



# Keeping our Great Lake great.

northeast ohio regional sewer district  
political subdivision of the state of ohio



## 2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended december 31, 2010

**LEGEND**

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

**EASTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM**

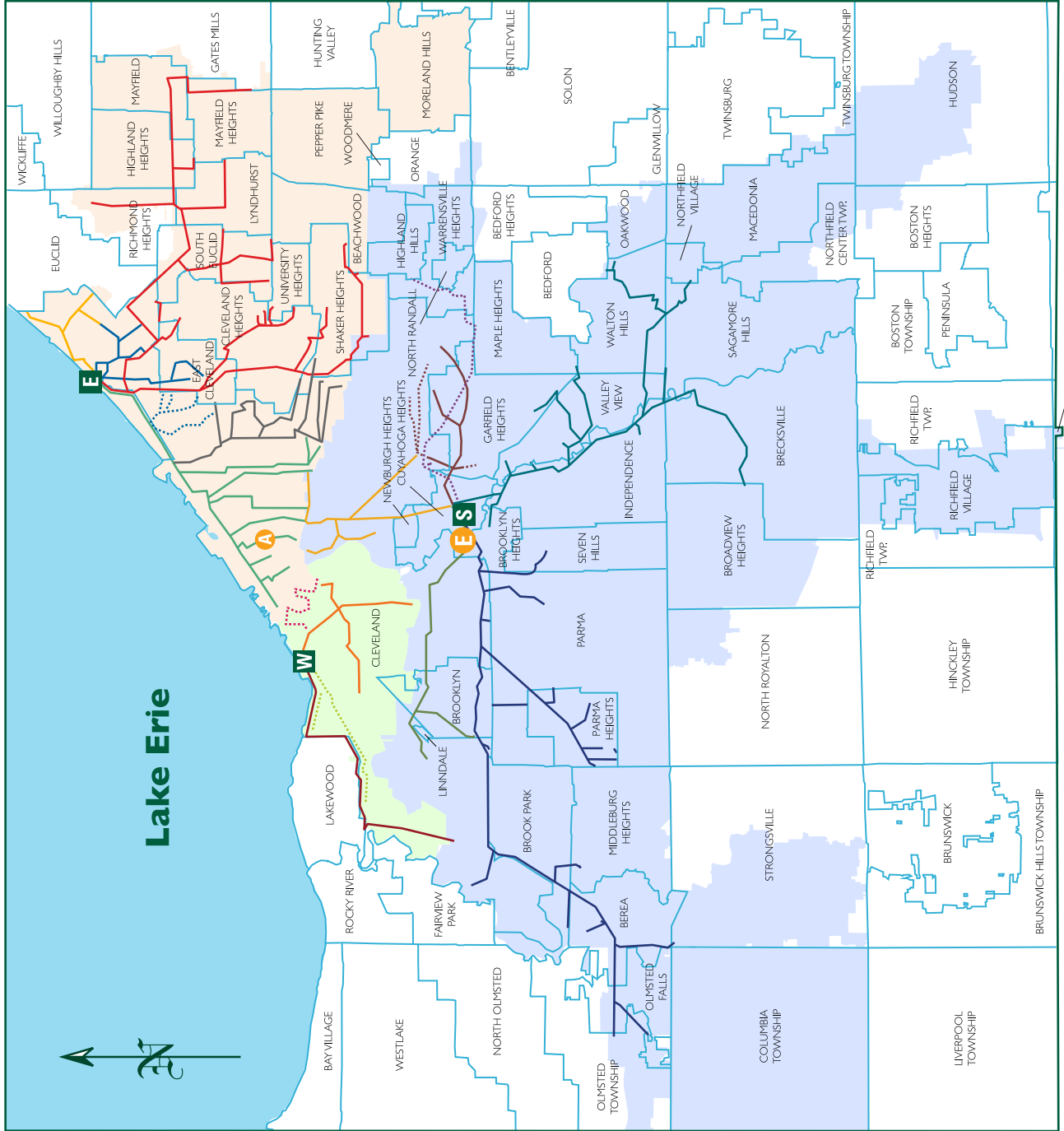
- Easterly Interceptor
- Doan Valley Interceptor
- Dugway Interceptor
- Heights-Hilltop Interceptors & ICRS
- E140th-Hayden/E152nd-Ivanhoe Interceptors
- Lakeshore-Nottingham Interceptors

**SOUTHERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM**

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

**WESTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM**

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



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

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT  
A POLITICAL SUBDIVISION OF THE  
STATE OF OHIO  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2010

SUBMITTED BY:

Department of Finance



**NORTHEAST OHIO REGIONAL SEWER DISTRICT**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2010**

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

**DECEMBER 31, 2010**

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# INTRODUCTORY *section*









June 24, 2011

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

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles audited in accordance with standards generally accepted in the United States of America by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Northeast Ohio Regional Sewer District for the fiscal year ended December 31, 2010.

