

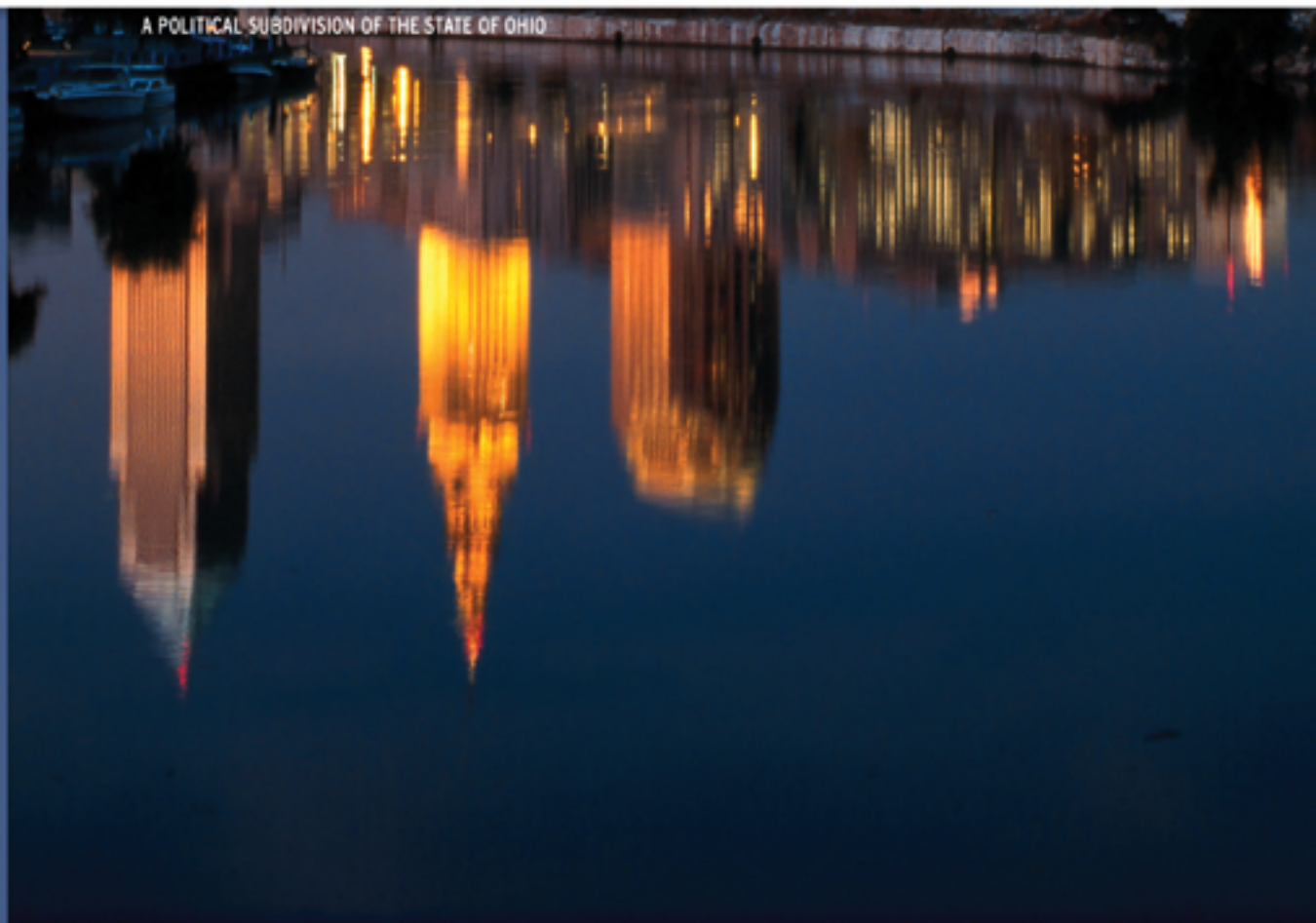


NORTHEAST OHIO REGIONAL SEWER DISTRICT

2003 COMPREHENSIVE
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 12.31.03

MAKING CONNECTIONS

A POLITICAL SUBDIVISION OF THE STATE OF OHIO



Legend

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

EASTERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

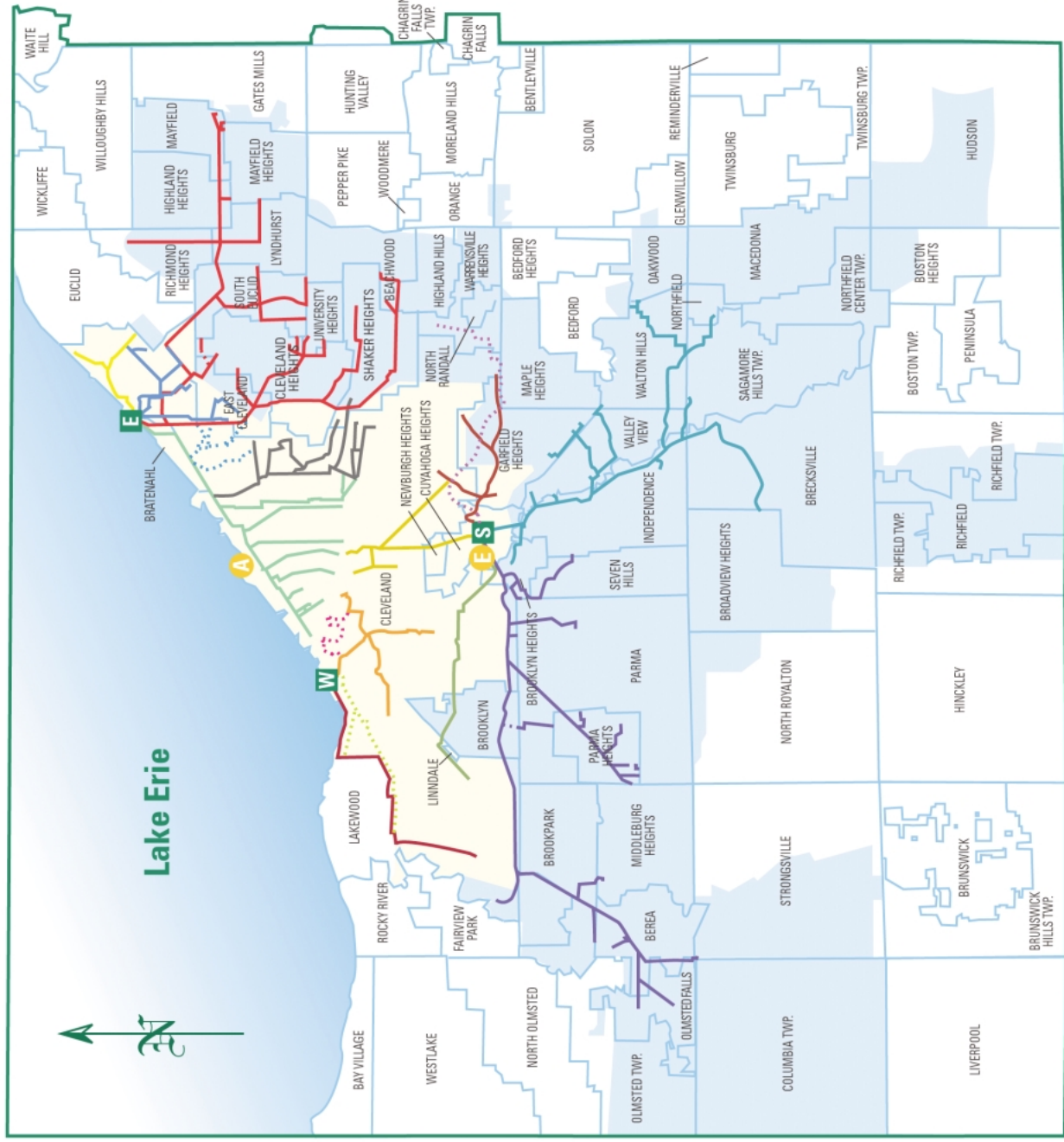
- Easterly
- Doan Valley
- Dugway
- Heights-Hilltop
- E. 140th & 152nd
- Lakeshore-Nottingham

SOUTHERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

- Big Creek
- Cuyahoga Valley
- Mill Creek
- Mill Creek Tunnel (under construction)
- Southwest
- Southerly

WESTERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

- Low Level
- Northwest
- Westerly
- Walworth
- Combined Sewer Area
- Separate Sanitary Sewer Area



NORTHEAST OHIO REGIONAL SEWER DISTRICT
A POLITICAL SUBDIVISION OF THE
STATE OF OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2003

SUBMITTED BY:

Departments of Finance and District Administration

NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

DECEMBER 31, 2003

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INTRODUCTORY SECTION

June 9, 2004

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

The Comprehensive Annual Financial Report of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2003, is hereby submitted. This report conforms to accounting principles generally accepted in the United States of America (U.S. GAAP) including Governmental Accounting Standards Board Statements 34 through 39 as applicable. This report consists of management's representations concerning the finances of the District. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management.

To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect District assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the District's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the 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 this financial report is complete and reliable in all material respects, to the best of our knowledge and belief. All disclosures necessary to enable the reader to gain an understanding of the District's activities have been included.

The Ohio Revised Code requires the Auditor of State to perform biennial audits of the District. In addition, the District's Bond Resolution requires annual financial audits. Both these requirements are being met, with the approval of the Auditor of State, by the engagement of independent certified public accountants by the District. Ciuni & Panichi, Inc., a firm of licensed certified public accountants, has audited the District's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended December 31, 2003 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's report is presented as the first component of the financial section of this report.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial and statistical. The introductory section, which is unaudited, includes this letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association for the year ended December 31, 2002, a list of the District's principal officials and a table of organization. The financial section includes the

independent auditor's report, management's discussion and analysis, the basic financial statements and related notes, and supplementary information and related notes. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis, which is helpful in performing trend analyses.

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

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

As part of the District's Single Audit, described earlier, tests were made by the District's external auditors of its internal control structure and compliance with applicable laws and regulations, including those related to federal financial assistance programs. Although this testing is not sufficient to support a separate opinion on the District's internal control system or its overall compliance with laws and regulations related to federal financial assistance programs, the audit for the year ended December 31, 2003 disclosed no material internal control weaknesses or material violations of laws and regulations.

U.S. GAAP require 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 intended 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.

Included in the accompanying financial statements are all accounts of the Northeast Ohio Regional Sewer District. For accounting purposes, the District is accounted for as a single enterprise fund. The reporting entity is described in Note 1 to the audited financial statements.

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

PROFILE OF THE DISTRICT

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.

The District's service area covers approximately 380 square miles. The District encompasses 97% of the City of Cleveland and all or portions of 59 suburban communities in Cuyahoga and Summit Counties. The area contains a residential service population in excess of one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District treats the greatest amount of wastewater in the State of Ohio.

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of the year to which they apply. Readers should refer to the Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual on page 38 of this report, along with the accompanying Notes to Supplementary Information for additional budgetary information.

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

FACTORS AFFECTING FINANCIAL CONDITION

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 experiencing a downturn, District revenue is expected to remain relatively unchanged due to approval of a rate increase by the Board of Trustees. The region is not dominated by any single industry. The City of Cleveland ranks 13th among cities with Fortune 500 company headquarters. There are six Fortune 500 companies in Cleveland and eight in the District's service area. Major industries with headquarters or divisions located in the District's service area or in close proximity include

automotive manufacturers; industrial equipment, metals, paints and coatings producers; office supply retailer; insurance; and banking services. Major employers in the area include federal, state and local government agencies, health care providers, public schools and financial service providers. In recent years there has been a significant shift from manufacturing to a service and information based economy.

The area has experienced an increase in travel and tourism. The Convention & Visitors Bureau of Greater Cleveland has released some statistics for 2003 travel and tourism and has updated 2002 statistics. The Bureau received 436,546 visitor information requests in 2003 compared to 445,598 in 2002, 394,769 in 2001 and 67,495 in 1994. The number of leisure visitors to Cuyahoga County in 2001 was 9.0 million, which is a 2.3% increase over the 8.8 million in 2000 and an 11.1% increase over the 8.1 million in 1999. Travel and tourism contributed approximately \$3.1 billion and 65,470 jobs to the economy of the area in 2001.

