regional Sewer Dist. v. Bath Twp.*, Slip Opinion No. 2015-Ohio-3705). With this litigation resolved, the District has restarted its Regional Stormwater Management Program and the funds held in escrow have been released to the District. Therefore, the Stormwater liability was removed from the books and the revenue of \$20,744,529 collected during 2013, the initial year of the Stormwater Management Program, was recognized as of December 31, 2015.
- Non-operating revenues increased by \$174,018 (1.9%). Non-operating revenues consist of interest revenue, the change in fair value of investments, grant revenue and Federal subsidy revenue. Interest revenue increased by \$1,532,489 (154.1%) due to an increase in investments. The fair value of investments for 2015 decreased by \$1,469,021 (496.3 %). Non-operating grant revenue increased by \$79,314 (6.1%) due to the increase of funds received for Water Resource Sponsorship Programs. Federal subsidy revenue increased by \$31,236 (0.5%).
- Operating expenses increased \$7,935,044 (4.9%) compared to 2014. Main components of operating expenses are as follows:
 - Salary and wages increased \$1,691,705 (3.7%).
 - Fringe benefits decreased \$47,834 (0.3%).
 - Utilities increased \$1,016,605 (6.7%) due to an increase in power cost.

NORTHEASTOHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

- Other Expenses decreased due the net effect of the changes of its subcategory expenses: Solid handling waste removal decreased \$1,145,348 (49.5%). Judgments and Awards decreased \$390,559 (96.9%) due to a decrease in litigation costs, Chemicals decreased \$287,034 (9.1%), and Repairs and Maintenance decreased \$156,495 (4.7%). These decreases were offset by the increases in following other expenses: \$794,481 (16.3%) in Materials and Supplies, \$6,820 (1.0%) in Reimbursable Expenses and \$633,454 (6.8%) in Capitalized Payroll.
- Non-operating expenses decreased \$446,556 (0.7%). Losses on equipment disposals increased \$410,719 (10.5%) due to increases in disposals of obsolete equipment in 2015. Non-operating grant expense decreased \$3,551,592 (83.4%). Interest expense increased by \$2,694,317 (4.5%).

Capital Assets

At the end of 2016, the District invested \$2,517,872,374 in net capital assets. This amount represents a net increase of approximately \$150 million, or 6.3% over 2015. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

Capital Assets at December 31, 2016 and 2015 (Net of Depreciation, in Thousands)

	2016	2015	Change	
			Amount	%
Land	\$ 22,896	\$ 20,024	\$ 2,872	14.3%
Construction in Progress	632,850	586,146	46,704	8.0%
Interceptor Sewer Lines	1,002,867	980,720	22,147	2.3%
Buildings, Structures and Improvements and Equipment	532,147	458,264	73,883	16.1%
Sewage Treatment and Other Equipment	322,344	317,891	4,453	1.4%
Right to Use-Intangible	4,768	4,951	(183)	(3.7%)
Total	\$ 2,517,872	\$ 2,367,996	\$ 149,876	6.3%

	Amount
Major Additions Placed into Service in 2016, at Cost Included:	
Easterly Sustained Secondary Capacity Improvements	\$ 76,388
Dugway West Interceptor Relief Sewer (Remaining Introductions)	23,174
Southerly MACT Compliance and Operations Improvements	17,694
Euclid Creek Pump Station Relief Sewer	12,973
Easterly Chemical Storage & Feed Facility (Building)	6,948
Fairhill MLK Green Infrastructure	5,770
Southerly First Stage Settling Improvements (Grease Building)	3,798
Chevrolet Boulevard Detention Basin	2,895
Fairmount Boulevard Relief Sewer	2,539
District LED Light Upgrade	1,954
Easterly Primary Settling Tanks #9-12 Rehabilitations	1,627
	\$ 155,760

NORTHEASTOHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Capital Assets

At the end of 2015, the District invested \$2,367,995,901 in net capital assets. This amount represents a net increase of approximately \$160 million, or 7.2% over 2014. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

Capital Assets at December 31, 2015 and 2014 (Net of Depreciation, in Thousands)

	2015	2014	Change	
			Amount	%
Land	\$ 20,024	\$ 15,238	\$ 4,786	31.4%
Construction in Progress	586,146	561,436	24,710	4.4%
Interceptor Sewer Lines	980,720	945,578	35,142	3.7%
Buildings, Structures and Improvements and Equipment	458,264	406,407	51,857	12.8%
Sewage Treatment and Other Equipment	317,891	274,777	43,114	15.7%
Right to Use-Intangible	4,951	5,135	(184)	(3.6%)
Total	\$ 2,367,996	\$ 2,208,571	\$ 159,425	7.2%

	Amount
Major Additions Placed into Service in 2015, at Cost Included:	
Southerly Primary Settling Tanks	\$ 47,653
Dugway West Interceptor Relief Sewer (Partially Introduced)	42,652
Easterly Facility Plan Aeration Grit Improvements	38,982
Westerly/Easterly Electrical Improvements	13,702
Southerly Gravity Thickener Improvements	10,529
Westerly Centrifuge Upgrade	5,794
Southerly Second Stage Return Sludge Pump Station Improvements	5,052
Easterly Primary Settling Tank Rehabilitation	3,457
EMSC Energy Conservation & Management	2,495
Superior Stones Canal CSO Improvements	2,215
	\$ 172,531

Debt Administration

At December 31, 2016, the District had total debt outstanding of \$1,588,491,649. This represents a decrease of \$29,344,564 for total debt due to retirement of debt compared to 2015. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund decreased \$6,939,482; total debt retirements were \$76,369,115. The carrying value of the long-term portion of debt at December 31, 2016 was \$1,537,925,632 and the fair value of the long-term debt was \$1,731,520,769.

At December 31, 2015, the District had total debt outstanding of \$1,617,836,213. This represents an increase of \$11,480,828 for total debt due to retirement of debt compared to 2014. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$28,242,352; total debt retirements were \$46,084,980. The carrying value of the long-term portion of debt at December 31, 2015 was \$1,564,756,988 and the fair value of the long-term debt was \$2,020,799,339.

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Management’s Discussion and Analysis

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)

	2016	2015	2014
Revenue Bonds	\$ 1,097,643	\$ 1,120,058	\$ 1,136,819
Water Pollution Loans Payable	490,849	497,778	469,536
Total Debt	\$ 1,588,492	\$ 1,617,836	\$ 1,606,355

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, 2016, rates charged to District customers increased 12.1% to \$78.05 per mcf for City of Cleveland customers, and 11.3% to \$79.85 per mcf for the suburban customers. Also, effective January 1, 2016, the fixed fee was increased to \$7.20 per quarter for all customers. Effective January 1, 2015, rates charged to District customers increased 12.1% to \$69.65 per mcf for City of Cleveland customers, and 11.2% to \$71.75 per mcf for the suburban customers. Also, effective January 1, 2015, the fixed fee was increased to \$6.90 per quarter for all customers. Effective January 1, 2014, rates charged to District customers increased 12.1% to \$62.15 per mcf for City of Cleveland customers, and 11.0% to \$64.55 per mcf for the suburban customers. Effective January 1, 2014, the fixed fee was increased to \$6.60 per quarter for all customers. In August 2016, the Board of Trustees approved rate increases scheduled for the years 2017 through 2021. Effective January 1, 2017, rates charged to customers will increase approximately 8.3% for customers in the City of Cleveland and for the suburban customers. In addition to the current volumetric discount rates for the Homestead Program and affordability programs, the District has expanded the discount by applying it to the Fixed Cost Recovery Charge starting in 2017.

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 Chief Financial Officer, Northeast Ohio Regional Sewer District, 3900 Euclid Avenue, Cleveland, Ohio 44115, by telephone at (216) 881-6600, or at www.neorsd.org.



NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Position

December 31, 2016 and 2015

	Assets	
	2016	2015
Current Assets:		
Cash	\$ 10,925,322	\$ 1,301,077
Stormwater Cash	21,884,150	20,940,156
Bond Proceeds Cash	-	691,122
Bond Proceeds Investments	40,066,793	220,476,597
Short-Term Investments	223,254,924	153,442,016
Sewage Service Fees Receivable, Less Allowance for Doubtful Accounts of \$25,500,000 in 2016 and \$23,100,000 in 2015	120,986,879	109,548,808
Stormwater Service Fees Receivable, Less Allowance for Doubtful Accounts of \$623,000 in 2016	13,884,207	-
Receivables from Federal, State and Other Agencies	13,332,664	16,425,975
Inventory, Prepaid Expenses and Other	7,737,479	7,601,498
Total Current Assets	452,072,418	530,427,249
Noncurrent Assets:		
Capital Assets:		
Interceptor Sewer Lines	1,269,612,727	1,230,471,470
Buildings, Structures and Improvements and Equipment	1,011,058,624	914,939,632
Sewage Treatment and Other Equipment	572,374,578	558,188,055
Right to Use - Intangible	5,505,574	5,505,574
	2,858,551,503	2,709,104,731
Less: Accumulated Depreciation	(996,425,841)	(947,278,381)
	1,862,125,662	1,761,826,350
Land	22,896,345	20,024,113
Construction in Progress	632,850,367	586,145,438
Net Capital Assets	2,517,872,374	2,367,995,901
Long-Term Investments	109,099,783	125,384,438
Revenue Bond Debt Service Deposit	27,743,677	35,799,521
Net Pension Asset	258,537	206,196
Total Noncurrent Assets	2,654,974,371	2,529,386,056
Total Assets	3,107,046,789	3,059,813,305
Deferred Outflows of Resources:		
Pension	22,393,673	8,987,698
Deferred Charge on Bond Refunding	-	53,380
Total Deferred Outflows of Resources	22,393,673	9,041,078
Total Assets and Deferred Outflows of Resources	\$ 3,129,440,462	\$ 3,068,854,383

Continued

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Position (Continued)

December 31, 2016 and 2015

Liabilities and Net Position

	<u>2016</u>	<u>2015</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 8,783,147	\$ 5,631,617
Construction Contracts and Retainages Payable	24,260,341	21,916,828
Accrued Interest Payable	13,181,147	14,147,555
Other Accrued Liabilities	7,008,822	8,812,813
Current Maturities of Long-Term Debt	<u>50,566,017</u>	<u>53,079,225</u>
Total Current Liabilities	<u>103,799,474</u>	<u>103,588,038</u>
Noncurrent Liabilities:		
Long-Term Debt	1,537,925,632	1,564,756,988
Net Pension Liability	58,226,111	40,528,251
Other Accrued Long-Term Liabilities	<u>1,400,000</u>	<u>1,300,000</u>
Total Noncurrent Liabilities	<u>1,597,551,743</u>	<u>1,606,585,239</u>
Total Liabilities	<u>1,701,351,217</u>	<u>1,710,173,277</u>
Deferred Inflows of Resources:		
Pension	<u>1,733,703</u>	<u>774,921</u>
Net Position:		
Net Investment in Capital Assets	990,664,879	786,650,331
Unrestricted	<u>435,690,663</u>	<u>571,255,854</u>
Total Net Position	<u>\$ 1,426,355,542</u>	<u>\$ 1,357,906,185</u>

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues - Sewage:		
Billing Agents	\$ 266,840,893	\$ 237,570,432
Direct Billed	17,970,171	16,684,685
Other	1,972,379	5,428,088
Total Operating Revenues - Sewage	286,783,443	259,683,205
Operating Revenues - Stormwater:		
Billing Agents	25,487,614	20,424,261
Direct Billed	765,778	322,691
Total Operating Revenues - Stormwater	26,253,392	20,746,952
Total District's Operating Revenues, Net	313,036,835	280,430,157
Operating Expenses - Sewage:		
Salaries and Wages	49,878,369	47,918,213
Fringe Benefits	22,495,670	14,563,011
Utilities	14,187,719	16,284,328
Professional and Contractual Services	29,842,682	21,988,568
Other	2,587,719	3,725,796
Depreciation	66,605,940	62,825,528
Total Operating Expenses - Sewage	185,598,099	167,305,444
Operating Expenses - Stormwater:		
Salaries and Wages	590,438	-
Fringe Benefits	82,758	-
Professional and Contractual Services	4,517,336	-
Other	50,417	-
Total Operating Expenses - Stormwater	5,240,949	-
Total District's Operating Expenses	190,839,048	167,305,444
Operating Income	122,197,787	113,124,713
Non-Operating Revenues (Expenses):		
Interest Revenue	2,901,760	2,526,049
Increase (Decrease) in Fair Value of Investments, Net	494,661	(1,173,193)
Non-Operating Grant Revenue	223,125	1,383,547
Non-Operating Grant Expenses	(187,668)	(707,409)
Proceeds on Insurance Claims	64,597	-
Stormwater Community Cost Share Disbursement	(72,190)	-
Loss on Disposals of Equipment	(3,319,289)	(4,323,785)
Interest Expense on Long-Term Debt	(60,317,727)	(62,616,911)
Federal Subsidy Revenue	6,465,915	6,469,385
Total Non-Operating Revenues (Expenses), Net	(53,746,816)	(58,442,317)
Income Before Loss in Extraordinary Event	68,450,971	54,682,396
Loss - Information Technology Fire	(1,614)	(180,025)
Change in Net Position	68,449,357	54,502,371
Net Position at Beginning of Year	1,357,906,185	1,303,403,814
Net Position at End of Year	\$ 1,426,355,542	\$ 1,357,906,185

Continued

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flow

For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Cash Received From Customers	\$ 287,714,557	\$ 254,673,997
Cash Payments to Suppliers for Goods and Services	(47,841,519)	(42,875,823)
Cash Payments to Employees for Services	(70,753,895)	(62,870,467)
Net Cash Provided by Operating Activities	169,119,143	148,927,707
Cash Flows From Investing Activities		
Purchases of Investments	(481,172,918)	(776,007,742)
Proceeds from Maturities of Investments	616,547,678	377,861,088
Interest on Investments	2,959,053	1,998,527
Net Cash Provided (Used) by Investing Activities	138,333,813	(396,148,127)
Cash Flows From Non-Capital Financing Activities		
Grant Payments	(2,064,637)	(5,321)
Grants Received	484,143	61,398
Net Cash (Used) Provided by Non-Capital Financing Activities	(1,580,494)	56,077
Cash Flows From Capital and Related Financing Activities		
Principal Payments on Long-Term Debt	(52,669,115)	(46,084,980)
Interest Payments on Long-Term Debt	(47,922,782)	(68,117,626)
Proceeds from Issuance of Series 2016 Refunding Bonds	25,015,000	-
Defeasance of Series of 2007 Bonds	(23,700,000)	-
Bond Issuance Costs on Refunding	(184,250)	-
Underwriter Discount Fees	(167,031)	-
Defeasance of Premium	(476,769)	-
Defeasance of Accrued Interest	(456,963)	-
Proceeds from Water Pollution Control Loans	22,094,899	65,347,300
Proceeds on Insurance Claims	64,597	-
Proceeds of Sale on Capital Assets	134,899	50,599
Acquisition and Construction of Capital Assets	(217,727,830)	(235,204,582)
Net Cash Used by Capital and Related Financing Activities	(295,995,345)	(284,009,289)
Net Increase (Decrease) in Cash, Stormwater Cash and Bond Proceeds Cash	9,877,117	(531,173,632)
Cash at Beginning of Year	1,301,077	145,928,422
Stormwater Cash at Beginning of Year	20,940,156	20,944,958
Bond Proceeds Cash at Beginning of Year	691,122	387,232,607
Cash at End of Year	\$ 32,809,472	\$ 22,932,355