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

The Northeast Ohio Regional Sewer District's financial statements have been audited by Ciuni and Panichi, Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Northeast Ohio Regional Sewer District for the fiscal year ended December 31, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the Northeast Ohio Regional Sewer District's financial statements for the fiscal year ended December 31, 2010, are fairly presented in conformity with GAAP. The Independent Auditors' Report is presented as the first component of the financial section of this report.

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

## **PROFILE OF THE DISTRICT**

### **General**

The District is an independent political subdivision of and organized under the laws of the State of Ohio, specifically Chapter 6119 of the Ohio Revised Code. Originally named the Cleveland Regional Sewer District, it was created in 1972 for the purpose of assuming the operation and management of certain wastewater collection, treatment and disposal facilities serving the Cleveland metropolitan area. Prior to 1972, these facilities were owned and operated by the City of Cleveland.

### **Service Area**

The District's service area covers approximately 350 square miles. The District encompasses 97% of the City of Cleveland and all or portions of 61 suburban communities in Cuyahoga, Lake, Lorain and Summit Counties. The area contains a residential service population in excess of one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District treats more wastewater than any other wastewater treatment system in the State of Ohio.

### **Governance**

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

### **Budgets**

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of the year to which they apply. Readers should refer to the Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual on page 49 of this report, along with the accompanying Notes to Supplementary Information for additional budgetary information.

The section of the Ohio Revised Code under which the District is organized grants it the power to raise revenues through taxes on property within its service area. In accordance with Chapter 5705 of the Code, the District does not file an annual Tax Budget because it does not levy any taxes.

## **FACTORS AFFECTING FINANCIAL CONDITION**

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

### **Local Economy**

The economic environment in which the District operates is affected by the same events and conditions as the rest of the State of Ohio and the nation. Although the economy is still recovering, District revenue is expected to remain relatively stable due to approval of a rate increase by the Board of Trustees. The region is not dominated by any single industry. Major industries with headquarters or divisions located in the District's service area or in close proximity include automotive manufacturers; industrial equipment, metals, paints and coatings producers; insurance; and banking services. Major employers in the area include federal, state, county and municipal government agencies, health care providers, public schools, financial service providers, manufacturers, and retail establishments. In recent years there has been a significant shift from manufacturing to a service and information based economy.

The unemployment rate in December 2010 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 8.6% was 1.0% lower than the seasonally adjusted rate for the State of Ohio 9.6% and equal to the national rate of 9.6%. Although the City of Cleveland and Cuyahoga County have experienced an outward migration of residents to neighboring suburbs and counties, the presence of corporate, cultural and entertainment facilities continues to attract visitors and commuters to the area.

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

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

The District maintains long range financing plan for its Operating and Capital budgets. The District's five year financing plan for the capital budget provides for over \$1 billion in capital project expenditures from 2010 to 2014, primarily for improvements to our Southerly wastewater treatment plant and our CSO long-term control plan. This includes approximately \$410 million for the plants, \$640 million for the CSO projects, and \$101 million for the collection system improvements, and \$26 million of miscellaneous District-wide improvements. Over this five year period, the District will need to address both regulatory driven capital improvements and rehabilitation driven capital improvements at its three (3) wastewater treatment plants and within its collection system.

During 2010 the District completed a five year long-term financial and rate impact model for rates going in effect 2012-2016. The model incorporates specific year by year details to determine the sewer rates over the next five years.

## **Debt Administration**

At year-end, the District had bonded debt outstanding of \$500,235,000. The debt, net of applicable unamortized discounts and refunding costs, is \$502,457,050. 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, 2010, the outstanding loan balances were \$435,356,845 for the WPCLF. Outstanding revenue bonds of the District are rated AA+ by Standard & Poor's and Aa1 by Moody's rating agencies. Note 6 to the financial statements include schedules of debt outstanding and future debt service requirements.