The unemployment rate in December 2003 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 6.4% was 0.4% higher than the seasonally adjusted rate for the State of Ohio and 0.7% higher than the national rate. The county had an employed labor force of approximately 631,800 as of December 2003, which was about 10,400 more than the revised amounts for December 2002. Although the City of Cleveland and Cuyahoga County have experienced an outward migration of residents to neighboring suburbs and counties, the presence of corporate, cultural and entertainment facilities continues to attract visitors and commuters to the area. Area economists are optimistic about the future and look for stabilization and expansion in area industries.

Long-term Financial Planning

The District has produced a strong financial history since its inception in 1972. Moving forward, the District is well 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 30 years, of approximately \$3.2 billion in new Combined Sewer Overflow (CSO) controls and wastewater facility improvements.

During 2003 the District completed work on a Long Term Financial and Rate Impact Report. This report provides a Long Term Financial Plan (LTFP) to achieve adequate and timely funding of the District's Construction in Progress over the next 30 years. The report also provides estimates of approximate sewer rates over the same time period. The LTFP is not a detailed rate study. Determination of actual sewer rates incorporates specific year-by-year details that are not appropriate for inclusion in a long term plan due to variability.

The LTFP incorporates an assumption that the District CSO program will be implemented over 30 years in accordance with facilities plans the District has prepared. A Long Term Financial and Rate Impact Model was developed while preparing the LTFP. The model was used to test the sensitivity and impact of variables such as time or dollar changes in District Construction in Progress. The District has adopted rate schedules effective through 2006 and those rates are

incorporated into the LTFP and the Financial and Rate Impact Model. The Financial and Rate Impact Model does not consider costs that may arise out of future capital or operational initiatives in response to unforeseen regulations.

Cash Management

The District currently invests in only three major types of instruments: obligations issued or backed by the United States Government; the STAROhio Fund; and bank or savings and loan non-negotiable certificates of deposit. A portion of the District's investment portfolio is comprised of securities with longer maturity terms (three to five years) to more accurately match the time when the funds will be utilized and to take advantage of higher interest rates. In determining portfolio performance and value, marketable securities are periodically compared to market. The District has not incurred any realized loss in the portfolio since securities are held to maturity, at which time the anticipated return is received. At December 31, 2003, the District's investment portfolio, at cost, of \$308,441,060, including \$1,983,736 in the Debt Service Account for the Series 1995 Bonds and excluding accrued interest, had a market value of \$316,204,009.

Risk Management

The District maintains an insurance reserve to account for and finance its uninsured risks of property damage. The District is self-insured for workers' compensation and purchases commercial insurance for liability and other specific types of coverage. Note 10 to the audited financial statements discloses information about risk management.

Debt Administration

At year-end, the District had bonded debt outstanding of \$72,415,000. The debt net of applicable unamortized discounts, issue costs and refunding costs is \$69,140,610. The District also has obtained loans through the State of Ohio Water Pollution Control Loan Fund (WPCLF) and through the Ohio Water Development Authority (OWDA). As of December 31, 2003, the outstanding loan balances were \$346,072,645 for the WPCLF and \$1,598,938 with the OWDA. Outstanding revenue bonds of the District are rated AAA by Standard & Poor's and Aaa by Moody's rating agencies. Note 6 to the audited financial statements includes schedules of debt outstanding and future debt service requirements.

In prior years, the District refinanced bonded debt that was outstanding at the time. These legal defeasance transactions resulted in funds being deposited with escrow agents who invested them in U.S. Treasury obligations which, together with the income earned on such investments, will be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the refunding transactions. This information should be read in conjunction with Note 6 to the audited financial statements.

MAJOR INITIATIVES

For the Year

2003 Awards

For its ability to regularly address the management challenges facing wastewater utilities, the Association of Metropolitan Sewerage Agencies (AMSA) recognized the District with the 2003 Excellence in Management Award. While treatment plants are regularly honored for their permit compliance, this was the first time AMSA recognized entire agencies for overall excellence. The distinction is valid through 2006.

AMSA also honored our three treatment plants with Silver Awards for excellent performance last year. Easterly, Southerly, and Westerly each consistently met their National Pollutant Discharge Elimination System (NPDES) permit limits with only one violation in 2003.

Our Westerly facility earned the Ohio Water Environment Association's Treatment Safety Award for its performance in 2003. The honor recognizes the ongoing safety programs of a treatment plant with more than 20 employees.

Easterly CSO Project Update

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

Combined sewers carry wastewater from homes and businesses, as well as storm water runoff from rooftops and streets. In dry weather, wastewater is directed to the wastewater treatment plant for processing to remove pollutants. During rainstorms, storm water flows into the same sewer pipes, creating a combined flow. The combined sewers are designed to overflow into nearby waterways when the combined volume exceeds the capacity of the pipes. The points at which these flows enter the waterways are known as CSO outfalls. There are 47 CSOs in the Easterly service area.

The recommended plan is comprised of a storage tunnel network for the majority of the service area, and satellite storage facilities in the Flats area to address CSOs overflowing into the Cuyahoga River that could not be cost-effectively connected to the tunnel system. The plan also calls for a series of new sewers and regulator modifications necessary to reach the four overflows per year control goal, as well as pump station improvements to enhance the operation of the existing Easterly collection system. The network of tunnels will be capable of storing up to 152 million gallons of CSO in a single event.

The Easterly District CSO Control Plan will comply with CSO requirements, improve water quality and provide the best fit with current District facility operations. During a typical year of rainfall, approximately 2.55 billion gallons of CSOs are discharged to Lake Erie and seven receiving streams from the 47 permitted outfalls located throughout the Easterly service area. With implementation of this plan, it is estimated that over 2 billion gallons a year of additional CSO volume will be captured for treatment. The estimated cost of the proposed plan is \$949.5 million.

The District has proceeded with the design and construction of early-action projects to reduce CSO discharges. The early-action projects involve modifications to the existing combined sewer system to reduce CSO frequency. The construction of the early action projects is ongoing. Additionally, the District has completed an Advanced Facilities Planning study for the recommended CSO storage tunnels. This study involved collecting additional data to help refine the size, depth and route of the recommended CSO storage tunnels.

Southerly CSO Project Update

The District concluded a study of its Southerly combined sewer area in 2001, intended to develop a facilities plan for system improvements that would reduce pollution levels in Lake Erie and area streams and meet Ohio EPA requirements for combined sewer overflow (CSO) control. According to study results, approximately 1.65 billion gallons of CSO reach receiving waters from 30 permitted outfalls in the Southerly study area. A recommended control plan — which includes two main storage tunnel systems, a dewatering pump station, a satellite storage tank, and several other miscellaneous modifications and improvements — has been submitted to the EPA for review. The estimated cost of the proposed plan, one that would capture and treat an additional 1.2 billion gallons of CSO annually, is \$468 million.

The design of early action CSO control projects in the Southerly CSO area was initiated in 2003. Similar to the Easterly CSO early action projects, certain modifications to the existing combined sewer system will be made to reduce CSO frequency and volume. The construction of certain early action projects is scheduled to begin in 2004.

Westerly CSO Project Update

The District concluded a study of its Westerly combined sewer area in 1999. Study results indicated that approximately 417 million gallons of CSO reach receiving waters from 25 permitted outfalls in the Westerly study area. Another 355 million gallons of CSO is treated at the District's Combined Sewer Overflow Treatment Facility (CSOTF) located adjacent to the Westerly WWTP. The recommended control plan includes a CSO storage tunnel system, a dewatering pump station, a pump station upgrade, an upgrade of the CSOTF and several other miscellaneous modifications and improvements. The estimated cost of the proposed plan, one that would capture and treat an additional 377 million gallons of CSO annually, is \$155.8 million.

Several early action CSO control projects in the Westerly CSO area have been completed. The design of upgrades to the District's CSOTF is scheduled for completion in 2004.

Mill Creek Tunnel Contract 3 Update

The final leg of a three-phase tunneling project, designed to reduce combined sewer overflows (CSOs) to the environment, began in September 2002. Known as Mill Creek Tunnel Contract 3 (MCT-3), this 15,000-ft. stretch of 20-foot-diameter sewer, in conjunction with Mill Creek Tunnels 1 and 2, will be capable of storing more than 70 million gallons of CSO volume annually. Twelve communities will benefit from the project as the tunnel relieves currently overloaded combined and sanitary sewers. In addition, thirteen of 27 outfalls now discharging to Lake Erie, the Cuyahoga River, and Cranwood and Wolf Creeks, will be eliminated upon its completion. MCT-3 construction is scheduled through 2007 at a cost of \$58.3 million.

For the Future

Strategic Plan

In 2003, we developed our next five-year strategic plan — an employee-driven statement of the organization's specific goals through 2008 — linking employees' work to shared, realistic goals and attainable objectives. Our intent is to make this plan a living document that shows how employees' work reflects the core values of the organization. Making that connection further encourages excellence.

The 2004 – 2008 Strategic Plan includes five goals: (1) Maintain the District's excellent service record and reputation, (2) Improve our dynamic business culture, (3) Improve use of our people resources, (4) Determine our future business and (5) Determine the most effective and equitable means of funding the future. These goals, along with their objectives are detailed in the plan. To accomplish these goals and objectives, Budget Centers and teams will create annual work plans that are aligned with the strategic plan. These plans will be reviewed by Department Heads, as well as representatives from each department, to assist in their implementation. The result will be a comprehensive set of tactical action items that will help identify the resources needed to execute specific tasks for each year of the Plan.

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, 2002. This was the eighth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This

report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGEMENTS

The preparation of this comprehensive annual financial report would not have been possible without the efficient and dedicated services of the entire staff of the Finance department, and the Communications Manager and Media Production Specialist from the District Administration 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,



Erwin J. Odeal
Executive Director



F. Michael Bucci
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Northeast Ohio Regional Sewer District

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

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



President

Executive Director

DISTRICT OFFICIALS

DECEMBER 31, 2003

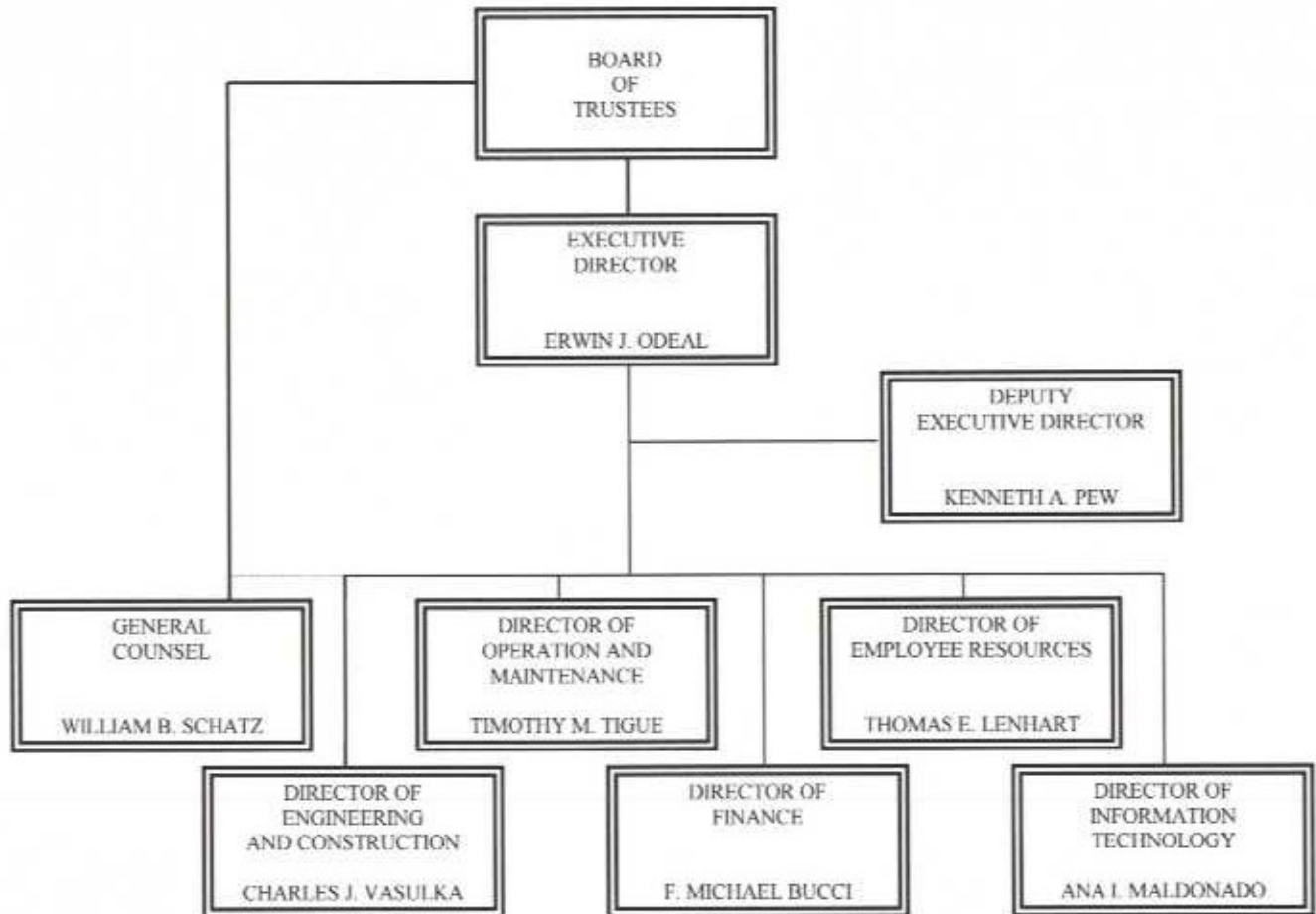
Board of Trustees

Michael L. Nelson, Sr.	President
Mayor Gary W. Starr.....	Vice President
Darnell Brown.....	Secretary
Mayor Gerald M. Boldt.....	Member
Sheila J. Kelly	Member
Mayor Thomas J. Longo.	Member
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Kenneth A. Pew	Deputy Executive Director
William B. Schatz	General Counsel
Charles J. Vasulka.....	Director of Engineering and Construction
Timothy M. Tigue	Director of Operation and Maintenance
F. Michael Bucci	Director of Finance
Thomas E. Lenhart.....	Director of Employee Resources
Ana I. Maldonado	Director of Information Technology