Continued

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Statements of Cash Flow (Continued)
For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Operating Income to Cash Provided By Operating Activities:		
Operating Income	\$ 122,197,787	\$ 113,124,713
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	66,605,940	62,825,528
Allowance for Doubtful Accounts	3,023,000	900,000
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(28,345,278)	(5,711,202)
Stormwater Liability	-	(20,944,958)
Deferred Outflows of Resources - Pension	(13,405,975)	(3,107,068)
Deferred Inflows of Resources - Pension	958,782	774,921
Net Pension Asset	(52,341)	(150,002)
Net Pension Liability	17,697,860	915,399
Inventory and Prepaid Expenses	(135,981)	(190,746)
Accounts Payable and Other Accrued Liabilities	575,349	491,122
Total Adjustments	46,921,356	35,802,994
Net Cash Provided by Operating Activities	\$ 169,119,143	\$ 148,927,707
 Supplemental Schedule of Non-Cash Investing, Capital and Relating Financing Activities		
Long-Term Debt Recorded for Receivables from State Agencies in Connection with Water Pollution Control Loans	\$ 5,395,019	\$ (934,692)
Long-Term Debt Increased due to Accrued Construction Interest in Connection with Water Pollution Control Loans	\$ 1,739,113	\$ 1,485,075
Long-Term Debt Decreased due to Accrued Construction Principal Adjustment in Connection with Water Pollution Control Loans	\$ (164,699)	\$ (820,350)
Capital Assets Increased (Decreased) due to Capitalized Costs, Recorded Accounts Payable and Asset Reclassifications	\$ 2,208,614	\$ (8,529,282)
Increase (Decrease) in Fair Value of Investments, Net	\$ 494,661	\$ (1,173,193)
Amortization of Bond Premium	\$ (6,860,095)	\$ (7,511,525)

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

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 the Basic Financial Statements

December 31, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Basis of Presentation

The District's basic financial statements consist of statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flow.

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 position, 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.

Measurement Focus

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

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 the Basic Financial Statements

December 31, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

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.

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 SEC as an investment company, but the District has adopted Governmental Accounting Standards Board (GASB), Statement No.79, *Certain External Investment Pools and Pool Participants*. The District measures their investment in STAR Ohio at amortized cost.

For the years 2016 and 2015, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. Star Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Short-Term Investments

Short-term investments consist of non-negotiable certificates of deposit, obligations of Federal agencies, and STAR Ohio.

Fair Value of 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, and obligations of Federal Agencies, 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 the Basic Financial Statements

December 31, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (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, 2016 were \$1,731,520,769. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2015 were \$2,020,799,339.

Long-Term Investments and Restricted Accounts

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

Long-Term Investments

At December 31, 2016 and 2015, these funds consisted of U.S. Treasury Securities and obligations of Federal agencies. They may be 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, the 2007 Series Wastewater Improvement Revenue Bonds, the 2010 Series Wastewater Improvement Revenue Bonds, the 2013 Series Wastewater Improvement Revenue Bonds, the 2014 Series Wastewater Improvement Revenue Bonds, 2014 Wastewater Improvement Revenue Refunding Bonds and the 2016 Series Wastewater Improvement Revenue Refunding Bonds.

Revenue Bond Debt Service Deposit

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2016 and 2015 consisted of direct obligations of the United States Government, plus accrued interest.

Sewage and Stormwater Service Fees Receivable

Sewage and stormwater service fees receivable are shown net of an allowance for uncollectibles. The allowance is based on aged accounts receivable, historical collection rates, economic trends, and current year operating revenues. The allowance amounts are \$26,123,000 and \$23,100,000 at December 31, 2016 and 2015, respectively.

Inventory

Inventory consists of supplies not yet placed into service and is charged to operations when consumed. Inventory is valued at cost.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

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 position. 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 and Equipment	Primarily 40 years
Sewage Treatment and Other Equipment	5 to 20 years
Right to Use-Intangible	30 years

Bond Premiums

Bond premiums are deferred and amortized over the term of the bonds using the effective-interest method. Unamortized bond premiums are presented as an increase of the carrying amount of the bonds payable reported on the statements of net position.

Bond Discounts

Bond discounts are amortized over the term of the bonds using effective-interest method. Unamortized bond discounts are presented as a reduction to the face amount of the bonds reported on the statements of net position.

Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the District, deferred outflows of resources are reported on the governmental-wide statement of net position for pension and deferred charge on refunding. The deferred outflows of resources related to pension are explained in Note 7. On the District financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective-interest method and is presented as deferred outflows of resources on the statements of net position.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the District, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the government-wide statements of net position and explained in Note 7.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Capital Contributions

Contributions of capital arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

Net Position

In the District financial statements, net position is categorized into three categories. The first is net investment in capital assets, reduced by accumulated depreciation and any outstanding debt incurred to acquire, construct or improve those assets excluding unexpended bond proceeds, restricted or unrestricted. This category represents net investment in property, plant, equipment and infrastructure. The second category is restricted, which represents assets restricted by requirements of revenue bonds, other externally imposed constraints, or by legislation, in excess of the related liabilities payable from restricted assets. The third category; unrestricted portion of net position, consists of all assets that do not meet the definition of either of the other two categories of net position. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The District did not have any restricted net position at December 31, 2016 and 2015.

The District's Board of Trustees adopted a reserve policy in July 2009 that annually designates amounts of the District's unrestricted net position 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 that have been designated by the Board of Trustees at December 31, 2016 and 2015 follows:

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

	2016	2015
General Operating Reserve	\$ 33,521,572	\$ 25,782,743
Debt Service Reserve	27,743,677	35,799,521
Equipment Repair and Replacement Reserve	56,433,342	55,948,985
Insurance Reserve	22,418,833	22,769,392
Rate Stabilization Account	18,000,000	18,000,000
Capital Project Account	203,732,670	165,719,998

During 2016, the General Operating Reserve had a net increase of \$7,738,829 due to decreases in transfers to the Capital Project Account. The Debt Service Reserve decreased by \$8,055,844 due to the decrease in total annual debt service. The Equipment Repair and Replacement Reserve increased \$484,357 due to interest revenue. The Insurance Reserve had a net decrease of \$350,559 due to insurance claims paid in excess of the interest earned. Rate stabilization stayed the same compared to 2015. Capital project account increased by \$38,012,672 due to increases in bond proceeds and transfers from the operating account.

During 2015, the General Operating Reserve had a net decrease of \$48,755 due to an increase in transfers to the Capital Project Account. The Debt Service Reserve increased by \$6,513,652 due to the increase in total annual debt service. The Equipment Repair and Replacement Reserve increased \$131,835 due to interest revenue. The Insurance Reserve had a net increase of \$51,198 due interest allocation in this fund. Rate stabilization increased by \$6,000,000 due to available income. Capital project account increased by \$70,089,743 due to State Revolving Fund (SRF) loan proceeds, transfers from operating account and an increase in bond monies allocated to projects.

Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment and stormwater services. Operating revenues consist of user charges for sewage and stormwater service fees. Sewage service fees are based on water consumption and stormwater service fees are based on the square footage of impervious surface area on a parcel of land. Operating revenues are shown net of bad debt expense of \$8,305,176 in 2016 and \$7,381,543 in 2015. Operating expenses include the cost of these sewer and stormwater 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.

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, 2016 and 2015 are unbilled sewage service fees of \$38,212,133 and \$34,990,462; respectively. Included in stormwater service fees receivable at December 31, 2016 are unbilled stormwater service fees of \$4,832,878.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

In June 2011, the Board of Trustees approved rate increases scheduled for the years 2012 through 2016. Effective January 1, 2012 the minimum charge was eliminated and a base charge was added to all quarterly bills. Rates charged to customers will increase approximately 13.0% for customers in the City of Cleveland, and 12.0% 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 200.0% poverty level.

In August 2016, the Board of Trustees approved rate increases scheduled for the years 2017 through 2021. Effective January 1, 2017, rates charged to customers will increase approximately 8.5% for customers in the City of Cleveland, and 8.0% for the suburban customers. In addition to the current volumetric discount rates for the Homestead Program and Affordability programs, the District has expanded the discount by applying it to the Fixed Cost Recovery Charge starting in 2017.

Interest Expense

It is the District's intention that all expenses, including interest incurred in connection with financing the construction 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, the 2010 Wastewater Improvement Revenue Bond Resolution, the 2013 Wastewater Improvement Revenue Bond Resolution, the 2014 Wastewater Improvement Revenue Bond Resolution and the 2016 Wastewater Improvements Revenue Refunding Bond Resolution which requires that the current year "net revenues" be at least 115.0% 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, all interest is expensed but is included as non-operating on the statement of revenues, expenses and changes in net position as incurred.

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 deferred outflows of resources and liabilities and deferred inflows of resources 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.

Extraordinary Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District Administration and that are either unusual in nature or infrequent in occurrence.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 2: Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 23, 2017, the date the financial statements were available to be issued.

Note 3: Deposits and Investments

Deposits

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The District's practice is to place deposits with commercial banks and savings and loan associations within its service area. At December 31, 2016, the carrying amount of the District's deposits was \$32,809,472 and the bank balance was \$39,219,155. Of the bank balance, \$250,000 was covered by Federal depository insurance and \$38,969,155 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. At December 31, 2015, the carrying amount of the District's deposits was \$22,932,355 and the bank balance was \$28,544,407. Of the bank balance, \$500,000 was covered by Federal depository insurance and \$28,044,407 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.

Investments

The District's investment policies are currently governed by its Series 2016, 2014, 2013, 2010, 2007 and 2005 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, 2010, 2013, 2014 and 2016 Series Bonds.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 3: Deposits and Investments (continued)

At December 31, 2016, 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
U.S. Treasury Bills	\$ 156,730,966	39%	\$ 106,595,454	\$ 50,135,512
State Treasury Asset Reserve	95,650,094	24%	95,650,094	-
Federal Home Loan Mortgage Corp.	60,139,394	15%	40,127,140	20,012,254
Federal National Mortgage Assoc.	54,060,581	14%	25,082,664	28,977,917
Federal Home Loan Bank	15,021,075	4%	10,016,729	5,004,346
Forward Delivery Agreement/FNMA	8,085,662	2%	8,085,662	-
Federal Farm Credit Bank	4,969,754	1%	-	4,969,754
Dreyfus Cash Management	2,254,033	1%	2,254,033	-
	<u>\$ 396,911,559</u>		<u>\$ 287,811,776</u>	<u>\$ 109,099,783</u>

At December 31, 2015, 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
U.S. Treasury Bills	\$ 201,313,739	38%	\$ 138,907,355	\$ 62,406,384
State Treasury Asset Reserve	111,109,549	21%	111,109,549	-
Federal National Mortgage Assoc.	76,187,121	14%	63,193,398	12,993,723
Federal Home Loan Mortgage Corp.	66,544,551	12%	26,536,992	40,007,559
Federal Home Loan Bank	49,982,614	9%	40,005,843	9,976,771
PNC Cash	10,024,966	2%	10,024,966	-
Forward Delivery Agreement/FNMA	8,090,782	2%	8,090,782	-
Guaranteed Investment Contracts	7,174,985	1%	-	7,174,985
Dreyfus Cash Management	2,897,940	1%	2,897,940	-
	<u>\$ 533,326,247</u>		<u>\$ 400,766,825</u>	<u>\$ 132,559,422</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 the Basic Financial Statements

December 31, 2016 and 2015

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, 2016, the District's investment in U.S. instrumentalities (Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal Farm Credit Bank) were all rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. 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 \$134,190,804 has maturities of \$75,226,533 in less than one year and \$58,964,271 within five years. U.S. agencies are held in the accounts of Huntington Bank and PNC National Bank (Trustees), 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 \$27,743,677 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, Federal Home Loan Mortgage Corporation and Federal Farm Credit Bank.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

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 and stormwater charges to most District users. The remaining District's users are invoiced directly by the District or by other billing agents.

Table below includes a summary of billing and collection transactions between the City and the District for 2016 and 2015; 2016 summary includes sewer and stormwater billing and collections and 2015 summary includes sewer billing and collections only causing the difference of \$110,972 between the ending 2015 balance and the opening 2016 balance.

	<u>2016</u>	<u>2015</u>
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 87,702,750	\$ 86,136,767
Amounts billed to District customers by the City during the year	274,848,814	224,742,762
Cash collected from District customers by the City and remitted to the District during the year	(251,028,600)	(215,177,330)
Write off of inactive accounts	(5,065,882)	(6,217,805)
Cash collected directly by the District on invoices rendered by the City and other adjustment	(885,601)	(1,670,672)
Balance due from customers at end of year, included in service fees receivable before allowance for doubtful accounts	<u>\$ 105,571,481</u>	<u>\$ 87,813,722</u>

Service fees billed by the City are considered delinquent 23 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 Cuyahoga County Fiscal Office any delinquent accounts billed by the City. Such certification will result in the delinquent amounts being placed on the real property tax duplicate for collection as taxes. Failure to pay the property tax and District fees will result in a lien on such property.