In 2005, the District refinanced bonded debt that was outstanding at the time. These legal defeasance transactions resulted in funds being deposited with escrow agents who invested them in U.S. Treasury obligations which, together with the income earned on such investments, will be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, are excluded from the District's statement of net assets since the District has legally satisfied its obligations as a result of the refunding transactions. This information should be read in conjunction with Note 6 to the financial statements.

In 2007, the District issued \$126,055,000 Wastewater Improvement Revenue Bonds, Series 2007 Bonds, for the purpose of providing funds for the acquisition, construction, and improvement of water resource projects, funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and paying certain costs of issuance of the Series 2007 Bonds. This information should be read in conjunction with Note 6 to the financial statements.

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

## **MAJOR INITIATIVES**

### **For the Year**

#### **2010 Awards**

During 2010, the District received awards for 2009 plant performance from the National Association of Clean Water Agencies (NACWA, formerly Association of Metropolitan Sewerage Agencies, or AMSA). NACWA honored all three of our Wastewater Treatment Plants (WWTP) for excellent performance in 2009. Our Easterly plant earned a Gold award. A Gold honor recognizes facilities with no National Pollutant Discharge Elimination System permit exceedences in a year. Our Southerly and Westerly plants earned the Peak Performance Silver Award. A Silver honor recognizes facilities with no more than one National Pollutant Discharge Elimination System permit exceedences in a year. Awards for 2010 performance have not been announced as of the date of this report.

During 2010, the Government Finance Officers Association (GFOA) presented the Distinguished Budget Presentation Award to the District for the fourth time for its 2010 Budget.

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

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

In addition to implementing a new SBE program which certified over 800 local companies. The District conducted a Disparity Study in 2010. The study recommendations included the legal basis for having a race and gender base program. The disparity study will allow the District to include Minority and Women goals on upcoming projects.

#### **Vendor Registration**

The Small Business Enterprise Program joined forces with the Purchasing Department in developing and implementing an on-line vendor registration system that tracks the number of registered vendors doing business with the District and vendor payments, as well as assisting in the identification of potential vendors for the Small Business Enterprise Program. The real-time, on-line vendor registration system enables vendors to up-load and edit their vendor profile information as well entering SBE certification data. As of December 31, 2010 the District had over 1,892 registered vendors.

#### **Employee Relations**

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

capable of supporting our customers' needs. Other major highlights of the District employee relations are:

- *Health and Wellness Program*  
Following the successful launch of its pilot Wellness Program at the District's Administration Building, Human Resources is creating Wellness committees at two additional locations, EMSC and Westerly. Monthly programs continue to be offered geared toward improving emotional, physical and financial well-being. In addition, the annual Health and Wellness Fair encouraged employees to participate in health screenings and explore a variety of health services and programs offered by local vendors. The District anticipates expansion of Wellness committees at the remaining two locations, Easterly and Southerly in 2011. As the program flourishes, the District plans to continue to help improve the quality of life for employees and their families.
- *Performance Management System*  
In 2010, the District embarked on establishing and facilitating a performance management system for non-union employees. In support of the District's 2009-2013 Strategic Plan, this system serves as a vehicle for achieving one of our Strategic Metrics. The performance management system focuses on creating an environment that allows for aligning with both strategic and organizational goals, skills and competency development, true performance tracking and the enhancement of manager's supervisory skills. The Human Resources staff worked with a consultant and senior leadership to develop a performance management system, including a standard performance appraisal form and process. In addition, several training modules were developed and facilitated to assist the target population with getting acclimated to the components of the performance management cycle. During 2010, 320 employees were evaluated utilizing this system.
- *Diversity and Inclusion*  
In 2010, the District implemented the first year of the three-year Diversity & Inclusion strategic plan. Accomplishments were made in focal areas of communication, education and accountability. Examples include: added Spanish translation feature to external NEORS D website; conducted two pilot diversity and inclusion training workshops in preparation for a 2011 training rollout; and revised non-discrimination statement in Employee Handbook to list Lesbian, Gay, Bi-sexual, and Transgender as a protected class for the District. The District is committed to fostering a diverse and inclusive workforce which builds an environment that respects the individual, promotes innovation, and offers opportunities for all employees to develop to their full potential. The District's commitment to diversity and inclusion is a long-term strategy that maximizes the development of a cultural competence to achieve greater productivity and to respond proactively to an emerging American cultural demographic. Awareness of one's own cultural beliefs, values and norms; appreciations and knowledge of different cultural beliefs, values and norms; and cross cultural skills, are the guiding principles reflected in the District's interactions with customers, clients and partners and defines the work ethic under which the District operates.
- *Employee Recognition Program*  
The Employee Recognition program which was implemented in late 2009 gained great acceptance during 2010 with all locations submitting monthly recommendations and hosting award presentations regularly. The program was created to foster a culture of appreciation, making recognition a part of our daily activities by highlighting demonstration of one of the Core Values. The goal is to motivate employees by reminding them of the value they add to furthering the mission, vision and core values of the District. During 2010, 67 employees were nominated