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
TABLE OF ORGANIZATION
DECEMBER 31, 2003**



NUMBER OF EMPLOYEES BY DEPARTMENT	
OPERATION AND MAINTENANCE	391
EMPLOYEE RESOURCES	43
INFORMATION TECHNOLOGY	19
FINANCE	49
LEGAL	12
DISTRICT ADMINISTRATION	18
ENGINEERING AND CONSTRUCTION	57
TOTAL EMPLOYEES DECEMBER 31, 2003	<u>589</u>

FINANCIAL SECTION

Independent Auditor's Report

The Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the accompanying financial statements of the Northeast Ohio Regional Sewer District, as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the Northeast Ohio Regional Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northeast Ohio Regional Sewer District, as of December 31, 2003 and 2002, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, during the year ended December 31, 2002, the Northeast Ohio Regional Sewer District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2004 on our consideration of the Northeast Ohio Regional Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Board of Trustees
Northeast Ohio Regional Sewer District

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We did not subject the introductory and statistical sections to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cini & Panichi, Inc.

Cleveland, Ohio
April 9, 2004

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

The following discussion provides a summary overview of the financial activities of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2003. This information should be read in conjunction with the letter of transmittal and basic financial statements included in this report.

Financial Highlights

- Assets exceeded liabilities by \$1,202,831,010 as of December 31, 2003.
- Net assets increased by \$25,323,461 in 2003.
- Of the increase in net assets, \$37,807,882 was attributed to investment in capital assets, net of related debt. Unrestricted net assets decreased by \$12,484,421.
- Debt increased \$33,388,309 due to new Water Pollution Control Loan Fund borrowings. Retirements of debt principal were \$20,715,898.

Overview of the Financial Statements

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

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

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

The tables below provide a summary of the District's financial position and operations for 2003, 2002 and 2001, respectively. The District implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in 2002. Certain reclassifications have been made to restate the 2002 and 2001 financial statements in order to conform to the 2003 presentation. Certain amounts may vary slightly due to differences caused by rounding to thousands.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

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

	2003	2002	Change	
			Amount	%
<u>Assets</u>				
Current assets	\$147,665	\$145,854	\$1,811	1.2 %
Capital assets, net	1,259,629	1,208,616	51,013	4.2 %
Other noncurrent assets	241,573	254,616	(13,043)	(5.1)%
Total assets	1,648,867	1,609,086	39,781	2.5 %
<u>Liabilities</u>				
Current liabilities	50,389	45,369	5,020	11.1 %
Long-term debt	395,647	386,209	9,438	2.5 %
Total liabilities	446,036	431,578	14,458	3.4 %
<u>Net assets</u>				
Invested in capital assets	844,802	806,995	37,807	4.7 %
Unrestricted	358,029	370,513	(12,484)	(3.4)%
Total net assets	\$1,202,831	\$1,177,508	\$25,323	2.2 %

Net assets may serve as a useful indicator of financial position. As noted earlier, District assets exceeded liabilities by \$1,202,831,010 as of December 31, 2003, of which \$844,802,167 is for net investment in capital assets.

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

During 2003, net assets increased by \$25,323,461. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$657,488.
- Receivables from Federal and state agencies decreased by \$2,477,351.
- Construction funds in the capital project account decreased by \$12,510,157.
- Capital assets increased by \$51,013,175 due mainly to construction of the wastewater treatment and conveyance system and a new administration building.
- Total debt increased by a net amount of \$12,672,411. Additions of \$33,388,309 were for new borrowings from the Water Pollution Control Loan Fund for various construction projects. Reductions were \$20,715,898 for repayment of debt principal.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

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

	2002	2001	Change	
			Amount	%
Assets				
Current assets	\$145,854	\$140,039	\$5,815	4.2%
Capital assets, net	1,208,616	1,140,558	68,058	6.0%
Other noncurrent assets	254,616	260,726	(6,110)	(2.3)%
Total assets	1,609,086	1,541,323	67,763	4.4%
Liabilities				
Current liabilities	45,369	45,999	(630)	(1.4)%
Long-term debt	386,209	359,637	26,572	7.4%
Total liabilities	431,578	405,636	25,942	6.4%
Net assets				
Invested in capital assets	806,995	766,111	40,884	5.3%
Unrestricted	370,513	369,576	937	0.3%
Total net assets	\$1,177,508	\$1,135,687	\$41,821	3.7%

District assets exceeded liabilities by \$1,177,507,549 as of December 31, 2002, of which \$806,994,285 is for net investment in capital assets.

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

During 2002, net assets increased by \$41,821,170. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$2,255,568.
- Receivables from Federal and state agencies decreased by \$1,642,285.
- Capital assets increased by \$68,058,343 due mainly to construction of the wastewater treatment and conveyance system and a new administration building.
- Total debt increased by a net amount of \$26,587,585. Additions of \$47,461,825 were for new borrowings from the Water Pollution Control Loan Fund. Reductions were \$20,874,240 for repayment of debt principal.

The following table summarizes the changes in revenues and expenses for the District between 2003 and 2002:

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

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

	2003	2002	Change	
			Amount	%
<u>Operating revenue</u>				
Sewer service fees				
Billing Agents				
City of Cleveland	\$107,662	\$109,417	(\$1,755)	(1.6)%
Other Billing Agents	10,093	10,099	(6)	(0.1)%
Total Billing Agents	117,755	119,516	(1,761)	(1.5)%
Direct billed sewer service fees	11,505	10,277	1,228	12.0 %
Total sewer service fees	129,260	129,793	(533)	(0.4)%
Other operating revenue				
Septic tank and municipal sludge fees	474	610	(136)	(22.3)%
Miscellaneous	141	355	(214)	(60.0)%
Total other operating revenue	615	965	(350)	(36.1)%
Total operating revenue	129,875	130,758	(883)	(0.7) %
<u>Non-operating revenue</u>				
Interest revenue	12,268	14,248	(1,980)	(13.9)%
Increase in fair value of investments	0	5,457	(5,457)	(100.0)%
Total non-operating revenue	12,268	19,705	(7,437)	(37.7)%
Total revenue	142,143	150,463	(8,320)	(5.5)%
<u>Operating expenses</u>				
Operations	47,746	44,565	3,181	7.1 %
Maintenance	18,574	17,342	1,232	7.1 %
Depreciation	34,779	32,388	2,391	7.4 %
Total operating expenses	101,099	94,295	6,804	7.2 %
<u>Non-operating expenses</u>				
Decrease in fair value of investments	5,710	0	5,710	100.0%
Interest expense on long-term debt	19,290	18,284	1,006	5.5 %
Loss on disposals of equipment	123	1,317	(1,194)	(90.6)%
Total non-operating expenses	25,123	19,601	5,522	28.2 %
Total expenses	126,222	113,896	12,326	10.8 %
Income before contributions	15,921	36,567	(20,646)	(56.5)%
Capital contributions	9,402	5,254	4,148	78.9 %
Change in net assets	\$25,323	\$41,821	(\$16,498)	(39.4)%

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Operating revenue consists of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2003:

- Operating revenue decreased by \$882,660 (0.7%) compared to 2002. The decrease was due to higher reductions in revenue for bad debt estimates for doubtful customer accounts receivable.
- Non-operating revenue decreased by \$7,437,818 (37.7%) due to lower interest revenue and the change in fair value of investments. Lower interest rates on investments, coupled with the decline in fair values contributed to the decrease.
- Operating expenses increased \$6,803,468 (7.2%) compared to 2002. All components of operating expenses – operations, maintenance and depreciation – increased proportionately.
- Non-operating expenses increased \$5,522,117 (28.2%). Interest expense increased by \$1,005,899 due to increased Water Pollution Control Loans. The decline in fair value of investments for 2003 was \$5,709,818. Fewer equipment disposals and related gains were realized in 2003.

Capital contributions from the U.S. Environmental Protection Agency increased in 2003 by \$4,148,354 for the Doan Brook/Easterly project.

The following table on the next page summarizes the changes in revenues and expenses for the District between 2002 and 2001.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

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

	2002	2001	Change	
			Amount	%
<u>Operating revenue</u>				
Sewer service fees				
Billing Agents				
City of Cleveland	\$109,417	\$113,592	\$(4,175)	(3.7)%
Other Billing Agents	10,099	10,436	(337)	(3.2)%
Total Billing Agents	119,516	124,028	(4,512)	(3.6)%
Direct billed sewer service fees	10,277	9,780	497	5.1 %
Total sewer service fees	129,793	133,808	(4,015)	(3.0)%
Other operating revenue				
Septic tank and municipal sludge fees	610	541	69	12.8%
Miscellaneous	355	264	91	34.5%
Total other operating revenue	965	805	160	19.9%
Total operating revenue	130,758	134,613	(3,855)	(2.9)%
<u>Non-operating revenue</u>				
Interest revenue	14,248	18,580	(4,332)	(23.3)%
Increase in fair value of investments	5,457	3,331	2,126	63.8 %
Total non-operating revenue	19,705	21,911	(2,206)	(10.1)%
Total revenue	150,463	156,524	(6,061)	(3.9)%
<u>Operating expenses</u>				
Operations	44,565	44,550	15	0.0 %
Maintenance	17,342	18,182	(840)	(4.6)%
Depreciation	32,388	31,496	892	2.8 %
Total operating expenses	94,295	94,228	67	0.1 %
<u>Non-operating expenses</u>				
Interest expense on long-term debt	18,284	17,444	840	4.8 %
Loss on disposals of equipment	1,317	768	549	71.5 %
Total non-operating expenses	19,601	18,212	1,389	7.6 %
Total expenses	113,896	112,440	1,456	1.3 %
Income before contributions	36,567	44,084	(7,517)	(17.1)%
Capital contributions	5,254	3,378	1,876	55.5%
Change in net assets	\$41,821	\$47,462	\$(5,641)	(11.9)%

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Operating revenue consists of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2002:

- Operating revenue decreased by \$3,854,719 (2.9%) compared to 2001. The decrease was due to lower consumption in 2002.
- Non-operating revenue decreased by \$2,206,351. This is due to lower interest revenue of \$4,332,322, due to lower rates of return, offset by an increase of \$2,125,971 in the change in fair value of investments.
- Operating expenses in total were virtually unchanged (0.1% increase) compared to 2001. A decrease of \$840,345 in maintenance expense was offset by an increase in depreciation expense of \$892,610.
- Non-operating expenses increased by \$1,388,813. This is due to increased interest expense of \$840,015 due to increased Water Pollution Control Loan Fund borrowings. Losses on equipment disposals increased by \$548,798.