Fees paid to the City for billing and collection services in 2016 and 2015 were \$7,509,767 and \$7,382,317, respectively; of which, \$1,321,175 for 2016 and \$790,701 for 2015 are included in accounts payable on the District's statements of net position.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 5: Capital Assets and Depreciation

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
Non-depreciable Capital Assets:					
Land	\$ 20,024,113	\$ -	\$ -	\$ 2,872,232	\$ 22,896,345
Construction in Progress	586,145,438	213,377,719	-	(166,672,790)	632,850,367
Total Non-depreciable Capital Assets	<u>606,169,551</u>	<u>213,377,719</u>	<u>-</u>	<u>(163,800,558)</u>	<u>655,746,712</u>
Depreciable Capital Assets:					
Interceptor Sewer Lines	1,230,471,470	-	-	39,141,257	1,269,612,727
Buildings, Structures and Improvements and Equip.	914,939,632	271,757	(5,444,789)	101,292,024	1,011,058,624
Sewage Treatment and Other Equipment	558,188,055	6,228,018	(15,408,772)	23,367,277	572,374,578
Right to Use-Intangible (*)	5,505,574	-	-	-	5,505,574
Total Depreciable Capital Assets	<u>2,709,104,731</u>	<u>6,499,775</u>	<u>(20,853,561)</u>	<u>163,800,558</u>	<u>2,858,551,503</u>
Total Historical Cost	<u>3,315,274,282</u>	<u>219,877,494</u>	<u>(20,853,561)</u>	<u>-</u>	<u>3,514,298,215</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(249,751,191)	(16,994,335)	-	-	(266,745,526)
Buildings, Structures and Improvements and Equip.	(456,675,435)	(26,333,899)	4,097,734	-	(478,911,600)
Sewage Treatment and Other Equipment	(240,297,136)	(23,094,338)	13,360,747	-	(250,030,727)
Right to Use-Intangible (*)	(554,619)	(183,369)	-	-	(737,988)
Total Accumulated Depreciation	<u>(947,278,381)</u>	<u>(66,605,941)</u>	<u>17,458,481</u>	<u>-</u>	<u>(996,425,841)</u>
Capital Assets, Net	<u>\$ 2,367,995,901</u>	<u>\$ 153,271,553</u>	<u>\$ (3,395,080)</u>	<u>\$ -</u>	<u>\$ 2,517,872,374</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 66,605,940</u>			

(*) During 2012, the District acquired an intangible asset due to an agreement with the City of Cleveland Department of Public Utilities Division of Cleveland Public Power. Per this agreement, the District has the right to use the power provided from the Nine Mile Creek substation, which was constructed by the District, but is owned by the City. The construction of the substation was completed in 2012 and capitalized; there were minor subsequent costs in the following years. The asset's original cost basis is \$5,505,574 as of December 31, 2016 and 2015. Below is a schedule of the amounts to be expensed in future years:

Year Ending December 31,	Amortization of Intangible Asset
2017	\$ 183,369
2018	183,369
2019	183,369
2020	183,369
2021	183,369
2022-2026	916,843
2027-2031	916,843
2032-2036	916,843
2037-2041	916,843
2042	183,369
	<u>\$ 4,767,586</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 5: Capital Assets and Depreciation (continued)

Capital asset activity for the year ended December 31, 2015 was as follows:

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
Non-depreciable Capital Assets:					
Land	\$ 15,238,255	\$ -	\$ (600)	\$ 4,786,458	\$ 20,024,113
Construction in Progress	561,436,307	222,500,812	-	(197,791,681)	586,145,438
Total Non-depreciable Capital Assets	<u>576,674,562</u>	<u>222,500,812</u>	<u>(600)</u>	<u>(193,005,223)</u>	<u>606,169,551</u>
Depreciable Capital Assets:					
Interceptor Sewer Lines	1,179,675,551	-	(2,604,687)	53,400,606	1,230,471,470
Buildings, Structures and Improvements and Equip.	840,824,454	240,357	(4,260,818)	78,135,639	914,939,632
Sewage Treatment and Other Equipment	501,079,296	3,853,409	(8,213,628)	61,468,978	558,188,055
Right to Use-Intangible (*)	5,505,574	-	-	-	5,505,574
Total Depreciable Capital Assets	<u>2,527,084,875</u>	<u>4,093,766</u>	<u>(15,079,133)</u>	<u>193,005,223</u>	<u>2,709,104,731</u>
Total Historical Cost	<u>3,103,759,437</u>	<u>226,594,578</u>	<u>(15,079,733)</u>	<u>-</u>	<u>3,315,274,282</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(234,098,198)	(16,309,939)	656,946	-	(249,751,191)
Buildings, Structures and Improvements and Equip.	(434,417,176)	(24,844,259)	2,586,000	-	(456,675,435)
Sewage Treatment and Other Equipment	(226,301,544)	(21,487,961)	7,492,369	-	(240,297,136)
Right to Use-Intangible (*)	(371,250)	(183,369)	-	-	(554,619)
Total Accumulated Depreciation	<u>(895,188,168)</u>	<u>(62,825,528)</u>	<u>10,735,315</u>	<u>-</u>	<u>(947,278,381)</u>
Capital Assets, Net	<u>\$ 2,208,571,269</u>	<u>\$ 163,769,050</u>	<u>\$ (4,344,418)</u>	<u>\$ -</u>	<u>\$ 2,367,995,901</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 62,825,528</u>			

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations

A summary of long-term debt outstanding at December 31, 2016 follows:

	<u>Interest Rate</u>	<u>2016</u>	<u>2015</u>
Wastewater Improvement Revenue			
Refunding Bonds, Series 2005:			
Serial Bonds maturing 2016	3.50%-5.00%	\$ -	\$ 13,950,000
Wastewater Improvement Revenue			
Bonds, Series 2007:			
Serial Bonds Maturing 2037	3.75%-5.00%	7,520,000	34,110,000
Wastewater Improvement Revenue			
Bonds, Series 2010:			
Serial Bonds Maturing 2026 through 2040	5.44%-6.04%	336,930,000	336,930,000
Wastewater Improvement Revenue			
Bonds, Series 2013:			
Serial Bonds Maturing 2020 through 2043	2.00%-5.00%	249,535,000	249,535,000
Wastewater Improvement Revenue			
Bonds, Series 2014A:			
Serial Bonds Maturing 2017 through 2049	3.37% - 5.00%	350,570,000	350,570,000
Wastewater Improvement Revenue			
Refunding Bonds, Series 2014B:			
Serial Bonds Maturing 2018 through 2033	4.00%-5.00%	68,460,000	68,460,000
Wastewater Improvement Revenue			
Refunding Bonds, Series 2016:			
Serial Bonds Maturing 2017 through 2036	3.00%	25,015,000	-
Bond Discount		(26,005)	-
Water Pollution Control Loans Payable			
Through 2040	2.44%-5.20%	490,848,795	497,778,277
Total Debt		1,528,852,790	1,551,333,277
Less Current Maturities		(50,566,017)	(53,079,225)
Bond Premium, Net		59,638,859	66,502,936
Total Long-Term Debt		<u>\$ 1,537,925,632</u>	<u>\$ 1,564,756,988</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

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. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on monies and investments comprising the Revenue Bond Debt Service Deposit. The bonds were retired as of December 31, 2016.

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

Wastewater Improvement Revenue Bonds, Series 2007

On May 22, 2007, the District issued \$126,055,000 of Wastewater Improvement Revenue Bonds, Series 2007. The Wastewater Improvement Revenue Bonds, Series 2007 Bonds (the “Series 2007 Bonds”) 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. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. 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 35.0% of the interest payable on the Series 2010 Bonds.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Wastewater Improvement Revenue Bonds, Series 2010 “Build America Bonds” (continued)

The Series 2010 Bonds were issued for the purpose of (i) providing funds for the acquisition, construction and improvement of wastewater 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. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. 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.

Build America Bonds Subsidy

Under the Build America Bonds agreement, the District is to receive 35.0% of the Bond interest as the Build America Bonds Subsidy. The subsidy payments amount received in 2016 was \$6,465,915, which is a reduction of \$475,486 due to the recent sequester by Congress. The subsidy payment for 2017 also has been reduced by 6.85% in the amount of \$472,015 and all future subsidy payments have been reduced by 6.85% based on 2016 reductions. Future payments may also be reduced by Congress on an annual basis. Below is a schedule of the amounts expected to be received in future years:

<u>Year Ending December 31,</u>	<u>Subsidy Amount</u>
2017	\$ 6,465,915
2018	6,465,915
2019	6,465,915
2020	6,465,915
2021	6,465,914
2022-2026	32,329,574
2027-2031	30,175,382
2032-2036	22,295,819
2037-2040	7,609,289
	<u>\$ 124,739,638</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Wastewater Improvement Revenue Bonds, Series 2013

On March 26, 2013, the District issued \$249,535,000 of Wastewater Improvement Revenue Bonds, Series 2013. The Wastewater Improvement Revenue Bonds, Series 2013 Bonds (the "Series 2013 Bonds") were issued for the purpose of (i) providing funds for the acquisition, construction and improvement of Water Resource Projects and (ii) paying certain costs of issuance of the Series 2013 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. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities.

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 (2014A) and Refunding (2014B) Bonds, Series 2014

On December 18, 2014, the District issued \$419,030,000 of Wastewater Improvement Revenue and Refunding Bonds, Series 2014. The Wastewater Improvement Revenue and Refunding Bonds, Series 2014 Bonds (the "Series 2014 Bonds") were comprised of \$350,570,000 (2014A) for new bonds and \$68,460,000 (2014B) to refund a portion of the 2007 Wastewater Improvement Revenue Bonds previously issued on May 22, 2007. The Wastewater Improvement Revenue and Refunding Bonds, Series 2014 Bonds were issued for the purpose of (i) providing funds for the acquisition, construction and improvement of Water Resource Projects, (ii) paying certain costs of issuance of the Series 2014 Bonds and (iii) to refund a portion of 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. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities.

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 Refunding Bonds, Series 2016

The District issued \$25,015,000 of Wastewater Improvement Revenue Refunding Bonds, Series 2016 (the "2016 Series Bonds"), in connection with the advance refunding of its Wastewater Improvement Revenue Bonds, Series 2007 (the "2007 Series Bonds"). The 2016 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. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on monies and investments comprising the Revenue Bond Debt Service Deposit.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Wastewater Improvement Revenue Refunding Bonds, Series 2016 (continued)

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.

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. 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, 2010, 2013, 2014 and 2016 Series Bonds and are payable from the revenues of the District, after payment of operating and maintenance costs and are secured by a pledge of and lien on such net revenues. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project.

The repayment period for each loan commences no later than the first January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. The District is required to submit final eligible project costs within one year of the project completion date at which time the final loan amount is determined and semi-annual payment amounts are adjusted to reflect such costs. The District had a SRF loan award related to a project which was not complete as of December 31, 2016. Loans related to completed construction projects are being repaid in semi-annual payments of principal and interest over a period of up to twenty-three years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2016 follow:

Completion or Expected	Number	Current Amount	Additional Available
Completion Year of Projects	of Projects	Including Accrued Construction Period Interest	Borrowings Including Construction Period Interest
1993 – 2015	42	\$ 383,740,363	\$ -
2016 – 2020	6	107,108,431	78,346,645
		\$ 490,848,794	\$ 78,346,645

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Defeasance Transactions

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

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

In September 1995, the District issued its Wastewater Improvement Revenue Refunding Bonds, Series 1995 (the "1995 Series Bonds"), in the aggregate principal amount of \$97,830,000 for the purpose of advance refunding its 1991 Series Bonds, issued under a Trust Agreement then outstanding in the aggregate principal amount of \$112,690,000. Through the issuance of the 1995 Series Bonds, the deposit of net proceeds together with certain 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 caused the 1995 Series Bonds to be deemed paid and discharged.

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 \$64,165,000. The net proceeds were used to purchase direct obligations of the U.S. Government. Those securities were deposited in an irrevocable trust with an escrow agent. The securities and fixed earnings from the securities are sufficient to provide for all future debt service payments on the series 1995 wastewater improvement bonds. As a result, the 1995 wastewater improvement bonds are considered defeased. As of December 31, 2016, none 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 statements of net position as a deduction from long-term debt, is being charged to operations through the year 2016 using the weighted average method. There was no unamortized balance of the deferred charge on refunding at December 31, 2016. 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 the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Defeasance Transactions (continued)

In 2014, the District issued \$68,460,000 in Wastewater Improvement Revenue Refunding bonds (2014B) to refund a portion of the 2007 Wastewater Improvement Revenue Bonds previously issued on May 22, 2007 of \$72,940,000. 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 refunded portion of the series 2007 wastewater improvement bonds. As a result, that portion of the 2007 series bonds is considered defeased, and the District has removed the liability from its accounts. As the result of refunding, total debt service payments were reduced over the next 18 years by \$6,908,449. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$4,966,923. As of December 31, 2016, \$68,460,000 of the portion of refunded debt remained outstanding. The Series 2007 Bonds are not subject to redemption at the option of the District prior to their stated maturity.

In 2016, the District issued \$25,015,000 in Wastewater Improvement Revenue Refunding bonds, Series 2016 to advance refund and defease the Series 2007 Wastewater Improvement Refunding Bonds of \$23,700,000. 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 2007 wastewater improvement bonds. As a result, that portion of the 2007 wastewater improvement bonds are considered defeased, and the District has removed the liability from its accounts. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$3,203,519. This difference, reported in the accompanying statements of net position as a deduction from long-term debt, is being charged to operations through the year 2016 using the weighted average method. There was no unamortized balance of the deferred charge on refunding at December 31, 2016. As of December 31, 2016, \$25,015,000 of the portion of refunded debt remained outstanding. The Series 2016 Bonds are not subject to redemption at the option of the District prior to their stated maturity.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

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, 2016 follows:

	Wastewater Improvement Revenue Bonds Series 2007		Wastewater Improvement Revenue Bonds Series 2010	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2017	-	338,400	-	13,366,659
2018	-	338,400	-	13,366,659
2019	-	338,400	-	13,366,659
2020	-	338,400	-	13,366,659
2021	-	338,400	-	13,366,659
2022-2026	-	1,692,000	1,540,000	66,833,293
2027-2031	-	1,692,000	64,625,000	62,380,042
2032-2036	-	1,692,000	119,080,000	46,091,020
2037-2040	7,520,000	338,400	151,685,000	15,730,298
Total	\$ 7,520,000	\$ 7,106,400	\$ 336,930,000	\$ 257,867,948

	Wastewater Improvement Revenue Bonds Series 2013		Wastewater Improvement Revenue Bonds Series 2014A	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2017	-	12,171,900	14,000,000	16,182,525
2018	-	12,171,900	3,985,000	15,500,025
2019	-	12,171,900	3,000,000	15,300,775
2020	4,515,000	12,171,900	-	15,150,775
2021	3,850,000	12,021,300	-	15,150,775
2022-2026	11,775,000	58,733,350	1,715,000	75,753,875
2027-2031	27,240,000	54,027,000	10,885,000	74,378,875
2032-2036	45,445,000	46,083,000	19,950,000	70,951,025
2037-2041	100,055,000	30,448,000	32,725,000	65,198,750
2042-2046	56,655,000	4,283,750	134,845,000	50,513,400
2047-2049	-	-	129,465,000	11,528,200
Total	\$ 249,535,000	\$ 254,284,000	\$ 350,570,000	\$ 425,609,000

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Future Debt Service Requirements (continued)

	Wastewater Improvement Revenue Refunding Bonds Series 2014B		Wastewater Improvement Revenue Refunding Bonds Series 2016	
	Principal	Interest	Principal	Interest
	2017	\$ -	\$ 3,205,213	\$ 2,900,000
2018	3,020,000	3,205,213	160,000	663,450
2019	3,155,000	3,054,212	165,000	658,650
2020	3,225,000	2,986,000	170,000	653,700
2021	3,385,000	2,824,750	175,000	648,600
2022-2026	19,430,000	11,620,700	970,000	3,160,350
2027-2031	24,600,000	6,441,500	1,120,000	3,006,300
2032-2036	11,645,000	778,700	19,355,000	2,296,800
Total	\$ 68,460,000	\$ 34,116,288	\$ 25,015,000	\$ 11,838,300