by their managers or peers and 42 awards were presented. In 2010, a permanent work group was formed to review the Employee Recognition program and suggest enhancements to it. Based on the team's recommendations, a Quarterly Team Award and an Annual Spirit Award have been added to the monthly Employee of the Month Award.

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

The District has responsibility for combined sewer overflows (CSOs) within its service area under the federal Clean Water Act and U.S. Environmental Protection Agency's (U.S. EPA) CSO Control Policy. The District also holds a state-issued NPDES permit for the CSOs and pursuant to the foregoing, the District was required to develop a Long-Term Control Plan (LTCP) to reduce or eliminate the number of overflows from its CSO outfalls. The estimated cost of the District's proposed CSO LTCP, as submitted to Ohio EPA, was approximately \$2.7 billion (in 2009 dollars). In 2010 the District was engaged in negotiations with Ohio and U.S. EPA, U.S. Department of Justice, and the Ohio Attorney General's Office to obtain final approval of its LTCP. During the course of those negotiations, the District proposed certain additions and enhancements to its original LTCP that, if approved, would bring its total cost to approximately \$3 billion (in 2009 dollars). The schedule over which the plan will be implemented is 25 years. The negotiations were concluded and the District obtained authorization from its Board of Trustees to enter into a Consent Decree with the state and federal agencies in December 2010.

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

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

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

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

## **Asset Management Implementation**

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

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

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

## **Biosolids Management**

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

A District Residuals Management Study completed in 2005, and validated in 2008, determined that the District's most cost-effective long-term biosolids management option is to continue incineration, with landfilling as a secondary option. As a result, the District is undertaking a program to replace four existing incinerators located at the Southerly WWTP with three new state-of-the-art fluid bed incinerators. The final design of the project included a facility to house waste heat boilers and a turbine generator to create a Renewable Energy Facility (REF) that will supply power from the incineration process to the Southerly WWTP. The new REF and incinerator facility should be in service in 2013 and has a current total project cost estimate of approximately \$165 million.



## **For the Future**

### **Regional Stormwater Management Program**

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

### **Strategic Plan**

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

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

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

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

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

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

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Northeast Ohio Regional Sewer District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2009. This was the 15th consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## ACKNOWLEDGEMENTS