Capital contributions from the U.S. Environmental Protection Agency increased in 2002 by \$1,875,990 for the Doan Brook/Easterly project.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Capital Assets

At the end of 2003, the District had \$1,259,629,471 invested in capital assets. This amount represents a net increase of approximately \$51 million, or 4.2% over 2002. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

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

	2003	2002	Change	
			Amount	%
Land	\$4,391	\$3,889	\$502	12.9%
Construction in Progress	180,833	230,125	(49,292)	(21.4)%
Interceptor Sewer Lines	585,368	509,157	76,211	15.0 %
Buildings, structures and improvements	396,312	378,588	17,724	4.7 %
Sewage treatment and other equipment	92,725	86,857	5,868	6.8 %
Totals	<u>\$1,259,629</u>	<u>\$1,208,616</u>	<u>\$51,013</u>	<u>4.2 %</u>

Major additions in 2003, at cost included:

Interceptors:

Mill Creek Tunnel 3	\$10,143
Mill Creek Tunnel 2	3,074
Lee-Superior Relief Sewer	9,550

Wastewater treatment plants:

Easterly wet weather improvements	3,261
Easterly early action combined sewer overflow (CSO)	3,768
Easterly CSO advance facility plan	3,777
Westerly outfall improvements	14,844

Administrative office complex

8,537
<u>\$56,954</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

At the end of 2002, the District had \$1,208,616,296 invested in capital assets. This amount represents a net increase of approximately \$68 million, or 6.0% over 2001. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

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

	2002	2001	Change	
			Amount	%
Land	\$3,889	\$3,809	\$80	2.1%
Construction in Progress	230,125	221,223	8,902	4.0%
Interceptor Sewer Lines	509,157	485,065	24,092	5.0%
Buildings, structures and improvements	378,588	335,942	42,646	12.7%
Sewage treatment and other equipment	86,857	94,519	(7,662)	(8.1)%
Totals	<u>\$1,208,616</u>	<u>\$1,140,558</u>	<u>\$68,058</u>	<u>6.0%</u>

Major additions in 2002, at cost included:

Interceptors:

Van Aken Boulevard	\$5,217
Mill Creek Tunnel 2	14,273
Lee-Superior Relief Sewer	8,132

Wastewater treatment plants:

Easterly wet weather improvements	10,912
Easterly early action combined sewer overflow	5,518
Westerly phase II A plant improvements	8,751
Administrative office complex	<u>7,882</u>

\$60,685

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Debt Administration

At December 31, 2003 the District had total debt outstanding of \$420,086,583 compared to \$407,414,172 at December 31, 2002. This represents an increase of \$12,672,411. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$33,388,309 and debt retirements were \$20,715,898. The carrying value of the long-term portion of debt at December 31, 2003 was \$395,647,190 and the fair value of the long-term debt was \$416,710,547.

At December 31, 2002 the District had total debt outstanding of \$407,414,172 compared to \$380,826,587 at December 31, 2001. This represents an increase of \$26,587,585. As mentioned earlier, loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$47,461,825 and debt retirements were \$20,874,240. The carrying value of the long-term portion of debt at December 31, 2002 was \$386,208,843 and the fair value of the long-term debt was \$401,937,286.

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)

	2003	2002	2001
Revenue Bonds	\$72,415	\$76,175	\$79,775
Ohio Water Development Authority Loans	1,599	1,907	4,580
Water Pollution Control Loans Payable	346,073	329,332	296,459
Other	0	0	13
Total Debt	<u>\$420,087</u>	<u>\$407,414</u>	<u>\$380,827</u>

Economic Factors

Effective January 1, 2003 the District increased sewage service rates for the first time in three years. Rates increased by 7.6% to \$22.70 per thousand cubic feet (mcf) for customers located in the City of Cleveland, and by 5.1% to \$27.95 per mcf for customers outside the City. (The District's Homestead Program offers reduced rates to qualified customers age 65 or older, or those totally disabled.) Similar increases are scheduled for the years 2004 through 2006. Increasingly stringent federal regulations and remaining legal obligations are key factors that led to the increase. A rate study of a projected six-year period concluded that the need to finance \$495 million in federally mandated capital projects between 2002 and 2006, combined with the repayment of existing debt service for past projects and an anticipated decrease in billed consumption, necessitated the rate increases.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all interested parties. Questions and requests for additional information regarding this report should be addressed to the Director of Finance, Northeast Ohio Regional Sewer District, 3826 Euclid Avenue, Cleveland, Ohio 44115, or by telephone at (216) 881-6600.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Assets

December 31, 2003 and 2002

	<u>Assets</u>	
	<u>2003</u>	<u>2002</u>
Current assets:		
Cash	\$ 937,792	\$ 238,161
Short-Term Investments	80,332,520	75,776,139
Sewage Service Fees Receivable, Less		
Allowance for Doubtful Accounts of \$6,878,000 in 2003		
and \$5,212,000 in 2002 (Note 4)	54,700,303	55,357,791
Receivables from Federal and State Agencies	4,133,585	6,610,936
Inventory, Prepaid Expenses and Other	7,560,453	7,870,768
Total Current Assets	<u>147,664,653</u>	<u>145,853,795</u>
Noncurrent Assets:		
Capital Assets:		
Interceptor Sewer Lines	673,817,012	589,511,249
Buildings, Structures and Improvements	633,685,032	602,745,553
Sewage Treatment and Other Equipment	242,945,521	229,627,158
	1,550,447,565	1,421,883,960
Less Accumulated Depreciation	476,042,115	447,281,747
	1,074,405,450	974,602,213
Land	4,390,867	3,888,718
Construction in Progress	180,833,154	230,125,365
Net Capital Assets	1,259,629,471	1,208,616,296
Unamortized Deferred Debt Expense	3,274,390	3,808,318
Construction Funds (Note 2)	236,313,592	248,823,749
Revenue Bond Debt Service Deposit (Note 2)	1,984,889	1,983,842
Total Noncurrent Assets	<u>1,501,202,342</u>	<u>1,463,232,205</u>
Total Assets	<u>\$ 1,648,866,995</u>	<u>\$ 1,609,086,000</u>

Continued

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Assets (Continued)

December 31, 2003 and 2002

	<u>Liabilities and Net Assets</u>	
	<u>2003</u>	<u>2002</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 4,659,215	\$ 4,647,143
Construction Contracts Payable	7,877,518	8,398,882
Accrued Interest	7,498,655	5,892,262
Other Accrued Liabilities	3,603,917	3,476,500
Retainages on Construction Contracts	2,310,097	1,749,492
Current Maturities of Long-Term Debt (Note 6)	<u>24,439,393</u>	<u>21,205,329</u>
Total Current Liabilities	<u>50,388,795</u>	<u>45,369,608</u>
Noncurrent Liabilities:		
Long-Term Debt, Net of Current Maturities (Note 6)	<u>395,647,190</u>	<u>386,208,843</u>
Total Liabilities	<u>446,035,985</u>	<u>431,578,451</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	844,802,167	806,994,285
Unrestricted	<u>358,028,843</u>	<u>370,513,264</u>
Total Net Assets	<u>\$ 1,202,831,010</u>	<u>\$ 1,177,507,549</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 129,875,379	\$ 130,758,039
Operating Expenses:		
Operations	47,745,981	44,565,277
Maintenance	18,574,352	17,341,617
Depreciation	<u>34,778,545</u>	<u>32,388,516</u>
Total Operating Expenses	<u>101,098,878</u>	<u>94,295,410</u>
Operating Income	28,776,501	36,462,629
Non-Operating Revenues (Expenses):		
Interest Income	12,267,626	14,247,954
Increase (Decrease) in Fair Value of Investments, Net	(5,709,818)	5,457,490
Loss on Disposals of Equipment	(123,555)	(1,317,155)
Interest on Long-Term Debt	<u>(19,289,590)</u>	<u>(18,283,691)</u>
Total Non-Operating Revenues (Expenses)	<u>(12,855,337)</u>	<u>104,598</u>
Income Before Contributions	15,921,164	36,567,227
Capital Contributions	<u>9,402,297</u>	<u>5,253,943</u>
Change in Net Assets	25,323,461	41,821,170
Net Assets at Beginning of Year	<u>1,177,507,549</u>	<u>1,135,686,379</u>
Net Assets at End of Year	\$ <u>1,202,831,010</u>	\$ <u>1,177,507,549</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flows

For the years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash Flows from Operating Activities:		
Cash Received From Customers	\$ 130,497,199	\$ 128,433,434
Cash Payments to Suppliers for Goods and Services	(29,771,132)	(28,768,641)
Cash Payments to Employees for Services	(36,032,355)	(33,939,586)
Net Cash Provided by Operating Activities	<u>64,693,712</u>	<u>65,725,207</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(406,397,734)	(410,965,188)
Proceeds from Maturities of Investments	407,950,514	415,131,632
Interest on Investments	12,890,716	15,708,321
Net Cash Provided by Investing Activities	<u>14,443,496</u>	<u>19,874,765</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(20,715,898)	(20,874,240)
Interest Payments on Long-Term Debt	(15,170,512)	(15,194,618)
Proceeds from Water Pollution Control Loans	33,844,382	46,642,026
Acquisition and Construction of Capital Assets	(85,876,032)	(101,529,386)
Grants Received	9,480,483	5,434,522
Grant Refund	-	(173,903)
Net Cash Used in Capital and Related Financing Activities	<u>(78,437,577)</u>	<u>(85,695,599)</u>
Net Increase (Decrease) in Cash	699,631	(95,627)
Cash at Beginning of Year	<u>238,161</u>	<u>333,788</u>
Cash at End of Year	\$ <u>937,792</u>	\$ <u>238,161</u>

Continued

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flows (Continued)

For the years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Reconciliation of Operating Income to Net Cash by		
Operating Activities:		
Operating Income	\$ 28,776,501	\$ 36,462,629
Adjustments to Reconcile Operating Income to Net Cash by		
Operating Activities:		
Depreciation	34,778,545	32,388,516
Changes in Operating Assets and Liabilities:		
Accounts Receivable	621,820	(2,324,605)
Inventory and Prepaid Expenses	377,357	(9,308)
Accounts Payable and Other Accrued Liabilities	139,489	(792,025)
Total Adjustments	<u>35,917,211</u>	<u>29,262,578</u>
Net Cash Provided by Operating Activities	\$ <u>64,693,712</u>	\$ <u>65,725,207</u>
Supplemental Schedule of Non-Cash Investing, Capital and		
Related Financing Activities:		
Construction Grants Recorded for Receivables from		
(Payables to) Federal Agencies in Connection with		
Reimbursable Project Costs	\$ <u>676,007</u>	\$ <u>685,156</u>
Long-Term Debt Recorded for Receivables from State		
Agencies in Connection with Water Pollution Control		
Loans	\$ <u>3,421,911</u>	\$ <u>5,856,742</u>
Long-Term Debt (Decreased) Increased due to Accrued		
Construction Interest and Recorded Receivables	\$ <u>(456,073)</u>	\$ <u>819,799</u>
Capital Assets Increased due to Capitalized Costs,		
Recorded Accounts Payable, and Asset Reclassifications	\$ <u>81,744</u>	\$ <u>634,806</u>
Decrease in Fair Value of Investments, Net	\$ <u>(5,709,818)</u>	\$ <u>5,457,490</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

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 serves a region comprised of the City of Cleveland and 58 suburban communities.

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

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

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 financial statements of the Northeast Ohio Regional Sewer District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

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

D. Cash Equivalents and Investments

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

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 2: Summary of Significant Accounting Policies (continued)

D. Cash Equivalents and Investments (continued)

The District invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2003 and 2002. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on the respective statement of net assets date.

E. Short-term Investments

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

F. Fair Value of Financial Instruments

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

Cash

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

Investments

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

Long-Term Debt

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The carrying value and estimated fair value of the District's long-term debt at December 31, 2003 were \$395,647,190 and \$416,710,547 respectively. The carrying value and estimated fair value of the District's long-term debt at December 31, 2002 were \$386,208,842 and \$401,937,286, respectively.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 2: Summary of Significant Accounting Policies (continued)

G. Construction and Restricted Accounts

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

Construction Funds

At December 31, 2003 and 2002, these funds consisted of cash, nonnegotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAROhio. They are used to finance construction expenditures approved by the Board of Trustees. Under certain circumstances, the funds may be used for repayment of principal and interest costs on the 1995 Wastewater Improvement Revenue Refunding Bonds.

Revenue Bond Debt Service Deposit

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2003 and 2002 consisted of direct obligations of the United States Government, plus accrued interest.

H. Sewage Service Fees Receivable

Sewage service fees receivable are shown net of an allowance for uncollectibles. The allowance is based on aged accounts receivable and current year operating revenues. The allowance amounts are \$6,878,000 at December 31, 2003 and \$5,212,000 at December 31, 2002.