	Water Pollution Control Loans		Future Debt Service Requirements Total	
	Principal	Interest	Principal	Interest
	2017	\$ 33,666,017	\$ 11,079,905	\$ 50,566,017
2018	34,053,727	10,209,801	41,218,727	55,455,448
2019	35,335,565	10,435,371	41,655,565	55,325,967
2020	33,931,302	10,690,888	41,841,302	55,358,322
2021	33,323,640	9,764,846	40,733,640	54,115,330
2022-2026	153,246,860	34,655,075	188,676,860	252,448,643
2027-2031	91,881,881	17,093,086	220,351,881	219,018,803
2032-2036	59,841,482	5,906,272	275,316,482	173,798,817
2037-2041	15,568,321	639,192	307,553,321	112,354,640
2042-2046	-	-	191,500,000	54,797,150
2047-2049	-	-	129,465,000	11,528,200
Total	\$ 490,848,795	\$ 110,474,436	\$ 1,528,878,795	\$ 1,101,296,372

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Bond premium and discount activity for 2016 and 2015 are as follows:

<u>December 31, 2016</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2005	\$ 49,537	\$ (49,537)	\$ -	\$ -	\$ -
Bond Premium, Series 2007	497,761	(13,904)	(476,769)	-	7,088
Bond Premium, Series 2013	25,728,232	(2,228,148)	-	-	23,500,084
Bond Premium, Series 2014A	30,019,923	(2,625,124)	-	-	27,394,799
Bond Premium, Series 2014B	10,207,483	(1,470,595)	-	-	8,736,888
Bond Discount, Series 2016	-	3,982	-	(29,987)	(26,005)
Total	<u>\$ 66,502,936</u>	<u>\$ (6,383,326)</u>	<u>\$ (476,769)</u>	<u>\$ (29,987)</u>	<u>\$ 59,612,854</u>
<u>December 31, 2015</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2005	\$ 130,767	\$ (81,230)	\$ -	\$ -	\$ 49,537
Bond Premium, Series 2007	591,129	(93,368)	-	-	497,761
Bond Premium, Series 2013	28,251,707	(2,523,475)	-	-	25,728,232
Bond Premium, Series 2014A	33,116,034	(3,096,111)	-	-	30,019,923
Bond Premium, Series 2014B	11,924,824	(1,717,341)	-	-	10,207,483
Total	<u>\$ 74,014,461</u>	<u>\$ (7,511,525)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,502,936</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Long-term debt activity for the year is as follows:

<u>December 31, 2016</u>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in 2017
Wastewater Improvement Revenue Refunding Bonds, Series 2005	\$ 13,950,000	\$ -	\$ (13,950,000)	\$ -	\$ -
Wastewater Improvement Revenue Bonds, Series 2007	34,110,000	-	(26,590,000)	7,520,000	-
Wastewater Improvement Revenue Bonds, Series 2010	336,930,000	-	-	336,930,000	-
Wastewater Improvement Revenue Bonds, Series 2013	249,535,000	-	-	249,535,000	-
Wastewater Improvement Revenue Bonds, Series 2014A	350,570,000	-	-	350,570,000	14,000,000
Wastewater Improvement Revenue Refunding Bonds, Series 2014B	68,460,000	-	-	68,460,000	-
Wastewater Improvement Revenue Refunding Bonds, Series 2016	-	25,015,000	-	25,015,000	2,900,000
Water Pollution Control Loans	497,778,277	28,899,633	(35,829,115)	490,848,795	33,666,017
Net Pension Liability - OPERS	40,528,251	17,697,860	-	58,226,111	-
Total	<u>\$ 1,591,861,528</u>	<u>\$ 71,612,493</u>	<u>\$ (76,369,115)</u>	<u>\$ 1,587,104,906</u>	<u>\$ 50,566,017</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 6: Long-Term Obligations (continued)

Long-term debt activity for the year is as follows (continued):

<u>December 31, 2015</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due in 2016</u>
Wastewater Improvement Revenue Refunding Bonds, Series 2005	\$ 20,445,000	\$ -	\$ (6,495,000)	\$ 13,950,000	\$13,950,000
Wastewater Improvement Revenue Bonds, Series 2007	36,865,000	-	(2,755,000)	34,110,000	2,890,000
Wastewater Improvement Revenue Bonds, Series 2010	336,930,000	-	-	336,930,000	-
Wastewater Improvement Revenue Bonds, Series 2013	249,535,000	-	-	249,535,000	-
Wastewater Improvement Revenue Bonds, Series 2014A	350,570,000	-	-	350,570,000	-
Wastewater Improvement Revenue Refunding Bonds, Series 2014B	68,460,000	-	-	68,460,000	-
Water Pollution Control Loans	469,535,924	65,077,333	(36,834,980)	497,778,277	36,239,225
Net Pension Liability - OPERS	39,612,852	915,399	-	40,528,251	-
Total	<u>\$1,571,953,776</u>	<u>\$65,992,732</u>	<u>\$ (46,084,980)</u>	<u>\$1,591,861,528</u>	<u>\$53,079,225</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 7: Pension Plans

Net Pension Liability

The net pension liability reported on the statements of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability (asset) represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability (asset)* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Ohio Public Employees Retirement System

Plan Description - District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. District employees may elect the member-directed plan and the combined plan, employee members are in OPERS' traditional and combined plans; therefore, the following disclosure focuses on the traditional and combined pension plans.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 7: Pension Plans (continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 7: Pension Plans (continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0%
Employee	10.0%
2016 Actual Contribution Rates	
Employer:	
Pension	12.0%
Post-employment Health Care Benefits	2.0%
Total Employer	14.0%
Employee	10.0%

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was \$6,484,026 for 2016 and \$6,205,319 for 2015. Of these amounts, \$88,070 and \$1,018,764 are reported as an intergovernmental payable for 2016 and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability (asset) for OPERS as of December 31, 2016 was measured as of December 31, 2015, and the total pension liability (asset) used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability (asset) was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional	OPERS Combined	Total
Proportionate Share of the Net Pension Liability (Asset)	\$ 58,226,111	\$ (258,537)	\$ 57,967,574
Proportion Share of the Net Pension Liability (Asset)	0.336154%	0.531290%	
Pension Expense	\$ 8,749,479	\$ 168,096	\$ 8,917,575

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 7: Pension Plans (continued)

The net pension liability (asset) for OPERS as of December 31, 2015 was measured as of December 31, 2014, and the total pension liability (asset) used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability (asset) was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional	OPERS Combined	Total
Proportionate Share of the Net Pension Liability (Asset)	\$ 40,528,251	\$ (206,196)	\$ 40,322,055
Proportion Share of the Net Pension Liability (Asset)	0.336024%	0.535543%	
Pension Expense	\$ 4,400,305	\$ 134,650	\$ 4,534,955

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional	OPERS Combined	Total
Deferred Outflows of Resources			
District contributions subsequent to the measurement date	\$ 4,904,484	\$ 262,724	\$ 5,167,208
Net difference between projected and actual earnings on pension plan investments	17,114,839	111,626	17,226,465
Total Deferred Outflows of Resources	\$ 22,019,323	\$ 374,350	\$ 22,393,673
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 1,125,042	\$ 117,973	\$ 1,243,015
Differences in employer contributions and change in proportionate share	462,304	28,384	490,688
Total Deferred Inflows of Resources	\$ 1,587,346	\$ 146,357	\$ 1,733,703

\$5,167,208 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 7: Pension Plans (continued)

Year Ending December 31	OPERS Traditional	OPERS Combined	Total
2017	\$ 3,529,873	\$ 10,397	\$ 3,540,270
2018	3,803,538	10,397	3,813,935
2019	4,353,291	10,397	4,363,688
2020	3,840,000	(7,605)	3,832,395
2021	-	(14,914)	(14,914)
2022-2025	-	(43,403)	(43,403)
Total	<u>\$ 15,526,702</u>	<u>\$ (34,731)</u>	<u>\$ 15,491,971</u>

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional	OPERS Combined	Total
Deferred Outflows of Resources			
District contributions subsequent to the measurement date	\$ 6,539,569	\$ 273,078	\$ 6,812,647
Net difference between projected and actual earnings on pension plan investments	2,162,465	12,586	2,175,051
Total Deferred Outflows of Resources	<u>\$ 8,702,034</u>	<u>\$ 285,664</u>	<u>\$ 8,987,698</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	<u>\$ 712,001</u>	<u>\$ 62,920</u>	<u>\$ 774,921</u>

\$6,812,647 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. For the December 31, 2016 and 2015 financial statements, the total pension liability is based on the results of actuarial valuation and determined using the following assumptions, applied to all periods in the measurements:

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 7: Pension Plans (continued)

Actuarial Assumptions – OPERS (continued)

	OPERS Traditional Plan	OPERS Combined Plan
Wage Inflation	3.75 percent	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent	4.25 to 8.05 percent
COLA or Ad Hoc COLA	3 percent, simple	3 percent, simple
Investment Rate of Return	8 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the 401 (h) Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and 2014, and the long-term expected real rates of return:

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 7: Pension Plans (continued)

Actuarial Assumptions – OPERS (continued)

Asset Class	Target Allocation	Long-Term Expected Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.31%
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other Investments	18.00	4.59
Total	100.00%	5.27%

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the District’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's Proportionate Share of the Net Pension Liability - Traditional	\$ 92,768,419	\$ 58,226,111	\$ 29,090,767
District's Proportionate Share of the Net Pension Liability - Combined	\$ (5,313)	\$ (258,537)	\$ (462,222)

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 8: Post-Employment Benefits

Ohio Public Employees Retirement System

Plan Description

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) 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/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, State and Local employers contributed at a rate of 14.0% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 8: Post-Employment Benefits (continued)

Funding Policy (continued)

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

District Contributions

The District's contributions to fund post-employment health care benefits for the years ended December 31, 2016, 2015 and 2014 are as follows:

	Contribution Rate as a % of earnable salaries	<u>2016</u>	Contribution Rate as a % of earnable salaries	<u>2015</u>	Contribution Rate as a % of earnable salaries	<u>2014</u>
By Statutory Authority	14.00%	\$7,031,605	14.00%	\$6,674,213	14.00%	\$6,551,966
Less: Health Care Portion	2.00%	(1,004,113)	1.00%	(958,364)	4.00%	(935,621)
Required-Employer Contribution		<u>\$6,027,492</u>		<u>\$5,715,849</u>		<u>\$5,616,345</u>

For 2016, 85.7% has been contributed with the balance being reported as a payable. The full amount has been contributed for 2015 and 2014.

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 Voya 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 December 31, 2016, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 10: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains an insurance reserve to account for and finance its uninsured risks of property damage. The District is self-insured for workers' compensation and purchases commercial insurance for other specific types of coverage. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance and the insurance reserve are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The change in the estimate for claims is as follows:

	<u>Beginning Balance</u>	<u>Claims Paid</u>	<u>Increase in Estimate</u>	<u>Ending Balance</u>
2016	\$ 124,072	\$ (69,077)	\$ 44,657	\$ 99,652
2015	\$ 160,049	\$ (64,319)	\$ 28,342	\$ 124,072

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 position and the balance as of December 31, 2016 is estimated to be paid during the year ending December 31, 2017. The District's insurance reserve as of December 31, 2016 and 2015 were \$22,418,833 and \$22,769,392; respectively, and are included in short-term investments on the District's statements of net position.

Note 11: Commitments and Contingencies

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, 2016 and 2015, \$508,567 and \$708,567; respectively, are included in the receivables from Federal, State and other agencies on the accompanying statements of net position. The parties entered into a revised, "interest-free" repayment agreement, to repay the loan over a five-year period.

Combined Sewer Overflows Long-Term Control Plan

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 11: Commitments and Contingencies (continued)

Implementation of the Combined Sewer Overflows (CSO) Long-Term Control Plan under the Consent Decree began 30 days after approval by the U.S. 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. As such, the District has recorded \$97,641 and \$348,363 as other accrued liabilities on the accompanying statements of net position as of December 31, 2016 and 2015.

In addition, the District is 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. As of December 31, 2016 and 2015, the District has recorded \$800,000 as part of the long-term accrued liabilities to recognize this obligation pending final decision from Ohio EPA.

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: Fair Value Measurements

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. U.S. Government Obligations, Fixed Income Securities, and the Revenue Debt Service Fund Money Market Funds are valued at the closing price reported on the over-the-counter market on which the individual securities are traded. 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 the Basic Financial Statements

December 31, 2016 and 2015

Note 12: Fair Value Measurements (continued)

Financial assets at December 31, 2016 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/2016</u>
<u>Bond Proceeds</u>				
Money Market Funds	\$ 33,566,481	\$ -	\$ -	\$ 33,566,481
U.S. Gov't Obligations	-	6,500,312	-	6,500,312
<u>Short -Term Investments</u>				
Money Market Funds	62,083,613	-	-	62,083,613
CDs	3,253,618	-	-	3,253,618
Fixed Income Securities	-	75,226,533	-	75,226,533
U.S. Gov't Obligations	-	82,691,160	-	82,691,160
<u>Long-Term Investments</u>				
Fixed Income Securities	-	58,964,271	-	58,964,271
U.S. Gov't Obligations	-	50,135,512	-	50,135,512
<u>Revenue Debt Service Fund</u>				
Money Market Funds	2,254,033	-	-	2,254,033
Fixed Income Securities	-	25,489,644	-	25,489,644
	<u>\$ 101,157,745</u>	<u>\$ 299,007,432</u>	<u>\$ -</u>	<u>\$ 400,165,177</u>

Financial assets at December 31, 2015 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/2015</u>
<u>Bond Proceeds</u>				
Fixed Income Securities	\$ -	\$ 106,669,083	\$ -	\$ 106,669,083
U.S. Gov't Obligations	-	103,782,548	-	103,782,548
PNC Cash	10,024,966	-	-	10,024,966
<u>Short -Term Investments</u>				
Money Market Funds	111,109,549	-	-	111,109,549
CDs	1,776,324	-	-	1,776,324
Fixed Income Securities	-	23,067,150	-	23,067,150
U.S. Gov't Obligations	-	17,488,993	-	17,488,993
<u>Long-Term Investments</u>				
Fixed Income Securities	-	62,978,054	-	62,978,054
U.S. Gov't Obligations	-	62,406,384	-	62,406,384
<u>Revenue Debt Service Fund</u>				
Money Market Funds	2,897,940	-	-	2,897,940
Fixed Income Securities	-	32,901,581	-	32,901,581
	<u>\$ 125,808,779</u>	<u>\$ 409,293,793</u>	<u>\$ -</u>	<u>\$ 535,102,572</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2016 and 2015

Note 13: Changes in Accounting Principles

For the year ended December 31, 2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, GASB Statement No. 77, *Tax Abatement Disclosures* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the District's financial statements; however, there was no effect on beginning net position.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. These changes were incorporated in the District's financial statements; however, there was no effect on beginning net position.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

GASB Statement No. 77 provides financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The implementation of this GASB pronouncement did not result in any changes to the District's financial statements.