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

Respectfully submitted,



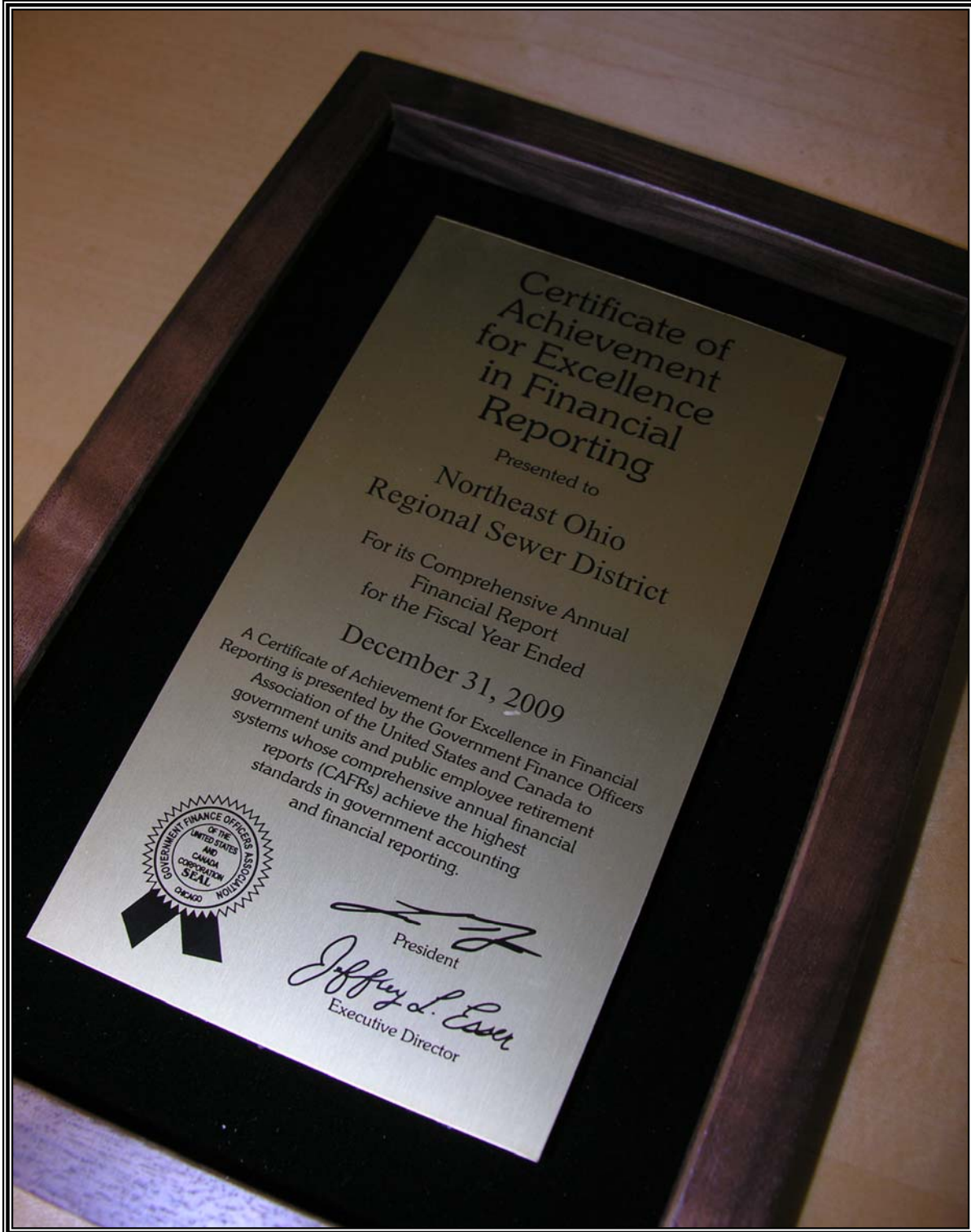
Julius Ciaccia  
Executive Director



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



*2009 Comprehensive Annual Financial Reporting Award*



***2010 Government Finance Officers Association  
Distinguished Budget Award***



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
TABLE OF ORGANIZATIONS  
DECEMBER 31, 2010**

**BOARD OF TRUSTEES**



Darnell Brown,  
Board President



Ronald D. Sulik,  
Vice President



Mayor Dean E. DePiero,  
Secretary



Mayor Jack M. Bacci



Sheila J. Kelly



Walter O'Malley



Mayor Gary W. Starr

**DIRECTORS**



Julius Ciaccia  
Executive Director



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



Jennifer L. Demmerle  
Director of Finance  
Finance: 47 Employees



Marlene Sundheimer  
Director of Law  
Legal: 15 Employees



Constance T. Haqq  
Director of Administration  
& External Affairs (AEA)  
AEA: 18 Employees



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



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



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



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



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

# FINANCIAL *section*







## Independent Auditors' Report

To the Board of Trustees  
Northeast Ohio Regional Sewer District

We have audited the accompanying statements of net assets of the Northeast Ohio Regional Sewer District (the "District"), as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2010 and 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees  
Northeast Ohio Regional Sewer District

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Cioni & Panichi, Inc.*

Cleveland, Ohio  
June 24, 2011

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Management's Discussion and Analysis**

The following discussion provides a summary overview of the financial activities of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2010. 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 \$1,290,040,583.
- Net assets increased by \$10,451,587.
- Investment in capital assets, net of related debt increased by \$32,168,145.
- Unrestricted net assets decreased \$21,716,558.
- Retirements of debt principal were \$36,806,879.
- Operating revenue increased by \$2,074,384.
- Operating expenses increased by \$4,375,611.