I. Inventory

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 2: Summary of Significant Accounting Policies (continued)

J. Capital Assets

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. sewer lines and similar items) are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Northeast Ohio Regional Sewer District maintains a capitalization threshold of \$2,000. Major renewals and betterments are capitalized; the costs of normal improvements and repairs that do not add to the value of the assets or materially extend an asset's life are not. All reported capital assets except for land and construction in progress are depreciated. Major renewals and betterments are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

K. Deferred Debt Expense

Bond issuance costs, bond premiums, and the difference between the reacquisition price and the net carrying value of refunded debt were capitalized and are being amortized over the terms of the respective bonds using a method which approximates the effective interest method. Amortization amounted to \$533,928 for 2003 and \$584,326 for 2002.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Northeast Ohio Regional Sewer District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The District did not have any restricted net assets for 2003 or 2002.

M. Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment services. Operating revenues consist of user charges for sewage services based on water consumption. Operating revenues are shown net of bad debt expense of \$2,639,433 in 2003 and \$1,008,257 in 2002. Operating expenses include the cost of these sewer services, including administrative expenses and depreciation on capital assets.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 2: Summary of Significant Accounting Policies (continued)

M. Revenues and Expenses (continued)

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

Sewage service fees are billed to users of the system on a cycle basis based primarily upon water usage. Estimates for services provided between the ends of various cycles and the end of the year are recorded as unbilled revenue. Included in sewage service fees receivable at December 31, 2003 and 2002 are unbilled sewage service fees of \$19,614,117 and \$19,421,738, respectively.

N. Interest Expense

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

O. Use of Estimates

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

P. Comparative Data/Reclassifications

Comparative data for the prior year are presented in order to provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2002 financial statements in order to conform to the 2003 presentation.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

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, 2003, the carrying amount of the District's deposits, including certificates of deposit of \$1,905,009, was \$2,842,801 and the bank balance was \$5,505,160. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$5,205,160 was covered by collateral securities held in Federal Reserve pledge accounts. At December 31, 2002, the carrying amount of the District's deposits, including certificates of deposit of \$1,554,365, was \$1,791,526 and the bank balance was \$3,224,107. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$2,924,107 was covered by collateral securities held in Federal Reserve pledge accounts. In the event of default by the pledging financial institution, the District may make written demand upon the Federal Reserve Bank of Cleveland for surrender of the collateral.

Investments

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

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

The District categorizes investments to give an indication of the level of credit risk associated with the District's custodial arrangements at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name (the District had no Category 2 investments at December 31, 2003 and 2002). Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in the District's name.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 3: Deposits and Investments (continued)

Categorization of the District's investments at December 31, 2003 was as follows:

	Category		Total Fair Value
	1	3	
Debt Securities:			
United States Treasury	\$ -	\$ 1,984,889	\$ 1,984,889
United States Government Agencies	<u>272,548,871</u>	<u>-</u>	<u>272,548,871</u>
Total Debt Securities	\$ <u>272,548,871</u>	\$ <u>1,984,889</u>	274,533,760
STAROhio*			<u>42,192,232</u>
			\$ <u>316,725,992</u>

*Non-Categorized

Categorization of the District's investments at December 31, 2002 was as follows:

	Category		Total Fair Value
	1	3	
Debt Securities:			
United States Treasury	\$ -	\$ 1,983,842	\$ 1,983,842
United States Government Agencies	<u>289,570,957</u>	<u>-</u>	<u>289,570,957</u>
Total Debt Securities	\$ <u>289,570,957</u>	\$ <u>1,983,842</u>	291,554,799
STAROhio*			<u>33,474,566</u>
			\$ <u>325,029,365</u>

*Non-Categorized

The amounts invested with STAROhio at December 31, 2003 and 2002 are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form.

The fair value of debt securities by contractual maturity at December 31, 2003 and 2002, are shown below:

	2003	2002
Due Within One Year	\$ 104,609,677	\$ 54,572,046
Due After One Year Through Five Years	<u>169,924,083</u>	<u>236,982,753</u>
	\$ <u>274,533,760</u>	\$ <u>291,554,799</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 4: Transactions with The City of Cleveland

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

A summary of the billing and collection transactions between the City and the District for 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 36,557,937	\$ 36,523,025
Amounts billed to District customers by the City during the year	110,045,680	110,163,757
Cash collected from District customers by the City and remitted to the District during the year	(107,541,448)	(106,981,842)
Write off of inactive accounts	(954,060)	(2,284,157)
Cash collected directly by the District on invoices rendered by the City and other adjustments	<u>(82,079)</u>	<u>(862,846)</u>
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	\$ <u>38,026,030</u>	\$ <u>36,557,937</u>

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

Fees paid to the City for billing and collection services in 2003 and 2002 were \$4,650,779 and \$4,542,160, respectively.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 5: Capital Assets and Depreciation

Capital Asset Activity for the year ended December 31, 2003 was as follows:

	Balance December 31, 2002	Additions	Retirements	Transfers	Balance December 31, 2003
Non-depreciable:					
Land	\$ 3,888,718	\$ 532,198	\$ (30,049)	\$ -	\$ 4,390,867
Construction in Progress	<u>230,125,365</u>	<u>83,889,770</u>	<u>-</u>	<u>(133,181,981)</u>	<u>180,833,154</u>
	<u>234,014,083</u>	<u>84,421,968</u>	<u>(30,049)</u>	<u>(133,181,981)</u>	<u>185,224,021</u>
Depreciable:					
Interceptor Sewer Lines	589,511,249	-	-	84,305,763	673,817,012
Buildings, Structures and Improvements	602,745,553	13,758	(2,771,520)	33,697,241	633,685,032
Sewage Treatment and Other Equipment	<u>229,627,158</u>	<u>1,522,050</u>	<u>(3,382,664)</u>	<u>15,178,977</u>	<u>242,945,521</u>
	<u>1,421,883,960</u>	<u>1,535,808</u>	<u>(6,154,184)</u>	<u>133,181,981</u>	<u>1,550,447,565</u>
Totals at Historical Cost	<u>1,655,898,043</u>	<u>85,957,776</u>	<u>(6,184,233)</u>	<u>-</u>	<u>1,735,671,586</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(80,353,803)	(8,094,847)	-	-	(88,448,650)
Buildings, Structures and Improvements	(224,157,712)	(16,062,400)	2,771,520	75,069	(237,373,523)
Sewage Treatment and Other Equipment	<u>(142,770,232)</u>	<u>(10,621,298)</u>	<u>3,246,657</u>	<u>(75,069)</u>	<u>(150,219,942)</u>
Total Accumulated Depreciation	<u>(447,281,747)</u>	<u>(34,778,545)</u>	<u>6,018,177</u>	<u>-</u>	<u>(476,042,115)</u>
Capital Assets, Net	\$ <u>1,208,616,296</u>	\$ <u>51,179,231</u>	\$ <u>(166,056)</u>	\$ <u>-</u>	\$ <u>1,259,629,471</u>
Depreciation Expense Charged to Operating Expenses		\$ <u>34,778,545</u>			

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 5: Capital Assets and Depreciation (continued)

Capital Asset Activity for the year ended December 31, 2002 was as follows:

	Balance December 31, 2001	Additions	Retirements	Transfers	Balance December 31, 2002
Non-depreciable:					
Land	\$ 3,808,718	\$ 80,000	\$ -	\$ -	\$ 3,888,718
Construction in Progress	<u>221,222,930</u>	<u>99,719,168</u>	<u>-</u>	<u>(90,816,733)</u>	<u>230,125,365</u>
	<u>225,031,648</u>	<u>99,799,168</u>	<u>-</u>	<u>(90,816,733)</u>	<u>234,014,083</u>
Depreciable:					
Interceptor Sewer Lines	557,960,724	-	(829,342)	32,379,867	589,511,249
Buildings, Structures and Improvements	546,084,950	152,188	(1,400,555)	57,908,970	602,745,553
Sewage Treatment and Other Equipment	<u>233,030,500</u>	<u>2,212,836</u>	<u>(6,144,074)</u>	<u>527,896</u>	<u>229,627,158</u>
	<u>1,337,076,174</u>	<u>2,365,024</u>	<u>(8,373,971)</u>	<u>90,816,733</u>	<u>1,421,883,960</u>
Totals at Historical Cost	<u>1,562,107,822</u>	<u>102,164,192</u>	<u>(8,373,971)</u>	<u>-</u>	<u>1,655,898,043</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(72,895,513)	(7,634,135)	175,845	-	(80,353,803)
Buildings, Structures and Improvements	(210,142,699)	(14,916,454)	901,441	-	(224,157,712)
Sewage Treatment and Other Equipment	<u>(138,511,657)</u>	<u>(9,837,927)</u>	<u>5,579,352</u>	<u>-</u>	<u>(142,770,232)</u>
Total Accumulated Depreciation	<u>(421,549,869)</u>	<u>(32,388,516)</u>	<u>6,656,638</u>	<u>-</u>	<u>(447,281,747)</u>
Capital Assets, Net	\$ <u>1,140,557,953</u>	\$ <u>69,775,676</u>	\$ <u>(1,717,333)</u>	\$ <u>-</u>	\$ <u>1,208,616,296</u>
Depreciation Expense Charged to Operating Expenses		\$ <u>32,388,516</u>			

Included in asset retirements and also in the additions' column for 2002 is \$400,177 of improvements reclassified to Construction in Progress from Buildings, Structures and Improvements for improvements made in a prior year on a basement of a building. The building is being torn down, however, the basement is being kept intact and therefore has been moved to CIP.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 6: Long-Term Debt

A summary of long-term debt outstanding at December 31, 2003 and 2002 follows:

	Interest Rate	2003	2002
Wastewater Improvement Revenue Refunding Bonds, Series 1995:			
Serial Bonds Maturing 2002 – 2014	3.65%-5.60%	\$ 57,785,000	\$ 61,545,000
Term Bonds Due 2016	5.60%	<u>14,630,000</u>	<u>14,630,000</u>
		72,415,000	76,175,000
Ohio Water Development Authority Loans Payable Annually Through 2008	6.75%-8.47%	1,598,938	1,907,426
Water Pollution Control Loans Payable Through 2023	3.20%-5.20%	<u>346,072,645</u>	<u>329,331,746</u>
Total Debt		420,086,583	407,414,172
Less Current Maturities		<u>24,439,393</u>	<u>21,205,329</u>
Total Long-Term Debt		\$ <u>395,647,190</u>	\$ <u>386,208,843</u>

Wastewater Improvement Revenue Refunding Bonds, Series 1995

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

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

Ohio Water Development Authority Loans (OWDA)

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 6: Long-Term Debt (continued)

Water Pollution Control Loans

Title VI of the Clean Water Act, as amended, authorizes the Administrator of the U.S. Environmental Protection Agency to make Federal capitalization grants to states for deposit in state water pollution control revolving funds (SRFs). From these funds, states can provide loans and other types of financial assistance, but not grants, to governmental entities for the construction of publicly owned wastewater treatment facilities. In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. These loans are subordinate to the 1995 Series Bonds and are payable from the revenues of the District, after payment of operating and maintenance costs and are secured by a pledge of and lien on such net revenues. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project.

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 39 SRF loan awards related to projects, four of which were not complete as of December 31, 2003. Loans related to completed construction projects are being repaid in semi-annual payments of principal and interest over a period of up to twenty years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2003 follow:

Completion or Expected Completion Year of Projects	Number of Projects	Current Amount Including Accrued Construction Period Interest	Additional Available Borrowings Including Construction Period Interest
1993 – 2003	35	\$ 311,522,873	\$ 15,786,744
2004	1	147,151	5,361,428
2005	2	20,086,834	18,926,312
2006	1	14,315,787	58,898,614
		<u>\$ 346,072,645</u>	<u>\$ 98,973,098</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 6: Long-Term Debt (continued)

Defeasance Transactions

In July 1991, the District deposited available construction funds and revenue bond debt service deposits in an irrevocable trust with an escrow agent for the purpose of defeasing bonded debt issued in 1984. The deposit was invested in U.S. Treasury obligations, which, together with the revenue earned on such investments, will be sufficient to service the debt until maturity or redemption. The defeased debt and the escrow funds deposited in the irrevocable trust are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the defeasance transaction. As of December 31, 2003, the amount of defeased debt outstanding is \$85,645,000.