Pronouncements Issued But Not Yet Effective – Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued in June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. This replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. 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

Required Supplementary Information

**Schedule of the District's Proportionate Share of the Net Pension Liability and Asset
Ohio Public Employees Retirement System - Traditional and Combined Plans**

For the Last Three Years (1)

<u>Traditional Plan</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's Proportion of the Net Pension Liability	0.336154%	0.336024%	0.336024%
District's Proportionate Share of the Net Pension Liability	\$ 58,226,111	\$ 40,528,251	\$ 39,612,852
District's Covered-Employee Payroll	\$ 49,435,775	\$ 48,528,228	\$ 42,139,663
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	117.78%	83.51%	94.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	N/A
<u>Combined Plan</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's Proportion of the Net Pension Asset	0.531290%	0.535543%	0.535543%
District's Proportionate Share of the Net Pension Asset	\$ 258,537	\$ 206,196	\$ 56,194
District's Covered-Employee Payroll	\$ 2,275,217	\$ 2,233,128	\$ 1,939,145
District's Proportionate Share of the Net Pension Asset as a Percentage of Its Covered-Employee Payroll	11.36%	9.23%	2.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	116.90%	114.83%	N/A

(1) Information prior to 2013 is not available.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Required Supplementary Information

**Schedule of the District Contributions
Ohio Public Employees Retirement System - Traditional Plan**

For the Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contributions	\$ 4,904,484	\$ 5,932,293	\$ 5,823,387	\$ 5,478,156	\$ 5,244,880
Contributions in Relation to Contractually Required Contributions	(4,904,484)	(5,932,293)	(5,823,387)	(5,478,156)	(5,244,880)
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered-Employee Payroll	\$ 40,870,700	\$ 49,435,775	\$ 48,528,228	\$ 42,139,663	\$ 52,448,799
Contribution as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contributions	\$ 4,944,124	\$ 4,839,569	\$ 4,726,331	\$ 4,418,715	\$ 4,278,464
Contributions in Relation to Contractually Required Contributions	(4,944,124)	(4,839,569)	(4,726,331)	(4,418,715)	(4,278,464)
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered-Employee Payroll	\$ 49,441,242	\$ 53,772,993	\$ 55,603,893	\$ 63,124,493	\$ 51,239,086
Contribution as a Percentage of Covered-Employee Payroll	10.00%	9.00%	8.50%	7.00%	8.35%

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Required Supplementary Information

**Schedule of the District Contributions
Ohio Public Employees Retirement System - Combined Plan**

For the Last Ten Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contributions	\$ 262,724	\$ 273,026	\$ 267,975	\$ 252,089	\$ 241,354
Contributions in Relation to Contractually Required Contributions	(262,724)	(273,026)	(267,975)	(252,089)	(241,354)
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered-Employee Payroll	\$ 2,189,367	\$ 2,275,217	\$ 2,233,128	\$ 1,939,145	\$ 2,413,542
Contribution as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually Required Contributions	\$ 227,514	\$ 222,703	\$ 217,492	\$ 203,336	\$ 196,882
Contributions in Relation to Contractually Required Contributions	(227,514)	(222,703)	(217,492)	(203,336)	(196,882)
Contribution Deficiency (Excess)	<u>\$ -</u>				
Covered-Employee Payroll	\$ 2,275,143	\$ 2,474,477	\$ 2,558,730	\$ 2,904,806	\$ 2,357,874
Contribution as a Percentage of Covered-Employee Payroll	10.00%	9.00%	8.50%	7.00%	8.35%



NORTHEAST OHIO REGIONAL SEWER DISTRICT

Supplementary Information Schedule of Revenues, Expenses and Changes in Net Position – Budget to Actual

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
User Charges:				
Billed	\$ 263,625,268	\$ 263,625,268	\$ 303,009,907	\$ 39,384,639
Unbilled	7,007,634	7,007,634	8,054,549	1,046,915
Other Revenue	1,716,013	1,716,013	1,972,379	256,366
Total Revenues	<u>272,348,915</u>	<u>272,348,915</u>	<u>313,036,835</u>	<u>40,687,920</u>
 <u>Expenses:</u>				
Salary and Wages	52,327,875	52,332,875	50,468,807	1,864,068
Fringe Benefits	19,980,062	19,980,062	22,578,428	(2,598,366)
Power	12,116,684	12,116,684	10,652,319	1,464,365
Materials and Supplies	6,617,274	5,355,813	6,820,729	(1,464,916)
Collection Fees	7,935,120	7,935,120	8,000,246	(65,126)
Gas	1,587,630	1,587,630	1,314,239	273,391
Chemicals	2,943,788	2,943,788	2,390,757	553,031
Repairs and Maintenance	3,095,225	3,095,225	2,290,027	805,198
Solids Handling	2,225,552	2,225,552	1,763,205	462,347
Water	1,356,351	1,356,351	1,069,671	286,680
Professional Services	16,312,758	16,301,781	16,550,378	(248,597)
Insurance	960,000	960,000	764,709	195,291
Judgements and Awards	190,000	190,000	47,954	142,046
Other Operating Expenses	11,513,241	12,780,679	9,579,532	3,201,147
Capitalized Construction Costs	(9,000,000)	(9,000,000)	(10,057,893)	1,057,893
Depreciation	65,091,137	65,091,137	66,605,940	(1,514,803)
Total Operating Expenses	<u>195,252,697</u>	<u>195,252,697</u>	<u>190,839,048</u>	<u>4,413,649</u>
Excess of Revenues Over Operating Expenses	<u>\$ 77,096,218</u>	<u>\$ 77,096,218</u>	<u>\$ 122,197,787</u>	<u>\$ 45,101,569</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the Year Ended December 31, 2016

Reconciliation to Change in Net Position:

Excess of Operating Revenues Over Operating Expenses	\$	122,197,787
Interest Revenue		2,901,760
Increase in Fair Value of Investments, Net		494,661
Non-Operating Grant Revenue		223,125
Non-Operating Grant Expenses		(187,668)
Loss on Disposals of Equipment		(3,319,289)
Proceeds on Insurance Claims		64,597
Interest Expense on Long-Term Debt		(60,317,727)
Stormwater Community Cost Share Disbursement		(72,190)
Federal Subsidy Revenue		6,465,915
Income Before Extraordinary Item		<u>68,450,971</u>
Loss - Information Technology Fire		<u>(1,614)</u>
Change in Net Position		68,449,357
Net Position at Beginning of Year		<u>1,357,906,185</u>
Net Position at End of Year	\$	<u><u>1,426,355,542</u></u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2016

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 revenue, increases (decreases) 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.

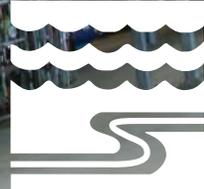
General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Chief Executive Officer is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of each 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.

Requests for capital project expenditures must be approved by the Board of Trustees and/or the Chief Executive Officer, as appropriate, and require certification of available funds by the Chief Financial Officer. Board approval is required for all operating and capital purchases of goods and services in excess of \$50,000. All budget appropriations lapse on December 31 of each year. 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.



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.

Contents	Page
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>	70
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant revenue source, user charges.</i>	74
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>	82
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>	84
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>	86
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>	94

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 POSITION BY COMPONENT
LAST TEN YEARS**

	<u>2016</u>	<u>2015</u>	<u>Restated 2014(***)</u>	<u>2013</u>
Net Investment in Capital Assets	\$ 990,664,879	\$ 786,650,331	\$ 1,018,734,360	\$ 1,067,650,046
Unrestricted	<u>435,690,663</u>	<u>571,255,854</u>	<u>284,669,454</u>	<u>248,677,688</u>
Total	<u>\$ 1,426,355,542</u>	<u>\$ 1,357,906,185</u>	<u>\$ 1,303,403,814</u>	<u>\$ 1,316,327,734</u>

Note:

(*) 2006 and 2007 restated to comply with GASB 51.

(**) 2012, 2011 restated to comply with GASB 65.

(***) 2014 restated to comply with GASB 68.

Source: District accounting records.

<u>Restated 2012 (**)</u>	<u>Restated 2011 (**)</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007 (*)</u>
\$ 1,065,405,939	\$ 1,055,247,281	\$ 1,038,270,319	\$ 1,006,102,174	\$ 995,487,741	\$ 978,861,950
<u>235,652,225</u>	<u>238,611,550</u>	<u>251,770,264</u>	<u>273,486,822</u>	<u>280,572,507</u>	<u>281,436,951</u>
<u><u>\$ 1,301,058,164</u></u>	<u><u>\$ 1,293,858,831</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>	<u><u>\$ 1,260,298,901</u></u>

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

	2016	2015	2014	2013	2012 (5)
<u>Operating Revenues, Net - Sewage</u>					
Billing Agents	\$ 266,840,893	\$ 237,570,432	\$ 220,621,174	\$ 192,601,300	\$ 171,056,663
Direct Billed	17,970,171	16,684,685	17,685,946	16,227,994	14,832,256
Other (1)	1,972,379	5,428,088	878,279	960,830	1,352,457
Total Operating Revenues, Net - Sewage	<u>286,783,443</u>	<u>259,683,205</u>	<u>239,185,399</u>	<u>209,790,124</u>	<u>187,241,376</u>
<u>Operating Revenues, Net - Stormwater</u>					
Billing Agents	25,487,614	20,424,261	-	-	-
Direct Billed	765,778	322,691	-	-	-
Total Operating Revenues, Net - Stormwater	<u>26,253,392</u>	<u>20,746,952</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Operating Revenues, Net - District Total</u>	<u>313,036,835</u>	<u>280,430,157</u>	<u>239,185,399</u>	<u>209,790,124</u>	<u>187,241,376</u>
<u>Operating Expenses - Sewage</u>					
Salaries and Wages	49,878,369	47,918,213	46,226,508	43,889,545	41,255,137
Fringe Benefits	22,495,670	14,563,011	14,610,845	14,203,943	13,657,026
Utilities	14,187,719	16,284,328	15,267,723	14,898,125	13,979,812
Professional and Contractual Services	29,842,682	21,988,568	22,286,370	24,747,308	21,827,170
Other (1)	2,587,719	3,725,796	3,807,036	2,155,767	3,387,828
Depreciation	66,605,940	62,825,528	57,171,918	50,179,846	51,187,381
Total Operating Expenses - Sewage	<u>185,598,099</u>	<u>167,305,444</u>	<u>159,370,400</u>	<u>150,074,534</u>	<u>145,294,354</u>
<u>Operating Expenses - Stormwater</u>					
Salaries and Wages	590,438	-	-	-	-
Fringe Benefits	82,758	-	-	-	-
Professional and Contractual Services	4,517,336	-	-	-	-
Other (1)	50,417	-	-	-	-
Total Operating Expenses - Stormwater	<u>5,240,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses - District Total	<u>190,839,048</u>	<u>167,305,444</u>	<u>159,370,400</u>	<u>150,074,534</u>	<u>145,294,354</u>
Operating Income	122,197,787	113,124,713	79,814,999	59,715,590	41,947,022
<u>Non-Operating Revenues (Expenses), Net</u>					
Interest Revenue	2,901,760	2,526,049	993,560	1,879,311	2,827,947
Increase (Decrease) in Fair Value of Investments, Net	494,661	(1,173,193)	295,828	(417,004)	(888,925)
Non-Operating Grant Revenue (1)	223,125	1,383,547	1,304,233	1,383,517	758,941
Non-Operating Grant Expenses (1)	(187,668)	(707,409)	(4,259,001)	(1,520,478)	(758,941)
Other Non-Operating (Expenses) Revenues (2)	-	-	-	-	-
Proceeds on Insurance Claims (3)	64,597	-	-	-	792,245
Loss on Disposals of Equipment	(3,319,289)	(4,323,785)	(3,913,066)	(340,588)	(622,504)
Loss on Extraordinary Events	(1,614)	(180,025)	-	-	-
Interest Expense on Long-Term Debt	(60,317,727)	(62,616,911)	(59,922,594)	(51,757,865)	(44,717,920)
Stormwater Community Cost Share Disbursement	(72,190)	-	-	-	-
Federal Subsidy Revenue (4)	6,465,915	6,469,385	6,438,149	6,327,087	6,941,401
Total Non-Operating Revenues (Expenses), Net	<u>(53,748,430)</u>	<u>(58,622,342)</u>	<u>(59,062,891)</u>	<u>(44,446,020)</u>	<u>(35,667,756)</u>
Capital Contributions	-	-	-	-	920,067
Change in Net Position	<u>\$ 68,449,357</u>	<u>\$ 54,502,371</u>	<u>\$ 20,752,108</u>	<u>\$ 15,269,570</u>	<u>\$ 7,199,333</u>

- (1) Beginning in 2007 Reclassified Non-Operating Grant Revenue and Expenses.
(2) Other Non-Operating Expenses include Agreement with the Cleveland Metroparks.
(3) Proceeds from the flood at the Southerly WWTP.
(4) Beginning in 2010 Reclassified Build America Bonds Subsidy. Refer to Note 6.
(5) Restated to comply with GASB 65.

Source: District accounting records.

2011 (5)	2010	2009	2008	2007
\$ 155,342,800	\$ 150,703,554	\$ 151,132,069	\$ 147,605,404	\$ 145,221,599
16,275,002	14,663,082	12,697,756	13,832,074	13,062,958
1,104,565	1,484,110	946,537	833,463	769,744
<u>172,722,367</u>	<u>166,850,746</u>	<u>164,776,362</u>	<u>162,270,941</u>	<u>159,054,301</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>172,722,367</u>	<u>166,850,746</u>	<u>164,776,362</u>	<u>162,270,941</u>	<u>159,054,301</u>
39,190,544	38,061,309	37,024,254	35,102,015	33,724,279
12,939,019	12,747,900	11,714,646	11,493,925	10,732,240
15,511,558	16,042,200	18,924,173	20,632,885	18,893,296
18,766,341	23,034,225	17,696,366	18,727,176	14,808,434
3,907,002	7,392,509	8,194,326	5,757,037	7,046,216
47,271,807	46,061,584	45,410,351	44,448,564	43,261,151
137,586,271	143,339,727	138,964,116	136,161,602	128,465,616
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>137,586,271</u>	<u>143,339,727</u>	<u>138,964,116</u>	<u>136,161,602</u>	<u>128,465,616</u>
35,136,096	23,511,019	25,812,246	26,109,339	30,588,685
3,825,074	3,292,522	7,240,399	11,714,888	12,417,477
(150,665)	(19,034)	(3,874,343)	2,332,208	3,157,199
676,833	1,731,894	1,430,784	1,592,151	35,430
(676,833)	(1,731,894)	(1,430,784)	(1,204,204)	(940,016)
-	-	(3,000,000)	-	-
621,938	-	-	-	-
(1,020,704)	(45,657)	(2,013,698)	(180,689)	(468,601)
(1,188,489)	-	-	-	-
(43,019,109)	(26,583,173)	(24,598,935)	(24,602,346)	(24,428,793)
-	-	-	-	-
6,912,478	858,034	-	-	-
<u>(34,019,477)</u>	<u>(22,497,308)</u>	<u>(26,246,577)</u>	<u>(10,347,992)</u>	<u>(10,227,304)</u>
6,161,822	9,437,876	3,963,079	-	-
<u>\$ 7,278,441</u>	<u>\$ 10,451,587</u>	<u>\$ 3,528,748</u>	<u>\$ 15,761,347</u>	<u>\$ 20,361,381</u>