### **Overview of the Financial Statements**

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

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

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

The following tables provide a summary of the District's financial position and operations for 2010, 2009 and 2008, respectively. Certain reclassifications have been made to restate the 2009 and 2008 financial statements in order to conform to the 2010 presentation. Certain amounts may vary slightly due to differences caused by rounding to thousands.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

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

Net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,290,040,583 as of December 31, 2010, of which \$1,038,270,319 is for net investment in capital assets.

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

During 2010, net assets increased by \$10,451,587. The majority of this increase was due to the following:

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2009	2008	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 205,378	\$ 182,640	\$ 22,738	12.4%
Capital Assets, Net	1,527,939	1,493,783	34,156	2.3%
Other Noncurrent Assets	164,860	222,679	(57,819)	(26.0%)
<b>Total Assets</b>	<b>1,898,177</b>	<b>1,899,102</b>	<b>(925)</b>	<b>(0.0%)</b>
<u>Liabilities</u>				
Current Liabilities	65,838	58,435	7,403	12.7%
Long-Term Debt	548,749	564,607	(15,858)	(2.8%)
Other Long-Term Liabilities	4,000	-	4,000	100.0%
<b>Total Liabilities</b>	<b>618,587</b>	<b>623,042</b>	<b>(4,455)</b>	<b>(0.7%)</b>
<u>Net Assets</u>				
Invested in Capital Assets	1,006,102	995,488	10,614	1.1%
Unrestricted Assets	273,487	280,572	(7,085)	(2.5%)
<b>Total Net Assets</b>	<b>\$ 1,279,589</b>	<b>\$ 1,276,060</b>	<b>\$ 3,529</b>	<b>0.3%</b>

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

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

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2010	2009	Change	
			Amount	%
<u>Operating Revenue</u>				
Sewer Service Fees				
Billing Agents				
City of Cleveland	\$ 140,060	\$ 141,082	\$ (1,022)	(0.7%)
Other Billing Agents	10,644	10,050	594	5.9%
Total Billing Agents	150,704	151,132	(428)	(0.3%)
Direct Billed Sewer Service Fees	14,663	12,698	1,965	15.5%
Total Sewer Service Fees	165,367	163,830	1,537	0.9%
Other Operating Revenue				
Septic Tank and Municipal Sludge Fees	693	599	94	15.7%
Miscellaneous	791	347	444	128.0%
Total Other Operating Revenue	1,484	946	538	56.9%
<b>Total Operating Revenue</b>	<b>166,851</b>	<b>164,776</b>	<b>2,075</b>	<b>1.3%</b>
<u>Non-Operating Revenue</u>				
Interest Revenue	4,150	7,240	(3,090)	(42.7%)
Non-Operating Grant Revenue	1,732	1,431	301	21.0%
Decrease in Fair Value of Investments	(19)	(3,874)	3,855	(99.5%)
<b>Total Non-Operating Revenue</b>	<b>5,863</b>	<b>4,797</b>	<b>1,066</b>	<b>22.2%</b>
<b>Total Revenue</b>	<b>172,714</b>	<b>169,573</b>	<b>3,141</b>	<b>1.9%</b>
<u>Operating Expenses</u>				
Salaries and Wages	38,061	37,024	1,037	2.8%
Benefits	12,748	11,714	1,034	8.8%
Utilities	16,042	18,924	(2,882)	(15.2%)
Professional and Contractual	23,034	17,696	5,338	30.2%
Other	7,393	8,194	(801)	(9.8%)
Depreciation	46,062	45,411	651	1.4%
<b>Total Operating Expenses</b>	<b>143,340</b>	<b>138,963</b>	<b>4,377</b>	<b>3.1%</b>
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	26,583	24,599	1,984	8.1%
Non-Operating Grant Expenses	1,732	1,431	301	21.0%
Other Non-Operating Expenses	-	3,000	(3,000)	(100.0%)
Loss on Disposals of Equipment	46	2,014	(1,968)	(97.7%)
<b>Total Non-Operating Expenses</b>	<b>28,361</b>	<b>31,044</b>	<b>(2,683)</b>	<b>(8.6%)</b>
<b>Total Expenses</b>	<b>\$ 171,701</b>	<b>\$ 170,007</b>	<b>\$ 1,694</b>	<b>1.0%</b>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