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

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, 2003 follows:

	Wastewater Improvement Revenue Refunding Bonds		Ohio Water Development Authority Loans		Water Pollution Control Loans		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2004	\$ 4,000,000	\$ 3,934,945	\$ 324,674	\$ 83,954	\$ 20,114,719	\$ 14,052,788	\$ 42,511,080
2005	4,250,000	3,684,945	341,720	66,908	20,106,196	13,577,620	42,027,389
2006	4,450,000	3,480,945	359,670	48,959	19,942,181	12,757,763	41,039,518
2007	4,670,000	3,262,895	378,552	30,077	19,993,153	11,918,892	40,253,569
2008	4,910,000	3,024,725	194,322	9,992	19,429,822	11,082,024	38,650,885
2009-2013	28,765,000	10,907,715	-	-	106,470,739	42,292,241	188,435,695
2014-2018	21,370,000	2,436,840	-	-	91,493,308	19,693,952	134,994,100
2019-2023	-	-	-	-	47,292,962	5,137,511	52,430,473
2024	-	-	-	-	1,299,565	24,076	1,253,641
Total	\$ 72,415,000	\$ 30,733,010	\$ 1,598,938	\$ 239,890	\$ 346,072,645	\$ 130,536,867	\$ 581,596,350

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 6: Long-Term Debt (continued)

Long-term debt activity for the years ended December 31, 2003 was as follows:

	Balance December 31, 2002	<u>Additions</u>	<u>Reductions</u>	Balance December 31, 2003	Amount Due in 2004
Wastewater Improvement: Revenue Refunding Bonds, Series 1995	\$ 76,175,000	\$ -	\$ (3,760,000)	\$ 72,415,000	\$ 4,000,000
Ohio Water Development Authority Loans	1,907,426	-	(308,488)	1,598,938	324,674
Water Pollution Control Loans	329,331,746	33,388,309	(16,647,410)	346,072,645	20,114,719
Total Debt	\$ 407,414,172	\$ 33,388,309	\$ (20,715,898)	\$ 420,086,583	\$ 24,439,393

Long-term debt activity for the years ended December 31, 2002 was as follows:

	Balance December 31, 2001	<u>Additions</u>	<u>Reductions</u>	Balance December 31, 2002	Amount Due in 2003
Wastewater Improvement: Revenue Refunding Bonds, Series 1995	\$ 79,775,000	\$ -	\$ (3,600,000)	\$ 76,175,000	\$ 3,760,000
Ohio Water Development Authority Loans	4,579,536	147,307	(2,819,417)	1,907,426	308,487
Water Pollution Control Loans	296,459,289	47,314,518	(14,442,061)	329,331,746	17,136,842
Other	12,762	-	(12,762)	-	-
Total Debt	\$ 380,826,587	\$ 47,461,825	\$ (20,874,240)	\$ 407,414,172	\$ 21,205,329

Note 7: Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

- The Traditional Pension Plan (TP) – a cost sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

- The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issue a stand-alone financial report. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. District members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2003 employer contribution rate for the District was 13.55 percent of covered payroll. The District's contributions to the OPERS for the years ended December 31, 2003, 2002 and 2001 were \$3,809,747, \$3,540,726, and \$3,408,909, respectively, which is approximate to the required contributions for each year.

Note 8: Postemployment Benefits

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 8: Postemployment Benefits (continued)

Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions and for requiring public employers to fund postretirement health care through their contributions to OPERS. For the District's employer units, the 2003 contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion used to fund health care for the year. During 2003 and 2002 the District's portion that was used to fund health care was \$1,405,811 and \$1,306,541, respectively, representing 5.00 percent of covered payroll.

The postretirement health care coverage is advance-funded on an actuarially determined basis. The following assumptions and calculations were based on OPERS' latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities. The difference between assumed and actual experience is part of the unfunded actuarial accrued liability. The investment assumption rate for 2002 was 8.00 percent; all investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used – meaning that assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. Individual pay increases are assumed to increase 4.00 percent compounded annually, with no change in the number of active employees; annual pay increases over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.30 percent; and health care costs are assumed to increase 4.00 percent annually. The actuarially accrued postretirement health care liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$18.7 billion and \$8.7 billion, respectively. The net assets were \$10.0 billion, leaving an unfunded actuarial accrued liability of \$17.4 billion. The number of active contributing participants in the Traditional and Combined Plans totaled 364,881.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired in an OPERS-covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 8: Postemployment Benefits (continued)

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

Note 9: Deferred Compensation Plans

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

The District follows the provisions of GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans. In accordance with the provisions of GASB Statement No.32, at both December 31, 2003 and 2002, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

Note 10: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains an insurance reserve to account for and finance its uninsured risks of property damage. The District is self insured for workers' compensation and purchases commercial insurance for other specific types of coverage. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance and the insurance reserve are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2003 and 2002, estimated liabilities were less than \$110,000 and \$250,000, respectively, and are not material with respect to the financial position of the District. The District's insurance reserve as of December 31, 2003 and 2002 was \$17,137,787 and \$16,431,918, respectively, and is included in short-term investments on the District's balance sheet.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2003 and 2002

Note 11: Commitments and Contingencies

The District has a major capital improvement and expansion program. At December 31, 2003, the District has outstanding commitments for contracts in progress of approximately \$154,000,000. Funding for future expenditures will be provided primarily from borrowings and District equity.

The District has approximately \$10,000,000 in asserted or implied construction contract claims currently pending against it related to active construction contracts. In the opinion of District management, the ultimate outcome of these matters will not have a material adverse effect on the financial position of the District and, accordingly, no liability for this amount has been accrued by the District.

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

Note 12: Change in Accounting Estimate

At December 31, 2002, construction is in progress on a new administration building for the District. The District has committed to a plan to demolish its current administration building some time after the new building is occupied. This is expected to take place before the end of 2003. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the service life of the existing building was revised in 2002. The effect of this change in accounting estimate is to increase depreciation expense and thereby decrease operating income in the amount of \$818,183 in the years 2002 and 2003.

Note 13: Change in Accounting Principles

For 2002, the Northeast Ohio Regional Sewer District has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows all prepared on an accrual basis of accounting.

SUPPLEMENTARY INFORMATION

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenue:</u>				
User Charges:				
Billed	\$ 137,180,000	\$ 137,180,000	\$ 130,138,627	\$ (7,041,373)
Unbilled	-	-	(404,971)	(404,971)
Other Revenue	<u>300,000</u>	<u>300,000</u>	<u>141,723</u>	<u>(158,277)</u>
Total Revenue	<u>137,480,000</u>	<u>137,480,000</u>	<u>129,875,379</u>	<u>(7,604,621)</u>
<u>Expenses:</u>				
Salaries and Wages	28,186,155	28,186,155	27,529,672	656,483
Benefits	9,162,829	9,162,829	8,521,645	641,184
Power	10,062,545	10,062,545	9,370,436	692,109
Materials and Supplies	3,782,225	3,782,225	3,599,091	183,134
Collection Fees	5,200,000	5,200,000	5,598,772	(398,772)
Gas	4,062,400	4,062,400	3,587,102	475,298
Chemicals	841,253	841,253	777,478	63,775
Repairs and Maintenance	3,541,671	3,541,671	2,505,875	1,035,796
Solids Handling	1,109,575	1,109,575	782,822	326,753
Water	898,700	898,700	1,128,576	(229,876)
Professional Services	2,697,415	2,697,415	2,488,843	208,572
Insurance	1,030,000	1,030,000	1,005,164	24,836
Judgments and Awards	70,000	70,000	62,715	7,285
Other Operating Expenses	3,235,559	3,235,559	2,795,060	440,499
Capitalized Construction Costs	(3,715,250)	(3,715,250)	(3,432,918)	(282,332)
Depreciation	<u>35,000,000</u>	<u>35,000,000</u>	<u>34,778,545</u>	<u>221,455</u>
Total Operating Expenses	<u>105,165,077</u>	<u>105,165,077</u>	<u>101,098,878</u>	<u>4,066,199</u>
Excess of Revenues Over Operating Expenses	\$ <u>32,314,923</u>	\$ <u>32,314,923</u>	28,776,501	\$ (3,538,422)
Reconciliation to Change in Net Assets:				
Interest Revenue			12,267,626	
Decrease in Fair Value of Investments			(5,709,818)	
Loss on Disposals of Equipment			(123,555)	
Interest Expense on Long-Term Debt			(19,289,590)	
Income Before Contributions			15,921,164	
Capital Contributions			<u>9,402,297</u>	
Change in Net Assets			\$ <u>25,323,461</u>	

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Supplementary Information

December 31, 2003

Note 1: Summary of Significant Accounting Policies

Budgetary Basis of Accounting

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

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

The annual Capital Plan outlines estimated cost by project. These projects are already authorized or to be considered by the Board of Trustees. Approval of the budgets by the Board of Trustees does not in itself authorize expenses for operations and maintenance or expenditures for capital projects. Requests for capital project expenditures must be approved by the Board of Trustees and/or the Executive Director, as appropriate, and require certification of available funds by the Director of Finance. Board approval is required for all operating and capital purchases of goods and services in excess of \$25,000. Prior to September 26, 2003, Board approval was required for all purchases in excess of \$15,000. All budget appropriations lapse on December 31 of each year.

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

	2003	2002
Excess of revenue over operating expenses – operating budget basis	\$ 28,776,501	\$ 36,462,629
Interest income	12,267,626	14,247,954
(Decrease) increase in fair value of investments	(5,709,818)	5,457,490
Loss on disposals of equipment	(123,555)	(1,317,155)
Interest on long-term debt	(19,289,590)	(18,283,691)
Capital contributions	9,402,297	5,253,943
Change in net assets	\$ 25,323,461	\$ 41,821,170

STATISTICAL SECTION
(UNAUDITED)

NORTHEAST OHIO REGIONAL SEWER DISTRICT
REVENUES BY TYPE
LAST TEN YEARS

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Operating Revenues</u>				
Sewer Service Fees				
City of Cleveland Billing Agent (1)	\$89,274,103	\$90,988,184	\$95,374,478	\$99,227,876
Other Billing Agents	7,459,849	7,826,656	8,481,837	8,819,246
Other Sewer Service Fees	7,226,733	6,906,932	7,404,001	7,622,117
Other Operating Revenue	<u>1,016,818</u>	<u>982,145</u>	<u>1,058,847</u>	<u>1,198,112</u>
Total Operating Revenue (2)	104,977,503	106,703,917	112,319,163	116,867,351
<u>Non-Operating Revenues</u>				
Interest Income	9,726,315	11,761,325	14,419,575	14,656,424
Increase (Decrease) in Fair Value of Investments (3)	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,050,095</u>
Total Non-Operating Revenues	9,726,315	11,761,325	14,419,575	15,706,519
Capital Contributions (4)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>\$114,703,818</u>	<u>\$118,465,242</u>	<u>\$126,738,738</u>	<u>\$132,573,870</u>

(1) 1994 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.

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

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

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

Source: District accounting records.

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
\$107,385,439	\$114,613,601	\$110,749,258	\$113,591,867	\$109,416,694	\$107,662,424
9,754,924	10,025,945	9,914,671	10,435,577	10,099,165	10,092,747
8,174,134	8,846,646	9,727,725	9,780,118	10,277,561	11,504,702
<u>1,159,594</u>	<u>744,600</u>	<u>939,179</u>	<u>805,196</u>	<u>964,619</u>	<u>615,506</u>
126,474,091	134,230,792	131,330,833	134,612,758	130,758,039	129,875,379
14,833,852	14,996,659	15,980,457	18,580,276	14,247,954	12,267,626
<u>2,445,183</u>	<u>(4,806,082)</u>	<u>7,125,918</u>	<u>3,331,519</u>	<u>5,457,490</u>	<u>(5,709,818)</u>
17,279,035	10,190,577	23,106,375	21,911,795	19,705,444	6,557,808
<u>0</u>	<u>0</u>	<u>0</u>	<u>3,377,953</u>	<u>5,253,943</u>	<u>9,402,297</u>
<u><u>\$143,753,126</u></u>	<u><u>\$144,421,369</u></u>	<u><u>\$154,437,208</u></u>	<u><u>\$159,902,506</u></u>	<u><u>\$155,717,426</u></u>	<u><u>\$145,835,484</u></u>

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

	1994 (1)	1995	1996	1997
Salaries and Wages	\$23,319,678	\$24,086,396	\$24,993,344	\$25,033,703
Benefits	6,720,646	6,360,136	6,235,727	6,621,439
Power	9,303,057	9,646,002	9,664,024	9,751,968
Materials and Supplies	2,474,834	2,603,262	2,648,300	2,936,944
Collection Fees	4,176,279	4,486,005	4,568,164	4,666,139
Gas	2,373,248	2,607,493	2,581,693	2,744,234
Chemicals	1,419,660	1,578,721	912,559	808,661
Repairs and Maintenance	1,334,008	1,196,549	1,167,174	1,437,440
Solids Handling	1,173,927	1,431,972	1,393,493	1,010,364
Water	631,753	667,855	701,934	768,811
Professional Services	2,787,508	3,207,863	1,346,917	1,070,494
Insurance	615,065	533,639	583,216	541,835
All Other Expenses	1,546,501	2,324,815	2,124,851	2,097,277
Capitalized Construction Costs	(3,210,377)	(3,576,318)	(3,715,274)	(3,393,015)
Depreciation	22,052,053	24,332,512	26,589,817	29,929,463
Total Operating Expenses	<u>\$76,717,840</u>	<u>\$81,486,902</u>	<u>\$81,795,939</u>	<u>\$86,025,757</u>

(1) Years 1994 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.