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Operating Revenues, Net</u>				
Sewage and Stormwater Service Fees				
City of Cleveland Billing Agent	\$ 275,275,862	\$ 242,170,836	\$ 206,720,248	\$ 179,391,021
Other Billing Agents	17,052,645	15,823,857	13,900,926	13,210,279
Other Sewage and Stormwater Service Fees	18,735,949	17,007,376	17,685,946	16,227,994
Other Operating Revenue	<u>1,972,379</u>	<u>5,428,088</u>	<u>878,279</u>	<u>960,830</u>
Total Operating Revenues, Net	313,036,835	280,430,157	239,185,399	209,790,124
<u>Non-Operating Revenues, Net</u>				
Interest Revenue	2,901,760	2,526,049	993,560	1,879,311
Increase (Decrease) in Fair Value of Investments, Net	494,661	(1,173,193)	295,828	(417,004)
Proceeds from Insurance Claims (1)	64,597	-	-	-
Federal Subsidy Revenue (2)	6,465,915	6,469,385	6,438,149	6,327,087
Non-Operating Grant Revenue (3)	<u>223,125</u>	<u>1,383,547</u>	<u>1,304,233</u>	<u>1,383,517</u>
Total Non-Operating Revenues, Net (3)	10,150,058	9,205,788	9,031,770	9,172,911
Capital Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 323,186,893</u>	<u>\$ 289,635,945</u>	<u>\$ 248,217,169</u>	<u>\$ 218,963,035</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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 159,114,027	\$ 144,326,900	\$ 140,059,765	\$ 141,082,193	\$ 137,760,081	\$ 135,185,688
11,942,636	11,015,900	10,643,789	10,049,876	9,845,323	10,035,911
14,832,256	16,275,002	14,663,082	12,697,756	13,832,074	13,062,958
<u>1,352,457</u>	<u>1,104,565</u>	<u>1,484,110</u>	<u>946,537</u>	<u>833,463</u>	<u>769,744</u>
187,241,376	172,722,367	166,850,746	164,776,362	162,270,941	159,054,301
2,827,947	3,825,074	3,292,522	7,240,399	11,714,888	12,417,477
(888,925)	(150,665)	(19,034)	(3,874,343)	2,332,208	3,157,199
792,245	621,938	-	-	-	-
6,941,401	6,912,478	858,034	-	-	-
<u>758,941</u>	<u>676,833</u>	<u>1,731,894</u>	<u>1,430,784</u>	<u>1,592,151</u>	<u>35,430</u>
10,431,609	11,885,658	5,863,416	4,796,840	15,639,247	15,610,106
<u>920,067</u>	<u>6,161,822</u>	<u>9,437,876</u>	<u>3,963,079</u>	<u>-</u>	<u>-</u>
<u>\$ 198,593,052</u>	<u>\$ 190,769,847</u>	<u>\$ 182,152,038</u>	<u>\$ 173,536,281</u>	<u>\$ 177,910,188</u>	<u>\$ 174,664,407</u>

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Salaries and Wages	\$ 50,468,807	\$ 47,918,213	\$ 46,226,508	\$ 43,889,545
Fringe Benefits	22,578,428	14,563,011	14,610,845	14,203,943
Power	10,652,319	12,072,308	10,247,703	9,400,085
Materials and Supplies	6,820,729	5,676,639	4,882,158	4,075,901
Collection Fees	8,000,246	7,870,531	7,753,358	7,812,254
Gas	1,314,239	1,818,054	2,710,438	3,318,117
Chemicals	2,390,757	2,865,628	3,152,662	1,931,902
Repairs and Maintenance	2,290,027	3,154,329	3,310,824	2,762,386
Solids Handling	1,763,205	1,170,548	2,315,896	1,446,497
Water	1,069,671	977,437	1,096,667	1,260,155
Professional Services	16,550,378	6,004,935	6,468,485	10,553,455
Insurance	764,709	778,421	858,861	821,442
All Other Expenses (*)	9,627,486	8,353,217	7,940,886	6,774,159
Capitalized Construction Costs	(10,057,893)	(8,743,355)	(9,376,809)	(8,355,153)
Depreciation	66,605,940	62,825,528	57,171,918	50,179,846
Total Operating Expenses	<u>\$ 190,839,048</u>	<u>\$ 167,305,444</u>	<u>\$ 159,370,400</u>	<u>\$ 150,074,534</u>

(*) Beginning in 2007, Reclassified Non-Operating Grant Expenses.

Source : District accounting records.

2012	2011	2010	2009	2008	2007
\$ 41,255,137	\$ 39,190,544	\$ 38,061,309	\$ 37,024,254	\$ 35,102,015	\$ 33,724,279
13,657,026	12,939,019	12,747,900	11,714,646	11,493,925	10,732,240
8,068,363	9,258,484	9,879,693	10,591,495	11,101,067	10,087,278
5,056,453	4,564,897	4,729,166	4,190,172	4,261,239	4,498,829
6,725,143	5,975,072	5,805,347	5,725,215	5,435,973	5,558,472
3,825,221	4,254,679	4,292,298	6,600,201	7,801,361	7,094,373
1,641,550	1,329,150	1,293,973	1,615,452	1,268,036	1,523,535
2,078,341	2,440,310	2,901,283	2,362,155	3,036,704	4,008,618
1,825,201	847,246	2,190,398	1,831,793	861,768	1,462,056
1,191,439	1,147,687	1,054,989	1,007,356	1,021,701	1,070,362
8,917,796	8,407,259	11,998,519	7,886,179	8,991,475	4,469,991
779,453	1,227,736	1,161,822	997,672	1,097,763	1,120,774
6,592,367	4,506,935	5,107,521	5,466,842	3,758,449	3,624,958
(7,506,517)	(5,774,554)	(3,946,075)	(3,459,667)	(3,518,438)	(3,771,300)
51,187,381	47,271,807	46,061,584	45,410,351	44,448,564	43,261,151
<u>\$ 145,294,354</u>	<u>\$ 137,586,271</u>	<u>\$ 143,339,727</u>	<u>\$ 138,964,116</u>	<u>\$ 136,161,602</u>	<u>\$ 128,465,616</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMMUNITIES SERVED BY THE DISTRICT AND
ESTIMATED POPULATION SERVED
DECEMBER 31, 2016**

Municipality	Estimated Service Population ⁽¹⁾	Municipality	Estimated Service Population ⁽¹⁾
SUBDISTRICT 1			
Cleveland City	384,470		
SUBDISTRICT 2		SUBDISTRICT 2	
Bath Township	60 ⁽³⁾	Middleburg Heights City	15,751
Beachwood City	11,926	Moreland Hills Village	-
Bedford City	- ⁽³⁾	Newburgh Heights Village	2,118
Bedford Heights City	- ⁽³⁾	North Randall Village	1,049
Berea City	18,660	North Royalton City	4,091 ⁽²⁾
Boston Heights Village	778 ⁽²⁾	Northfield Center Township	5,695
Bratenahl Village	1,300	Northfield Village	3,537
Brecksville City	13,290 ⁽²⁾	Oakwood Village	1,688 ⁽²⁾
Broadview Heights City	15,079 ⁽²⁾	Olmsted Falls City	8,741 ⁽²⁾
Brook Park City	18,825	Olmsted Township	8,299 ⁽²⁾
Brooklyn City	10,480	Orange Village	942 ⁽²⁾
Brooklyn Heights Village	1,588	Parma City	79,649
Cleveland Heights City	46,148	Parma Heights City	20,526
Columbia Township	2,205 ⁽²⁾	Pepper Pike City	6,247 ⁽²⁾
Cuyahoga Heights Village	710	Richfield Township	978 ⁽²⁾
East Cleveland City	16,868	Richfield Village	3,734 ⁽²⁾
Euclid City	1,952 ⁽²⁾	Richmond Heights City	4,318 ⁽²⁾
Garfield Heights City	27,977	Sagamore Hills Township	11,157
Gates Mills Village	443 ⁽²⁾	Seven Hills City	11,907
Glenwillow Village	31 ⁽²⁾	Shaker Heights City	28,345
Highland Heights City	8,230	Solon City	149 ⁽²⁾
Highland Hills Village	1,124	South Euclid City	21,323
Hudson City	8,874 ⁽²⁾	Strongsville City	25,237 ⁽²⁾
Independence City	7,157	Twinsburg City	9 ⁽²⁾
Lakewood City	- ⁽³⁾	Twinsburg Township	541 ⁽²⁾
Linndale Village	160	University Heights City	13,847
Lyndhurst City	13,659	Valley View Village	2,024
Macedonia City	11,425	Walton Hills Village	2,154
Maple Heights City	22,765	Warrensville Heights City	13,117
Mayfield Heights City	18,754	Willoughby Hills City	- ⁽³⁾
Mayfield Village	3,442		
		Total Subdistrict 2	581,083
Total Estimated Service Population			965,553

(1) Based on U.S. Census Data and District administrative records.

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

(3) Service population not applicable. District serves non-residential properties only.



**NORTHEAST OHIO REGIONAL SEWER DISTRICT
LARGEST SEWER CUSTOMERS OF THE DISTRICT
AS OF DECEMBER 31, 2016
and NINE YEARS PRIOR**

	2016			PERCENTAGE OF OPERATING REVENUE
	CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	
<u>SUBDISTRICT 1</u>				
Cuyahoga Metropolitan Housing Agency (2)	78,193.2	\$ 6,063,132	1	1.9%
City of Cleveland Water Filtration Plants	36,459.4	3,365,864	2	1.1%
Arcelor Mittal Steel (ISG Cleveland)	24,348.5	2,169,062	3	0.7%
Cuyahoga County (2)	17,845.0	1,383,077	5	0.4%
University Hospitals	17,735.1	1,348,630	6	0.4%
Case Western Reserve University	14,121.3	1,068,930	8	0.3%
Cleveland Board of Education	9,296.7	714,945	10	0.2%
MetroHealth Medical Centers	7,739.6	591,980	12	0.2%
Cleveland Clinic (2)	5,058.7	477,040	13	0.2%
HydroChem (Inland Waters of Ohio)	4,095.9	460,934	14	0.1%
Ferro Corporation (2)	5,465.4	424,305	15	0.1%
Veterans Administration Hospitals (2)	4,134.7	335,387	18	0.1%
Sherwin Williams (2)	3,918.1	304,923	19	0.1%
Cleveland State University	3,937.9	302,861	20	0.1%
Dominion Cleveland Thermal Energy Corporation	2,402.7	196,659	23	0.1%
Cleveland Metroparks Zoo	2,225.8	193,007	24	0.1%
General Electric Company	2,387.4	94,865	25	0.0%
Columbus Road Realty	-	-	-	0.0%
Holiday Inn	-	-	-	0.0%
Property Management Rental	-	-	-	0.0%
Total Subdistrict 1	239,365.4	19,495,601		6.1%
<u>SUBDISTRICT 2</u>				
Aluminum Corporation of America (ALCOA)	20,329.8	1,615,659	4	0.5%
NASA John H Glenn Research Center	15,168.3	1,211,218	7	0.4%
Forest City Management (2)	9,900.7	784,605	9	0.3%
Eaton Estates / Nagy Park	7,872.4	642,386	11	0.2%
Ford Motor Corporation	5,014.2	405,340	16	0.1%
Charter Steel	4,205.5	335,903	17	0.1%
Cuyahoga County Community College (2)	3,667.1	286,360	21	0.1%
Brooklyn Acres Homes (2)	2,887.2	233,081	22	0.1%
Zehman & Wolfe Management	2,358.0	183,716	26	0.1%
General Motors Corporation	-	-	-	0.0%
The Pearl Management Company	-	-	-	0.0%
K & D Group	-	-	-	0.0%
Thristledown Racing Club	-	-	-	0.0%
Total Subdistrict 2	71,403.2	5,698,268		1.9%
Grand Total	310,768.6	\$ 25,193,869		8.0%

(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.

2007

CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
99,718.7	\$ 4,017,287	1	2.5%
31,986.5	1,310,852	5	0.8%
30,083.9	1,233,266	6	0.8%
21,393.8	872,163	11	0.5%
32,577.8	1,328,391	4	0.8%
20,564.0	904,390	9	0.6%
20,408.7	821,498	12	0.5%
17,298.5	705,346	14	0.4%
45,031.0	1,809,219	3	1.1%
-	-	-	0.0%
18,112.8	715,067	13	0.4%
7,206.0	294,688	17	0.2%
-	-	-	0.0%
10,150.2	439,964	16	0.3%
21,352.1	885,795	10	0.6%
			0.0%
5,557.10	218,120	21	0.1%
6,469.7	254,932	20	0.2%
6,962.7	259,585	18	0.2%
6,424.6	258,764	19	0.2%
401,298.1	16,329,327		10.2%
33,072.2	1,145,029	7	0.7%
29,330.6	1,017,362	8	0.6%
17,261.8	559,716	15	0.4%
			0.0%
56,071.7	1,957,629	2	1.2%
-	-	-	0.0%
-	-	-	0.0%
-	-	-	0.0%
5,893.6	208,241	22	0.1%
5,136.5	177,759	26	0.1%
5,747.1	197,903	23	0.1%
5,672.3	193,820	25	0.1%
5,704.3	196,101	24	0.1%
163,890.1	5,653,560		3.4%
565,188.2	\$ 21,982,887		13.6%

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

Debt by Type, In Thousands	2016	2015	2014	2013
Revenue Bond Issues				
\$68,280 Series 2005 (A)	\$ -	\$ 13,950	\$ 20,445	\$ 26,635
\$126,055 Series 2007 (B) (F)	7,520	34,110	36,865	112,430
\$336,930 Series 2010 (C)	336,930	336,930	336,930	336,930
\$249,535 Series 2013 (D)	249,535	249,535	249,535	249,535
\$350,570 Series 2014A (E)	350,570	350,570	350,570	-
\$68,460 Series 2014B (F)	68,460	68,460	68,460	-
\$25,015 Series 2016 (G)	25,015	-	-	-
Total Revenue Bond Issues	1,038,030	1,053,555	1,062,805	725,530
Bond Premium	59,638	66,503	74,014	2,299
Bond Discount	(26)	-	-	-
Total Revenue Bonds	1,097,642	1,120,058	1,136,819	727,829
Ohio Water Development Authority Loans	-	-	-	-
Water Pollution Control Loans	490,186	497,778	469,536	468,816
Total All Debt	<u>\$ 1,587,828</u>	<u>\$ 1,617,836</u>	<u>\$ 1,606,355</u>	<u>\$ 1,196,645</u>
Number of Customer Accounts (1)	325,100	326,496	326,555	326,720
Outstanding Debt Per Customer Account	\$ 4,884	\$ 4,955	\$ 4,919	\$ 3,663

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

Historical Number of Customer Accounts (see pages 94 & 95)	311,441	312,837	313,021	313,284
Less Master Meter Communities	(3)	(3)	(3)	(3)
Add estimated number of customers in Master Meter Communities	13,662	13,662	13,537	13,439
Number of Customer Accounts	<u>325,100</u>	<u>326,496</u>	<u>326,555</u>	<u>326,720</u>

*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, 2016.