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

Operating revenue consists mainly of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2010:

- Operating revenue increased by \$2,074,384 (1.3%) compared to 2009. The increase was due to higher billing rates in 2010, coupled with a decrease in consumption and an increase in delinquencies.
- Non-operating revenue increased by \$1,066,576 (22.2%). This increase was mainly due to lesser reductions in fair value of investments compared to 2009. The decrease in fair value of investments for 2010 was \$3,855,309 (99.5%) less than experienced in 2009. The fair value is expected to increase toward face value in the future since these investments in obligations of the U.S. Treasury and its agencies are held to maturity. Non-operating revenue consists of interest income, grant revenue and the change in fair value of investments. Interest income decreased by \$3,089,843 (42.7%) due to lower interest rates available for investment. Non-operating grant revenue increased by \$301,110 (21.0%) due to the receipt of funds for Water Resource Sponsorship Programs for 2010.
- Operating expenses increased \$4,375,611 (3.1%) compared to 2009. Main components of operating expenses are as follows:
  - Salary and wages increased \$1,037,055 (2.8%).
  - Fringe benefits increased \$1,033,254 (8.8%).
  - Professional and Contractual Services increased \$5,337,859 (30.2%) due mainly to increased Program Management costs.
  - Utilities decreased \$2,881,973 (15.2%) due to a new utility contract.
  - Decreases in Other Expenses include \$978,323 (48.3%) for Judgments and Awards; \$321,479 (19.9%) for Chemicals used in the treatment processes at the Wastewater Treatment Plants; and \$10,519 (2.0%) for Travel and Education. The decreases were offset by increases in Other Expenses of \$379,639 (11.1%) for Materials and Supplies to operate and maintain facilities; and \$148,520 (8.0%) for Repair and Maintenance to buildings, equipment, sewer and roads.
- Non-operating expenses decreased \$2,682,693 (8.6%). Interest expense increased by \$1,984,238 (8.1%). Losses on equipment disposals decreased \$1,968,041 (97.7%) due mainly to disposals of obsolete equipment parts in 2009. Non-operating grant expense increased \$301,110 (21.1%). Other non-operating expense decrease \$3,000,000 (100.0%) due to a one time grant expense to another government agency.

The following table on the next page summarizes the changes in revenues and expenses for the District between 2009 and 2008.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2009	2008	Change	
			Amount	%
<u>Operating Revenue</u>				
Sewer Service Fees				
Billing Agents				
City of Cleveland	\$ 141,082	\$ 137,760	\$ 3,322	2.4%
Other Billing Agents	10,050	9,845	205	2.1%
Total Billing Agents	151,132	147,605	3,527	2.4%
Direct Billed Sewer Service Fees	12,698	13,832	(1,134)	(8.2%)
Total Sewer Service Fees	163,830	161,437	2,393	1.5%
Other Operating Revenue				
Septic Tank and Municipal Sludge Fees	599	549	50	9.1%
Miscellaneous	347	285	62	21.8%
Total Other Operating Revenue	946	834	112	13.4%
<b>Total Operating Revenue</b>	<b>164,776</b>	<b>162,271</b>	<b>2,505</b>	<b>1.5%</b>
<u>Non-Operating Revenue</u>				
Interest Revenue	7,240	11,715	(4,475)	(38.2%)
Non-Operating Grant Revenue	1,431	1,592	(161)	(10.1%)
(Decrease) Increase in Fair Value of Investments	(3,874)	2,332	(6,206)	(266.1%)
<b>Total Non-Operating Revenue</b>	<b>4,797</b>	<b>15,639</b>	<b>(10,842)</b>	<b>(69.3%)</b>
<b>Total Revenue</b>	<b>169,573</b>	<b>177,910</b>	<b>(8,337)</b>	<b>(4.7%)</b>
<u>Operating Expenses</u>				
Salaries and Wages	37,024	35,102	1,922	5.5%
Benefits	11,714	11,494	220	1.9%
Utilities	18,924	20,633	(1,709)	(8.3%)
Professional and Contractual	17,696	18,727	(1,031)	(5.5%)
Other	8,194	5,757	2,437	42.3%
Depreciation	45,411	44,449	962	2.2%
<b>Total Operating Expenses</b>	<b>138,963</b>	<b>136,162</b>	<b>2,801</b>	<b>2.1%</b>
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	24,599	24,602	(3)	(0.0%)
Non-Operating Grant Expenses	1,431	1,204	227	18.9%
Other Non-Operating Expenses	3,000	-	3,000	100.0%
Loss on Disposals of Equipment	2,014	181	1,833	1012.7%
<b>Total Non-Operating Expenses</b>	<b>31,044</b>	<b>25,987</b>	<b>5,057</b>	<b>19.5%</b>
<b>Total Expenses</b>	<b>\$ 170,007</b>	<b>\$ 162,149</b>	<b>\$ 7,858</b>	<b>4.8%</b>