Source : District accounting records.

1998	1999	2000	2001	2002	2003
\$24,437,135	\$23,662,565	\$23,892,150	\$24,647,491	\$25,832,219	\$27,529,672
6,492,369	6,746,180	7,197,179	6,774,095	7,790,909	8,521,645
9,490,602	9,126,719	8,953,181	9,267,991	9,147,231	9,370,436
2,750,734	3,261,897	4,677,056	3,375,647	3,383,852	3,599,091
4,863,083	4,947,264	5,002,072	5,110,654	4,977,231	5,598,772
2,557,611	2,391,660	3,601,449	4,926,932	3,805,104	3,587,102
831,880	944,648	742,727	765,279	742,794	777,478
1,700,997	2,004,747	1,722,806	3,641,665	2,435,869	2,505,875
1,082,460	1,373,228	1,439,390	1,495,717	1,181,476	782,822
858,857	871,216	954,713	831,926	500,030	1,128,576
1,303,469	1,990,640	1,426,942	1,484,679	2,097,685	2,488,843
580,001	583,644	864,156	819,952	908,484	1,005,164
2,240,893	2,176,672	2,473,286	2,686,842	2,668,495	2,857,775
(3,637,103)	(3,122,880)	(3,053,217)	(3,096,585)	(3,564,485)	(3,432,918)
28,335,108	29,028,480	30,320,517	31,495,906	32,388,516	34,778,545
<u>\$83,888,096</u>	<u>\$85,986,680</u>	<u>\$90,214,407</u>	<u>\$94,228,191</u>	<u>\$94,295,410</u>	<u>\$101,098,878</u>

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

Refer to schedule on pages 58 and 59, "Summary of Revenues, Expenses, Debt Service and Debt Service Coverage", which includes debt service ratios for Bonded and Total Debt for the last ten years.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMMUNITIES SERVED BY THE DISTRICT AND
ESTIMATED POPULATION SERVED
DECEMBER 31, 2003**

<u>Municipality</u>	<u>Estimated Service Population (1)</u>	<u>Municipality</u>	<u>Estimated Service Population (1)</u>
SUBDISTRICT 1			
Cleveland	477,459		
SUBDISTRICT 2			
Bath Township	0 (3)	Middleburg Heights	15,542
Beachwood	12,186	Newburgh Heights	2,389
Bedford	0 (3)	North Randall	906
Bedford Heights	41 (2)	North Royalton	5,654 (2)
Berea	18,970	Northfield	3,827
Boston Heights	0 (4)	Northfield Center Township	4,931
Bratenahl	1,337	Oakwood	3,104 (2)
Brecksville	13,382	Olmsted Falls	7,962
Broadview Heights	15,967	Olmsted Township	5,002 (2)
Brook Park	21,218	Orange	375 (2)
Brooklyn	11,586	Parma	85,655
Brooklyn Heights	1,558	Parma Heights	21,659
Cleveland Heights	50,769	Pepper Pike	976 (2)
Columbia Township	0 (3)	Richfield Village	3,144
Cuyahoga Heights	599	Richfield Township	0 (4)
East Cleveland	27,217	Richmond Heights	4,162 (2)
Euclid	2,373 (2)	Sagamore Hills Township	9,340
Garfield Heights	30,734	Seven Hills	12,080
Gates Mills	849 (2)	Shaker Heights	29,405
Highland Heights	8,082	Solon	353 (2)
Highland Hills	1,618	South Euclid	23,537
Hudson	9,911 (2)	Strongsville	24,836 (2)
Independence	7,109	Twinsburg	0 (3)
Lakewood	0 (3)	Twinsburg Township	0 (3)
Linndale	117	University Heights	14,146
Lyndhurst	15,279	Valley View	2,179
Macedonia	9,224 (2)	Walton Hills	2,400
Maple Heights	26,156	Warrensville Heights	14,921
Mayfield Heights	19,386	Willoughby Hills	24 (2)
Mayfield Village	3,435		
		Total Subdistrict 2	607,612
Total estimated service population			1,085,071

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

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

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

(4) Part of the community is not within the District service area. Service population to be determined by ongoing service area verification project.

Source: District administrative records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
LARGEST CUSTOMERS OF THE DISTRICT
AS OF DECEMBER 31, 2003**

	CONSUMPTION 2003 MCF	AMOUNT BILLED
<u>SUBDISTRICT 1</u>		
Cuyahoga Metropolitan Housing Agency (2)	125,836.9	\$3,814,601
Cleveland Clinic (2)	50,688.8	1,481,749
City of Cleveland Water Filtration Plants	38,146.6	1,303,003
Case Western Reserve University	29,177.0	881,151
Cleveland Board of Education (2)	28,511.0	855,532
ISG Cleveland	25,562.0	832,159
University Hospitals (2)	27,138.9	826,428
Metro Health Medical Centers (2)	26,089.3	765,544
Cleveland Thermal Energy Corporation	29,264.5	764,755
Cuyahoga County (2)	19,242.7	570,436
Ferro Corporation (2)	15,274.1	453,512
Cleveland State University (2)	13,697.2	377,808
Union Carbide Corporation	12,561.8	362,643
Synthetic Products	10,240.8	310,617
Veterans Administration Hospital (2)	10,424.5	295,566
General Electric Company (2)	8,006.8	247,865
Ninth Street - Euclid Ltd	7,676.6	201,579
Property Management Rental	5,994.5	184,304
Total Subdistrict 1	483,534.0	\$14,529,252
<u>SUBDISTRICT 2</u>		
Ford Motor Corporation	55,613.6	\$1,571,723
NASA John Glenn Research Center	44,138.5	1,232,061
Aluminum Corporation of America	27,817.0	863,183
Forest City Management*	21,465.2	618,175
General Motors Corporation	9,081.8	219,127
Thistledown Racing Club	7,286.1	170,628
Total Subdistrict 2	165,402.2	\$4,674,897
Grand Total	648,936.2	\$19,204,149

(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.

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>TREATMENT PLANT FLOW</u>				
Billions of gallons of sewage treated per plant:				
Easterly	54.1	58.3	54.6	41.0
Southerly	46.5	46.4	54.2	47.5
Westerly	12.6	14.6	13.1	13.8
Strongsville (1)	0.7	0.0	0.0	0.0
Total	<u>113.9</u>	<u>119.3</u>	<u>121.9</u>	<u>102.3</u>
Total sewage treated, in MCFs (2)	<u>15,227,273</u>	<u>15,949,198</u>	<u>16,296,791</u>	<u>13,676,471</u>
MCFs billed, total District	<u>6,436,047</u>	<u>6,057,449</u>	<u>6,158,601</u>	<u>5,963,566</u>
<u>STAFFING LEVELS</u>				
Number of employees (3):				
Plant Operations & Maintenance	396	390	385	370
Support Services	177	178	183	186
Engineering and Construction	50	50	49	47
Finance	39	39	39	39
Employee Resources (4)				
Information Technology (4)				
District Administration	12	11	13	13
Legal	9	11	8	8
Total	<u>683</u>	<u>679</u>	<u>677</u>	<u>663</u>
Budgeted employees, total District	<u>700</u>	<u>705</u>	<u>709</u>	<u>704</u>

(1) Strongsville plant decommissioned in 1994.

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

(3) Includes all positions filled during the year. In 1998, Support Services budget centers were redistributed between Operations and District Administration.

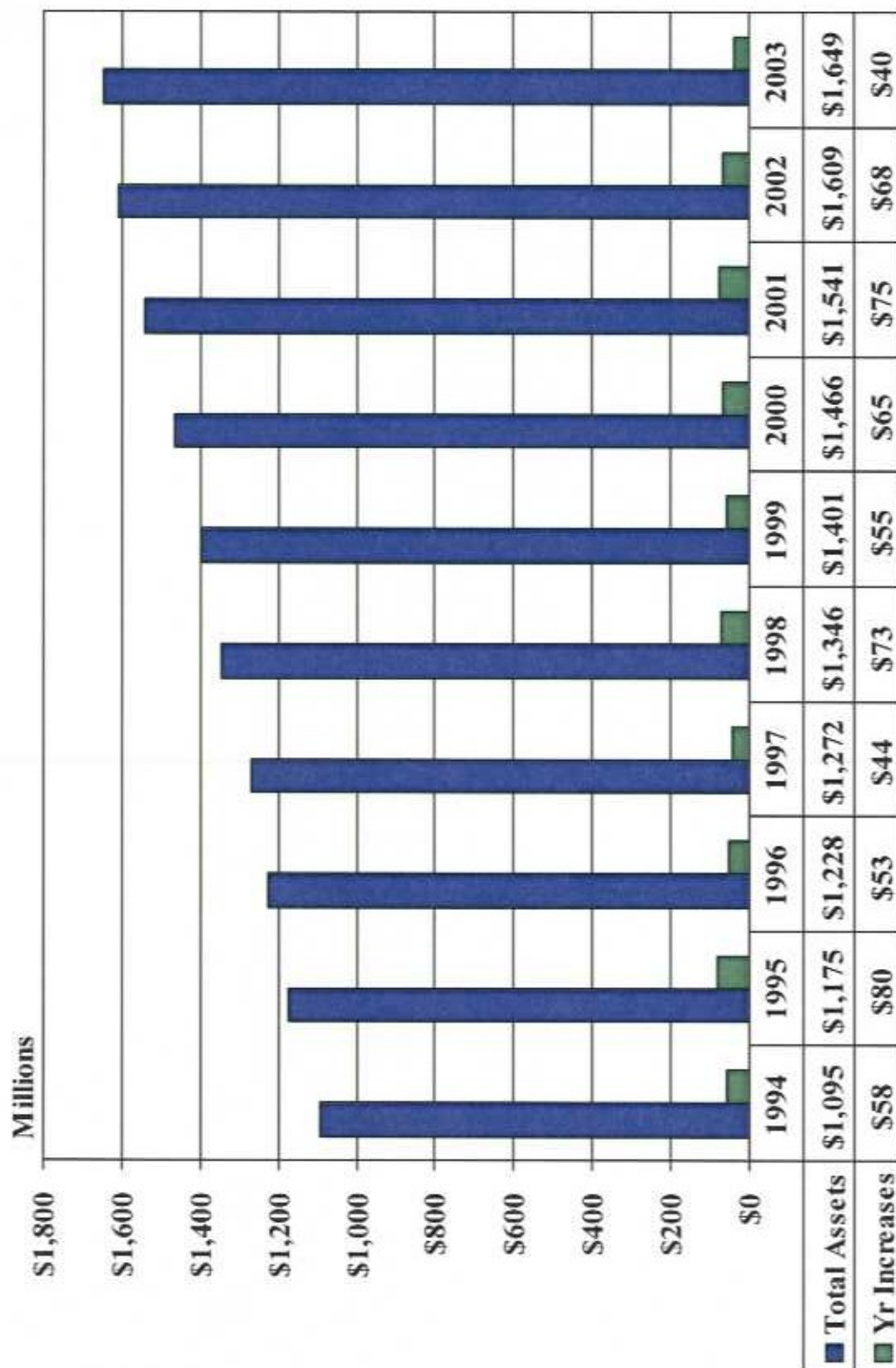
(4) Reclassified from District Administration beginning in 2002.

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

Source: Various District records.