(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.

(D) The Series 2013 Bonds were issued on March 26, 2013.

(E) The Series 2014A Bonds were issued on December 18, 2014.

(F) The Series 2014B Bonds were issued on December 18, 2014 and refunded a portion of the Series 2007 Bonds.

(G) The Series 2016 Bonds were issued on March 24, 2016 and refunded a portion of the Series 2007 Bonds.

Source: District accounting records.

2012	2011	2010	2009	2008	2007
\$ 32,525	\$ 38,190	\$ 43,660	\$ 48,925	\$ 53,985	\$ 58,850
114,930	117,330	119,645	121,865	124,000	126,055
336,930	336,930	336,930	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
484,385	492,450	500,235	170,790	177,985	184,905
2,646	3,046	3,507	4,044	4,684	2,255
-	-	-	-	-	-
487,031	495,496	503,742	174,834	182,669	187,160
-	-	-	-	-	194
470,471	478,272	435,356	411,544	417,080	418,262
<u>\$ 957,502</u>	<u>\$ 973,768</u>	<u>\$ 939,098</u>	<u>\$ 586,378</u>	<u>\$ 599,749</u>	<u>\$ 605,616</u>
326,412	323,567	315,794	319,629	328,856	334,850
\$ 2,933	\$ 3,009	\$ 2,974	\$ 1,835	\$ 1,824	\$ 1,809
313,294	309,820	302,838	306,791	311,937	318,515
(3)	(3)	(3)	(3)	(3)	(4)
13,121	13,750	12,959	12,841	16,922	16,339
<u>326,412</u>	<u>323,567</u>	<u>315,794</u>	<u>319,629</u>	<u>328,856</u>	<u>334,850</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)
2007	1,301,540	6.1%	\$ 52,972,367	\$ 40,838
2008	1,291,479	6.8%	54,632,402	42,051
2009	1,285,082	9.2%	51,323,908	41,391
2010	1,278,226	9.5%	51,092,441	41,347
2011	1,269,820	9.9%	54,151,587	44,088
2012	1,265,798	7.0%	56,876,705	40,838
2013	1,263,796	7.2%	56,730,102	47,294
2014	1,260,610	5.3%	59,358,035	47,087
2015	1,255,921	4.5%	60,919,487	48,506
2016	1,249,352	5.4%	n/a	n/a

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

(2) Sources are District administrative records, County of Cuyahoga, Ohio Comprehensive Annual Financial Report 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, 2016
and NINE YEARS PRIOR**

Employer Name (1)	2016			2007		
	Number of Employees (1)	Percentage of Total County	Rank (1)	Number of Employees (1)	Percentage of Total County	Rank (1)
	FTE*	Employment (2)		FTE*	Employment (2)	
Minute Men Cos.	39,402	5.47%	1	- (3)	-	-
Cleveland Clinic Health System	34,328	4.76%	2	28,461	4.36%	1
University Hospitals	21,519	2.99%	3	15,904	2.44%	2
U.S. Office of Personnel Management	14,382	2.00%	4	9,172	1.41%	4
Progressive Corp.	9,490	1.32%	5	8,796	1.35%	5
Giant Eagle, Inc.	9,080	1.26%	6	- (3)	-	-
Group Management Services, Inc.	8,499	1.18%	7	- (3)	-	-
State of Ohio	8,139	1.13%	8	- (3)	-	-
United States Postal Services	7,607	1.06%	9	- (3)	-	-
Cleveland Municipal School District	7,558	1.05%	10	-	-	-
Cuyahoga County	-	-	-	7,442	1.14%	7
City of Cleveland	-	-	-	9,295	1.42%	3
Key Corp	-	-	-	8,327	1.28%	6
National City Corp	-	-	-	6,615	1.01%	8
Metro Health System	-	-	-	6,563	1.01%	9
	-	-	-	5,627	0.86%	10
Total	160,004	22.22%		106,202	16.28%	
Total Cuyahoga County Employment (2)		720,438			652,528	

* Full-Time Equivalent.

(1) Sources are *Crain's Cleveland Business*, December 2016 and March, 2008.

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, and U.S.

Department of Labor, Bureau of Labor Statistics.

(3) Employment outside of top ten reporting year.

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

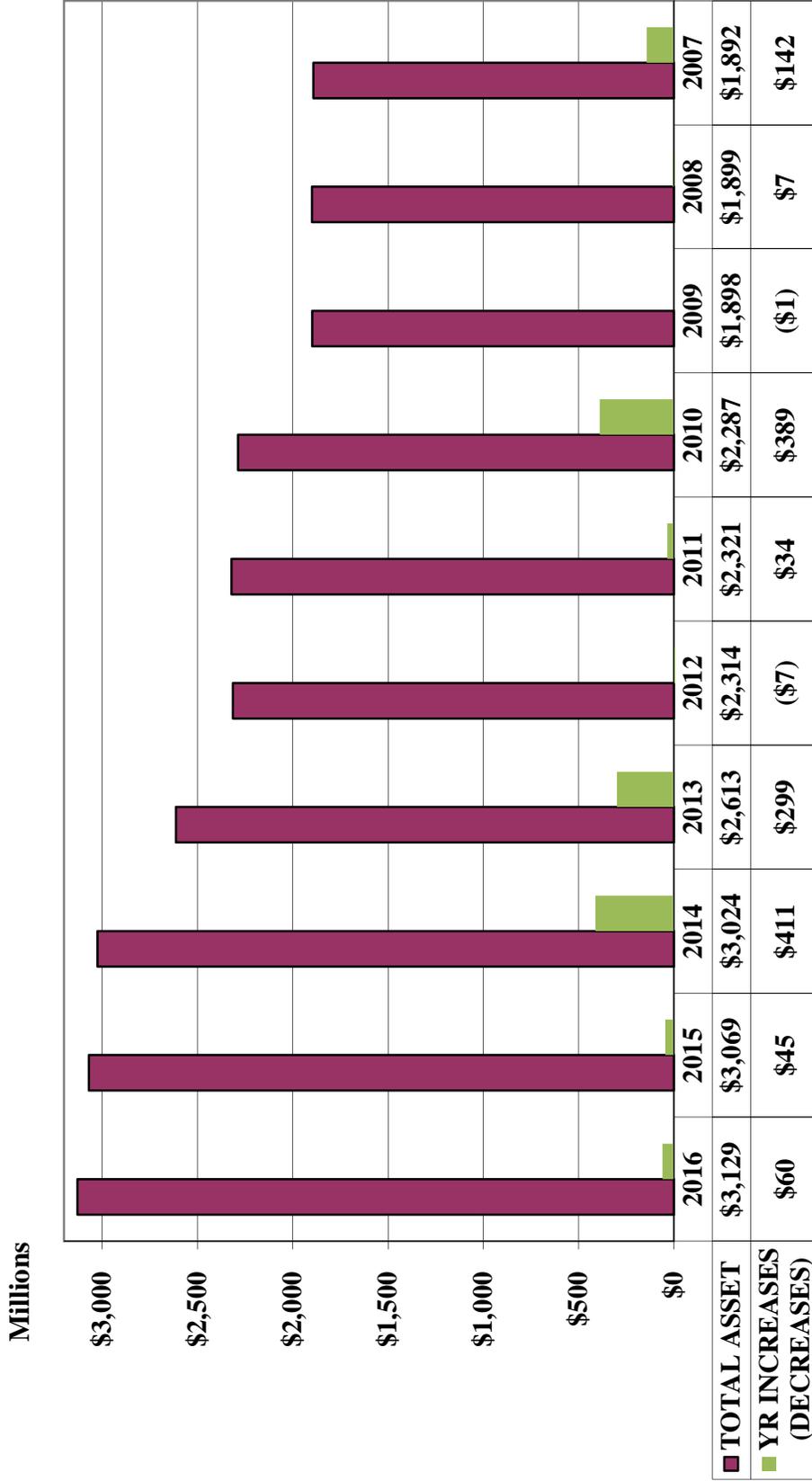
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>TREATMENT PLANT FLOW</u>				
Billions of gallons of sewage treated per plant:				
Easterly	26.3	29.4	32.2	31.7
Southerly	41.0	47.7	47.2	44.0
Westerly	9.0	9.7	10.3	9.9
Total	<u>76.3</u>	<u>86.8</u>	<u>89.7</u>	<u>85.6</u>
Total sewage treated, in MCFs (1)	<u>10,200,535</u>	<u>11,604,278</u>	<u>11,991,979</u>	<u>11,443,850</u>
MCFs billed, total District (5)	<u>3,703,861</u>	<u>3,665,500</u>	<u>3,739,178</u>	<u>3,709,188</u>
<u>STAFFING LEVELS</u>				
Number of employees:				
Plant Operations and Maintenance (4)	427	410	363	344
Engineering	61	64	61	61
Finance (6) (7)	42	43	44	43
Human Resources (3)	30	27	16	16
Information Technology	24	19	22	18
District Administration (3) (6) (8)	15	13	78	69
Legal (8)	9	8	9	12
Administration and External Affairs (7)	36	27	38	32
Watershed Programs (4)	91	83	77	78
Total	<u>735</u>	<u>694</u>	<u>708</u>	<u>673</u>
Budgeted employees, total District	<u>771</u>	<u>761</u>	<u>730</u>	<u>719</u>

- (1) Conversion factor: 1 MCF (thousand cubic feet) = 7,480 gallons.
(3) Safety and Security reclassified from Human Resources to District Administration beginning in 2005.
(4) Watershed Programs reclassified from Plant Operations and Maintenance to Watershed Programs.
(5) Restated 2010 MCF's billed.
(6) Reclassified Internal Audit from Finance to District Administration in 2009.
(7) Reclassified Customer Service from Finance to Administration and External Affairs in 2011.
(8) Reclassified Records Management from Legal to District Administration in 2011.

Source: Various District records.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
32.9	41.9	30.9	31.2	36.1	35.3
39.1	51.5	39.2	39.1	43.8	45.3
9.9	12.6	9.0	10.1	10.8	10.0
<u>81.9</u>	<u>106.0</u>	<u>79.1</u>	<u>80.4</u>	<u>90.7</u>	<u>90.6</u>
<u>10,949,198</u>	<u>14,171,123</u>	<u>10,574,866</u>	<u>10,748,663</u>	<u>12,125,668</u>	<u>12,112,299</u>
<u>3,895,816</u>	<u>4,096,885</u>	<u>4,195,507</u>	<u>4,267,959</u>	<u>4,507,357</u>	<u>4,756,809</u>
339	352	357	353	363	396
61	52	54	56	57	65
39	41	47	47	47	42
15	17	17	19	14	15
19	19	20	21	19	21
66	54	50	47	46	56
11	10	14	13	14	8
28	25	18	16	16	8
70	72	63	62	58	-
<u>648</u>	<u>642</u>	<u>640</u>	<u>634</u>	<u>634</u>	<u>611</u>
<u>693</u>	<u>680</u>	<u>679</u>	<u>668</u>	<u>660</u>	<u>662</u>

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





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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Number of Buildings				
<u>Operations</u>				
Southerly Plant	44	43	42	42
Easterly Plant	21	20	19	19
Westerly Plant	17	17	17	16
Outlying Pump Buildings	6	6	7	7
Total Operations	<u>88</u>	<u>86</u>	<u>85</u>	<u>84</u>
<u>Administration</u>				
District Administration	1	1	1	1
Environmental Maintenance and Services Center	4	4	4	4
Total Offices	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total Buildings	<u>93</u>	<u>91</u>	<u>90</u>	<u>89</u>
Miles of Interceptor Sewers Installed Annually*	<u>0.20</u>	<u>1.4</u>	<u>4.5</u>	<u>0.25</u>
Number of Outlying Systems				
<u>Sewage Collection System</u>				
Interceptor Sewers and Tunnels	21	21	21	21
Inter-Community Relief Sewers	30	30	30	29
Automated Regulators	32	32	31	25
Pumping Stations	9	9	9	10
Force Mains	5	5	5	6
Total Sewage Collection System	<u>97</u>	<u>97</u>	<u>96</u>	<u>91</u>
<u>Support Facilities</u>				
Floatables Control Sites	10	10	10	10
Biofilter Odor Control Sites	8	8	8	8
Rain Gauge Sites	28	28	28	25
Lakeview Dam	1	1	1	1
Total Support Facilities	<u>47</u>	<u>47</u>	<u>47</u>	<u>44</u>
Total Outlying Systems	<u>144</u>	<u>144</u>	<u>143</u>	<u>135</u>
Acres of Land				
<u>Operations</u>				
Southerly Plant	311.2	311.2	311.2	311.2
Easterly Plant	92.6	92.6	92.6	92.6
Westerly Plant	13.4	13.4	13.4	13.4
<u>Administration</u>				
District Administration	2.6	2.6	2.6	2.6
Environmental Maintenance and Services Center	14.7	14.7	14.7	14.7
Total Acres, Operations and Administration	<u>434.5</u>	<u>434.5</u>	<u>434.5</u>	<u>434.5</u>

*Total interceptor sewers are in excess of 200 miles.

Source: District accounting and engineering records.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
40	39	39	39	38	36
18	18	18	18	18	18
16	16	16	16	16	16
7	7	7	5	5	5
<u>81</u>	<u>80</u>	<u>80</u>	<u>78</u>	<u>77</u>	<u>75</u>
1	1	1	1	1	1
4	4	4	4	4	4
5	5	5	5	5	5
<u>86</u>	<u>85</u>	<u>85</u>	<u>83</u>	<u>82</u>	<u>80</u>
<u>2.87</u>	<u>5.55</u>	<u>3.95</u>	<u>0.40</u>	<u>0.99</u>	<u>0.89</u>
21	21	21	21	21	21
28	26	26	25	25	25
25	25	25	25	25	25
10	10	10	8	8	7
6	6	6	5	5	5
<u>90</u>	<u>88</u>	<u>88</u>	<u>84</u>	<u>84</u>	<u>79</u>
10	10	10	10	10	10
8	8	8	8	8	8
25	25	25	25	25	25
1	1	1	1	1	1
<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>
<u>134</u>	<u>132</u>	<u>132</u>	<u>128</u>	<u>128</u>	<u>123</u>
311.2	311.2	311.2	311.2	311.2	311.2
92.6	92.6	92.6	77.7	77.7	77.7
13.4	13.4	13.4	14.5	14.5	14.5
2.6	2.6	2.6	2.6	2.6	2.6
14.7	14.7	14.7	14.7	14.7	14.7
<u>434.5</u>	<u>434.5</u>	<u>434.5</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>



CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Sewage Accounts:</u>				
<u>Subdistrict 1</u>				
Cleveland (1) (3)	122,204	123,722	124,288	125,422
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2) (3)	3	3	3	3
Direct Service - Suburbs (1) (3)	<u>189,234</u>	<u>189,112</u>	<u>188,730</u>	<u>187,859</u>
Subtotal	<u>189,237</u>	<u>189,115</u>	<u>188,733</u>	<u>187,862</u>
Total Sewage Accounts	<u>311,441</u>	<u>312,837</u>	<u>313,021</u>	<u>313,284</u>
Stormwater Only Accounts (4)	<u>20,602</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Customers	<u><u>332,043</u></u>	<u><u>312,837</u></u>	<u><u>313,021</u></u>	<u><u>313,284</u></u>

(1) 2006 excludes 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. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in Subdistrict 2.