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
36.5	38.0	40.9	36.7	37.3	40.4
43.3	40.0	39.2	38.9	37.2	42.1
12.7	11.4	12.0	11.1	10.4	11.0
0.0	0.0	0.0	0.0	0.0	0.0
<u>92.5</u>	<u>89.4</u>	<u>92.1</u>	<u>86.7</u>	<u>84.9</u>	<u>93.5</u>
<u>12,366,310</u>	<u>11,951,872</u>	<u>12,312,834</u>	<u>11,590,909</u>	<u>11,350,267</u>	<u>12,500,000</u>
<u>6,004,778</u>	<u>5,785,288</u>	<u>5,600,215</u>	<u>5,342,696</u> (5)	<u>5,191,506</u>	<u>5,094,136</u>
467	435	420	400	382	383
0	0	0	0	0	0
45	46	45	48	54	61
38	38	35	35	48	49
				41	44
				19	20
66	66	73	76	20	18
8	9	9	10	9	8
<u>624</u>	<u>594</u>	<u>582</u>	<u>569</u>	<u>573</u>	<u>583</u>
<u>644</u>	<u>620</u>	<u>625</u>	<u>595</u>	<u>634</u>	<u>637</u>

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



CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Subdistrict 1</u>				
Cleveland (1)	136,845	134,688	134,851	134,819
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	3	3	3	3
Direct Service - Suburbs (1)	<u>163,481</u>	<u>164,395</u>	<u>167,376</u>	<u>167,784</u>
Subtotal	<u>163,484</u>	<u>164,398</u>	<u>167,379</u>	<u>167,787</u>
Total Customers	<u><u>300,329</u></u>	<u><u>299,086</u></u>	<u><u>302,230</u></u>	<u><u>302,606</u></u>

(1) 2000 through 2003 exclude inactive accounts.

(2) The Master Meter Suburbs, which bill their customers separately, had approximately 17,099 accounts at the end of 2003. This represents an increase from 2002 of 882 accounts, of which 637 are in East Cleveland and 245 are in Summit County. As of April 1, 1994 the City of Cleveland Heights converted from a Master Meter to a Direct Service community and performs billing and collection functions similar to those performed by the City of Cleveland. The City of Hudson became a Master Meter community in 1998.

Source: District accounting records.

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
134,228	136,234	132,801	136,332	133,611	132,541
4	4	4	4	4	4
<u>170,325</u>	<u>170,032</u>	<u>171,712</u>	<u>174,264</u>	<u>175,194</u>	<u>175,652</u>
<u>170,329</u>	<u>170,036</u>	<u>171,716</u>	<u>174,268</u>	<u>175,198</u>	<u>175,656</u>
<u><u>304,557</u></u>	<u><u>306,270</u></u>	<u><u>304,517</u></u>	<u><u>310,600</u></u>	<u><u>308,809</u></u>	<u><u>308,197</u></u>

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
<u>Subdistrict 1</u>				
Cleveland	3,540,224	3,198,706	3,309,692	3,173,571
<u>Subdistrict 2</u>				
Direct Service - Suburbs	2,537,397	2,593,163	2,569,691	2,519,858
Master Meter - Suburbs (1)	<u>358,426 (2)</u>	<u>265,580 (3)</u>	<u>279,218</u>	<u>270,137</u>
Subtotal	<u>2,895,823</u>	<u>2,858,743</u>	<u>2,848,909</u>	<u>2,789,995</u>
Total Service Area	<u><u>6,436,047</u></u>	<u><u>6,057,449</u></u>	<u><u>6,158,601</u></u>	<u><u>5,963,566</u></u>

- (1) Consumption of Master Meter Suburbs is presented at 80% of total consumption which is the billing basis.
- (2) As of April 1, 1994 the City of Cleveland Heights converted from a Master Meter to a Direct Service Community and performs billing and collection functions similar to those performed by the City of Cleveland. Consumption in 1994 for the City of Cleveland Heights at 80% of actual as a Master Meter Community was 71,552.6 MCF (thousand cubic feet); as a Direct Service Community it was 175,342.9 MCF.
- (3) In 1995 Cleveland Heights was a Direct Service Community for the entire year.
- (4) 1999 includes the City of Hudson for the first time. Although Hudson joined the District in late 1998, they did not receive sewer bills and they were not included on the District billing roster until 1999.
- (5) Restated 2001 for consumption adjustment.
- Source: District accounting records.

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
3,176,655	2,919,241	2,815,865	2,665,282 (5)	2,662,602	2,495,126
2,559,852	2,553,481	2,427,096	2,387,609	2,231,962	2,287,825
<u>268,271</u>	<u>312,566</u> (4)	<u>357,254</u>	<u>289,805</u>	<u>296,942</u>	<u>311,185</u>
<u>2,828,123</u>	<u>2,866,047</u>	<u>2,784,350</u>	<u>2,677,414</u>	<u>2,528,904</u>	<u>2,599,010</u>
<u><u>6,004,778</u></u>	<u><u>5,785,288</u></u>	<u><u>5,600,215</u></u>	<u><u>5,342,696</u></u>	<u><u>5,191,506</u></u>	<u><u>5,094,136</u></u>

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Operating Revenue (1)	\$104,713	\$106,704	\$112,319	\$116,867
Non-Operating Revenue (2)	4,140	9,657	13,575	8,592 (2)
Total Revenues	<u>108,853</u>	<u>116,361</u>	<u>125,894</u>	<u>125,459</u>
Operating Expenses (Exclusive of depreciation)				
Operations (1)	40,494	42,705	40,272	40,650
Maintenance	14,190	14,450	14,934	15,446
Total Operating Expenses	<u>54,684</u>	<u>57,155</u>	<u>55,206</u>	<u>56,096</u>
Net Revenues Available for Debt Service	<u>\$54,169</u>	<u>\$59,206</u>	<u>\$70,688</u>	<u>\$69,363</u>
Total Revenue Bond Debt Service (3)	\$9,959	\$9,961	\$8,285	\$7,932
Coverage on Revenue Bond Debt Service	5.44	5.94	8.53	8.74
Total All Debt Service (3)	\$16,143	\$18,960	\$21,561	\$25,640
Coverage on Total Debt Service	3.36	3.12	3.28	2.71

(1) 1994 through 2000 restated for reclassification of bad debt expense as a reduction of revenue. This has no effect on debt service.

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

Interest Income from Project Account investments was as follows:

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
	\$1,898	\$701	\$271	\$0

(2) Restated 1997 to record investments at fair value.

(3) Net Revenues are first used to pay debt service on Revenue Bonds and second to pay debt service on loans from the Ohio Water Development Authority (OWDA) and Water Pollution Control Loan Fund (WPCLF). The annual Debt Service Requirements on these obligations for the ten years ended December 31, 2003 were:

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Revenue Bond Issues and Debt Service				
\$122,315 Series 1991(A)	\$9,959	\$9,961	\$0	\$0
\$97,830 Series 1995	0	0	8,285	7,932
Total Revenue Bond Debt Service	<u>9,959</u>	<u>9,961</u>	<u>8,285</u>	<u>7,932</u>
OWDA Debt Service	4,652	4,654	4,501	5,479 (B)
WPCLF Debt Service	1,532	4,345	8,775	12,229
Total All Debt Service	<u>\$16,143</u>	<u>\$18,960</u>	<u>\$21,561</u>	<u>\$25,640</u>

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

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

Source: District accounting records.

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
\$126,474	\$132,631	\$131,331	\$134,613	\$130,758	\$129,875
16,434	9,971	23,032	21,143	18,388	6,434
<u>142,908</u>	<u>142,602</u>	<u>154,363</u>	<u>155,756</u>	<u>149,146</u>	<u>136,309</u>
40,368	41,278	44,184	44,550	44,565	47,746
15,185	15,680	15,710	18,182	17,342	18,574
<u>55,553</u>	<u>56,958</u>	<u>59,894</u>	<u>62,732</u>	<u>61,907</u>	<u>66,320</u>
<u>\$87,355</u>	<u>\$85,644</u>	<u>\$94,469</u>	<u>\$93,024</u>	<u>\$87,239</u>	<u>\$69,989</u>
\$7,932	\$7,934	\$7,936	\$7,932	\$7,934	\$7,930
11.01	10.79	11.90	11.73	11.00	8.83
\$26,253	\$28,331	\$34,409	\$34,866	\$35,984	\$35,886
3.33	3.02	2.75	2.67	2.42	1.95

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
\$0	\$0	\$0	\$0	\$0	\$0

<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
\$0	\$0	\$0	\$0	\$0	\$0
7,932	7,934	7,936	7,932	7,934	7,930
<u>7,932</u>	<u>7,934</u>	<u>7,936</u>	<u>7,932</u>	<u>7,934</u>	<u>7,930</u>
4,643	4,643	4,643	4,079	3,136	408
<u>13,678</u>	<u>15,754</u>	<u>21,830</u>	<u>22,855</u>	<u>24,914</u>	<u>27,548</u>
<u>\$26,253</u>	<u>\$28,331</u>	<u>\$34,409</u>	<u>\$34,866</u>	<u>\$35,984</u>	<u>\$35,886</u>

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

Fiscal Years During Which Rates Were Effective	SUBDISTRICT 1				SUBDISTRICT 2			
	Standard		Homestead (2)		Standard		Homestead (2)	
	Rate (1)	Change	Rate (1)	Change	Rate (1)	Change	Rate (1)	Change
1994 - 1995	14.75	13.5	9.79	3.7	19.80	10.0	12.81	2.9
1996	15.95	8.1	11.10	13.4	21.00	6.1	13.85	8.1
1997	17.15	7.5	11.80	6.3	22.25	6.0	14.75	6.5
1998	18.25	6.4	12.55	6.4	23.45	5.4	15.70	6.4
1999	19.60	7.4	13.35	6.4	24.50	4.5	16.70	6.4
2000 - 2002	21.10	7.7	14.25	6.7	26.60	8.6	17.80	6.6
2003	22.70	7.6	15.30	7.4	27.95	5.1	18.70	5.1

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

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

Industrial Waste Surcharge

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

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

Minimum Quarterly Billing

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

Source: District accounting records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
CAPITAL IMPROVEMENT PROGRAM
USES AND SOURCES OF FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2004 THROUGH 2008
(In Thousands of Dollars)**

	2004	2005	2006	2007	2008	TOTAL
<u>USES OF FUNDS (1)</u>						
Sewage Treatment Plant Improvements						
Westerly	\$0	\$0	\$0	\$1,000	\$200	\$1,200
Southerly	11,070	16,700	9,930	77,950	11,100	126,750
Easterly	7,000	2,000	1,500	500	200	11,200
Sub-Total	18,070	18,700	11,430	79,450	11,500	139,150
Interceptors						
Inter-Community Relief Sewers	4,250	1,950	2,500	0	0	8,700
Cuyahoga Valley	2,500	0	0	0	0	2,500
Sub-Total	6,750	1,950	2,500	0	0	11,200
Combined Sewer Overflow and Interceptor Rehabilitation Other Projects	87,065	54,060	115,977	164,280	80,915	502,297
TOTAL	22,365	19,650	15,400	12,600	6,600	76,615
	<u>\$134,250</u>	<u>\$94,360</u>	<u>\$145,307</u>	<u>\$256,330</u>	<u>\$99,015</u>	<u>\$729,262</u>
<u>SOURCES OF FUNDS</u>						
Federal Grants (2)	\$3,575	\$0	\$0	\$0	\$0	\$3,575
WPCLF Loans (2)	63,800	50,800	115,500	161,500	76,800	468,400
Net Bond Proceeds	0	0	0	75,000	0	75,000
Internally Generated Funds	66,875	43,560	29,807	19,830	22,215	182,287
TOTAL	<u>\$134,250</u>	<u>\$94,360</u>	<u>\$145,307</u>	<u>\$256,330</u>	<u>\$99,015</u>	<u>\$729,262</u>

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

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

Source: District accounting records.

Cover Photograph

Jeffrey Dunlap

Printing

Milbourn Pressworks Co.

Map, Graphics and Major Initiatives

Kim C. Jones, Communications Manager

John C. Gonzalez, Communications Specialist

Project Manager

Mary C. Mink, Finance Manager

Other Contributors

Francis P. Greenland, Deputy Director of Engineering and Construction

Richard Switalski, Manager of Sewer Design

Betsy Yingling, Planning Engineer

John D. Graves, Planning Scientist

Janetta R. Griffin, Administrator of Revenue and User Support



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*Commemorative CD, a history of the
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Available fall of 2004