(3) Represents total accounts billed for sewage and stormwater fees.

(4) This represents the remainder of North Royalton that the District does not provide sewage services, Summit County customers where sewage fees were billed at Master Meters, and actual stormwater only accounts, such as parking lots and other properties that do not have water/sewage services.

Source: District accounting records.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
126,357	125,832	121,009	122,201	128,142	130,616
3	3	3	3	3	4
<u>186,934</u>	<u>183,985</u>	<u>181,826</u>	<u>184,587</u>	<u>183,792</u>	<u>187,895</u>
<u>186,937</u>	<u>183,988</u>	<u>181,829</u>	<u>184,590</u>	<u>183,795</u>	<u>187,899</u>
<u>313,294</u>	<u>309,820</u>	<u>302,838</u>	<u>306,791</u>	<u>311,937</u>	<u>318,515</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u><u>313,294</u></u>	<u><u>309,820</u></u>	<u><u>302,838</u></u>	<u><u>306,791</u></u>	<u><u>311,937</u></u>	<u><u>318,515</u></u>

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<u>Subdistrict 1</u>				
Cleveland	1,684,932	1,668,505	1,715,359	1,706,438
<u>Subdistrict 2</u>				
Direct Service - Suburbs (3)	1,921,561	1,884,506	1,892,128	1,859,247
Master Meter - Suburbs (1)	<u>97,368</u>	<u>112,489</u>	<u>131,691</u>	<u>143,503</u>
Subtotal	<u>2,018,929</u>	<u>1,996,995</u>	<u>2,023,819</u>	<u>2,002,750</u>
Total Service Area	<u><u>3,703,861</u></u>	<u><u>3,665,500</u></u>	<u><u>3,739,178</u></u>	<u><u>3,709,188</u></u>

- (1) For years 2006-2011, Consumption of Master Meter Suburbs is presented at 80% of their total consumption, which is the billing basis. For years 2012-2015, Consumption of Master Meter Suburbs is presented at 70%, 65%, 60% and 55%; respectively, of their total consumption, which is the billing basis. Beginning in 2017 & continuing until modification or termination of the Billing Agreement the Master Meter Suburbs will be billed at their actual consumption. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in Subdistrict 2.
- (2) Beginning in 2006, NASA has been categorized as a Subdistrict 2 customer to properly reflect consumption totals.
- (3) Restated 2010 for consumption adjustment.

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
1,781,276	1,881,996	1,946,380 (3)	1,915,736	2,127,084	2,217,887
1,977,996	2,005,569	2,078,834 (3)	2,189,464	2,184,458	2,250,184
<u>136,544</u>	<u>209,320</u>	<u>170,293</u>	<u>162,759</u>	<u>195,815</u>	<u>288,738</u>
<u>2,114,540</u>	<u>2,214,889</u>	<u>2,249,127</u>	<u>2,352,223</u>	<u>2,380,273</u>	<u>2,538,922</u>
<u><u>3,895,816</u></u>	<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>	<u><u>4,756,809</u></u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
SUMMARY OF SEWER REVENUES, EXPENSES, DEBT SERVICE AND
DEBT SERVICE COVERAGE
LAST TEN YEARS**

(In Thousands of Dollars)

	2016 (3)	2015 (3)	2014	2013
Operating Revenues, Net	\$ 286,783	\$ 259,683	\$ 239,185	\$ 209,790
Non-Operating Revenues	3,397	1,353	1,290	1,462
Total Revenues	<u>290,180</u>	<u>261,036</u>	<u>240,475</u>	<u>211,252</u>
Operating Expenses (Exclusive of depreciation)	118,992	104,480	102,198	99,895
Transfer to Rate Stabilization Account	-	-	6,000	-
Total Expenses	<u>118,992</u>	<u>104,480</u>	<u>108,198</u>	<u>99,895</u>
Net Revenues Available for Debt Service	<u>\$ 171,188</u>	<u>\$ 156,556</u>	<u>\$ 132,277</u>	<u>\$ 111,357</u>
Total Revenue Bond Debt Service (1),(2)	\$ 63,428	\$ 42,425	\$ 28,774	\$ 28,579
Coverage on Revenue Bond Debt Service	2.70	3.69	4.60	3.90
Total All Debt Service (1)	\$ 111,612	\$ 94,103	\$ 78,180	\$ 78,818
Coverage on Total Debt Service	1.53	1.66	1.69	1.41

(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, 2016 were:

	2016	2015	2014	2013
Revenue Bond Issues and Debt Service				
\$68,280 Series 2005 (A)	\$ 14,648	\$ 7,517	\$ 7,522	\$ 7,516
\$126,055 Series 2007 (B) (F)	3,373	4,457	7,858	7,858
\$336,930 Series 2010 (C) (G)	13,367	13,363	13,394	13,205
\$249,535 Series 2013 (D)	12,172	6,086	-	-
\$350,570 Series 2014A (E)	16,182	8,091	-	-
\$68,460 Series 2014B (F)	3,205	2,911	-	-
\$25,015 Series 2016 (H)	481	-	-	-
Total Revenue Bond Issues and Debt Service	<u>63,428</u>	<u>42,425</u>	<u>28,774</u>	<u>28,579</u>
OWDA Debt Service	-	-	-	-
WPCLF Debt Service	48,184	51,678	49,406	50,239
Total All Debt Service	<u>\$ 111,612</u>	<u>\$ 94,103</u>	<u>\$ 78,180</u>	<u>\$ 78,818</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.
- (D) The Series 2013 Bonds were issued on March 26, 2013.
- (E) The Series 2014A Bonds were issued on December 18, 2014.
- (F) The Series 2014B Bonds were issued on December 18, 2014 and refunded a portion of the Series 2007 Bonds.
- (G) The Series 2010 Bonds interest has increased due to the BAB subsidy reduction from the recent sequester by Congress.
- (H) The Series 2016 Bonds were issued on March 24, 2016.

(2) 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.

(3) Per bond covenants, sewer revenues and expenses are only used to calculate debt service ratios.

Source: District accounting records.

2012	2011	2010	2009	2008	2007
\$ 187,241	\$ 172,722	\$ 166,851	\$ 164,776	\$ 162,271	\$ 159,055
1,939	3,674	4,131	3,366	14,047	15,575
<u>189,180</u>	<u>176,396</u>	<u>170,982</u>	<u>168,142</u>	<u>176,318</u>	<u>174,630</u>
94,107	90,314	97,278	93,554	91,713	85,205
-	3,000	-	3,000	-	-
<u>94,107</u>	<u>93,314</u>	<u>97,278</u>	<u>96,554</u>	<u>91,713</u>	<u>85,205</u>
<u>\$ 95,073</u>	<u>\$ 83,082</u>	<u>\$ 73,704</u>	<u>\$ 71,588</u>	<u>\$ 84,605</u>	<u>\$ 89,425</u>
\$ 15,372	\$ 15,370	\$ 15,375	\$ 15,373	\$ 15,375	\$ 10,174
6.18	5.41	4.79	4.66	5.61	8.79
\$ 64,473	\$ 59,974	\$ 60,821	\$ 59,430	\$ 58,140	\$ 54,905
1.47	1.39	1.21	1.20	1.46	1.63

2012	2011	2010	2009	2008	2007
\$ 7,518	\$ 7,514	\$ 7,520	\$ 7,517	\$ 7,517	\$ 7,514
7,854	7,856	7,855	7,856	7,858	2,660
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>15,372</u>	<u>15,370</u>	<u>15,375</u>	<u>15,373</u>	<u>15,375</u>	<u>10,174</u>
-	-	-	-	204	409
<u>49,101</u>	<u>44,604</u>	<u>45,446</u>	<u>44,057</u>	<u>42,561</u>	<u>44,322</u>
<u>\$ 64,473</u>	<u>\$ 59,974</u>	<u>\$ 60,821</u>	<u>\$ 59,430</u>	<u>\$ 58,140</u>	<u>\$ 54,905</u>

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

Fiscal Years During Which Rates Were Effective	Fixed Fee (3)	SUBDISTRICT 1				SUBDISTRICT 2			
		Standard		Homestead (2)		Standard		Homestead (2)	
		Rate (1)	% Change						
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
2012	5.85	49.55	10.7	29.75	-1.0	52.55	9.5	31.75	-1.6
2013	6.30	55.45	11.9	33.35	12.1	58.15	10.7	35.15	10.7
2014	6.60	62.15	12.1	37.35	12.0	64.55	11.0	38.95	10.8
2015	6.90	69.65	12.1	41.85	12.0	71.75	11.2	43.25	11.0
2016	7.20	78.05	12.1	46.85	11.9	79.85	11.3	48.05	11.1

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

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

(3) A Fixed Fee per quarterly bill was established in the 2012 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). Minimum Quarterly Billing was discontinued starting in 2012.

Source: District accounting records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
STORMWATER FEE RATES
RATES AS OF DECEMBER 31, 2016**

<u>Type of property</u>	<u>Tier Type</u>	<u>Impervious surface area (sq. ft.)*</u>	<u>2016 (1)</u>
Residential	Tier 1	Less than 2,000	\$3.09
	Tier 2/Base	2,000-3,999	\$5.15
	Tier 3	4,000 or more	\$9.27
	Homestead/Affordability	Any size	\$2.07
Non-residential	All	Per ERU, or 3,000 square feet	\$5.15
	Educational Economically Disadvantaged (2)	Per ERU, or 3,000 square feet	\$2.07

All fees above are per month.

* Impervious surface area (estimated) includes hard surfaces on your property such as rooftops, driveways, or decks/patios which contribute to increasing stormwater runoff.

(1) The fee is based on Equivalent Residential Units or ERU which equals 3,000 square feet of impervious area.

(2) Educational Economically Disadvantaged Stormwater Fee – The Educational Economically Disadvantaged Stormwater Fee may be available to all public and private primary, elementary, and secondary schools, school districts, or school systems under the control of a common entity that are recognized in the State of Ohio and can demonstrate that at least twenty-five (25) percent of their current students are eligible to participate in the Free Lunch Program under the Richard B. Russell National School Lunch Act (42 U.S.C. § 1751, et seq.).

Source: District accounting records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
CAPITAL IMPROVEMENT PROGRAM
USES AND SOURCES OF FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2017 THROUGH 2026
(In Thousands of Dollars)**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>USES OF FUNDS</u>					
Sewage Treatment Plant Improvements					
Westerly	\$ 8,593,137	\$ 1,596,596	\$ 1,811,170	\$ 4,428,772	\$ 662,297
Southerly	26,590,098	23,069,731	1,108,005	5,237,719	20,415,415
Easterly	675,965	2,870,785	606,145	2,609,911	9,120,840
Sub-Total	<u>35,859,200</u>	<u>27,537,112</u>	<u>3,525,320</u>	<u>12,276,402</u>	<u>30,198,552</u>
Interceptors/Rehabilitation	20,511,741	10,528,220	96,038	867,689	4,972,955
Combined Sewer Overflow Control Program	162,550,296	173,035,627	273,248,709	272,421,842	159,380,371
Districtwide Building Improvements and Other Improvements	17,852,734	27,401,598	24,567,280	26,281,857	26,955,554
Information Technology and Other Minor Equipment	15,450,000	16,322,777	17,211,771	18,160,479	19,173,785
Total	<u>\$ 252,223,971</u>	<u>\$ 254,825,334</u>	<u>\$ 318,649,118</u>	<u>\$ 330,008,269</u>	<u>\$ 240,681,217</u>
<u>SOURCES OF FUNDS</u>					
WPCLF Loans (1)	\$ 36,459,000	\$ 129,662,000	\$ 230,808,000	\$ 247,676,000	\$ 164,406,000
Net Bond Proceeds	40,830,000	-	-	-	-
Internally Generated Funds/Reserves	174,934,971	125,163,334	87,841,118	82,332,269	76,275,217
Total	<u>\$ 252,223,971</u>	<u>\$ 254,825,334</u>	<u>\$ 318,649,118</u>	<u>\$ 330,008,269</u>	<u>\$ 240,681,217</u>

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

<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>TOTAL</u>
\$ 4,896,897	\$ 3,554,072	\$ 2,246,858	\$ 2,244,002	\$ 2,311,322	\$ 32,345,123
17,095,662	24,479,735	28,547,592	13,549,597	25,727,079	185,820,633
9,129,350	11,618,738	3,559,835	2,960,552	3,049,369	46,201,490
<u>31,121,909</u>	<u>39,652,545</u>	<u>34,354,285</u>	<u>18,754,151</u>	<u>31,087,770</u>	<u>264,367,246</u>
8,445,922	18,781,209	28,229,240	13,918,675	4,424,703	110,776,392
110,638,410	128,629,273	119,101,772	214,035,303	184,862,603	1,797,904,206
21,751,159	23,617,682	10,663,060	8,185,136	7,603,759	194,879,819
20,257,340	21,416,737	22,658,416	23,989,449	25,417,605	200,058,359
<u>\$ 192,214,740</u>	<u>\$ 232,097,446</u>	<u>\$ 215,006,773</u>	<u>\$ 278,882,714</u>	<u>\$ 253,396,440</u>	<u>\$ 2,567,986,022</u>
\$ 107,514,000	\$ 143,728,000	\$ 113,816,000	\$ 177,356,000	\$ 117,972,000	\$ 1,469,397,000
-	-	-	-	24,957,000	65,787,000
84,700,740	88,369,446	101,190,773	101,526,714	110,467,440	1,032,802,022
<u>\$ 192,214,740</u>	<u>\$ 232,097,446</u>	<u>\$ 215,006,773</u>	<u>\$ 278,882,714</u>	<u>\$ 253,396,440</u>	<u>\$ 2,567,986,022</u>

Prepared by the Department of Finance

Project Manager: Majlinda Marku, Assistant Controller

Special thanks to the following Finance staff for their contributions to make this document possible:

Kenneth J. Duplay, Chief Financial Officer, CPA, CMA
Brandon Knittle, Manager of Debt & Treasury, MBA
Robert Radd, Senior Financial Analyst
Kandis Morrissette, Financial Analyst
Brandi Hazeldine, Senior Accountant, CPA
Mary Paugh, Budget Analyst
Maridah Ahmad, Senior Finance Administrator
Vanessa Byrd, Accounting Clerk

Other Department Contributors:

John C. Gonzalez, Manager of Communications
Monica Day, GIS Supervisor

Your Sewer District...

**Keeping our
Great Lake
great.** 

 **Northeast Ohio
Regional Sewer District**

3900 Euclid Avenue
Cleveland, Ohio 44115
(216) 881-6600 • neorsd.org