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2009	2008	Change	
			Amount	%
<b>(Loss) Income Before Contributions</b>	\$ (434)	\$ 15,761	\$ (16,195)	(102.8%)
Capital Contributions	3,963	-	3,963	100.0%
<b>Change in Net Assets</b>	3,529	15,761	(12,232)	(77.6%)
Net Assets at Beginning of Year	1,276,060	1,260,299	15,761	1.3%
<b>Net Assets at End of Year</b>	<u>\$ 1,279,589</u>	<u>\$ 1,276,060</u>	<u>\$ 3,529</u>	<u>0.3%</u>

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Capital Assets

At the end of 2010, the District had \$1,610,307,429 invested in capital assets. This amount represents a net increase of approximately \$82 million, or 5.4% over 2009. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

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

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

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Capital Assets

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

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

	2009	2008	Change	
			Amount	%
Land	\$ 9,473	\$ 8,950	\$ 523	5.8%
Construction in Progress	236,792	194,457	42,335	21.8%
Interceptor Sewer Lines	782,918	776,495	6,423	0.8%
Buildings, Structures and Improvements	355,161	368,730	(13,569)	(3.7%)
Sewage Treatment and Other Equipment	143,595	145,151	(1,556)	(1.1%)
<b>Total</b>	<b>\$ 1,527,939</b>	<b>\$ 1,493,783</b>	<b>\$ 34,156</b>	<b>2.3%</b>

### Major Additions Placed into Service in 2009, at Cost Included:

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Debt Administration

At December 31, 2010, the District had total debt outstanding net of premiums and refunding loss, of \$935,591,845 compared to \$582,333,948 at December 31, 2009. This represents an increase of \$353,257,896. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$23,812,896; total debt retirements were \$23,076,540. The carrying value of the long-term portion of debt at December 31, 2010 was \$899,686,743 and the fair value of the long-term debt was \$883,511,546.

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

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)

	2010	2009	2008
Revenue Bonds	\$ 500,235	\$ 170,790	\$ 177,985
Water Pollution Loans Payable	435,357	411,544	417,080
Total Debt	<u>\$ 935,592</u>	<u>\$ 582,334</u>	<u>\$ 595,065</u>

### Economic Factors

In February, 2007 the District's Board of Trustees approved a schedule of rate increases for the five years 2007 through 2011. Increasingly stringent federal regulations and remaining legal obligations are key factors that led to these rate increases. A rate study of a projected five-year period concluded that the need to finance \$640 million in federally mandated capital projects between 2010 and 2014, combined with the repayment of existing debt service for past projects and an anticipated decrease in billed consumption, necessitated the rate increases. Effective January 1, 2009, rates charged to District customers increased 9.7 percent to \$37.15 per mcf for City of Cleveland customers, and 8.1 percent to \$40.90 for the suburban customers. Effective January 1, 2010, rates charged to District customers increased 9.7 percent to \$40.75 per mcf for City of Cleveland customers, and 8.2 percent to \$44.25 per mcf for the suburban customers. The rates are scheduled to increase similarly on January 1 for the year 2011. In 2010, the District began a rate study for the 2012-2016 rate period.

### Contacting the District's Financial Management

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



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets

**December 31, 2010 and 2009**

	<u>Assets</u>	
	2010	2009
<b>Current Assets:</b>		
Cash	\$ 38,914,168	\$ 2,302,363
Short-Term Investments	86,331,934	103,365,060
Sewage Service Fees Receivable, Less Allowance for Doubtful accounts of \$28,000,000 in 2010 and \$20,000,000 in 2009	95,210,028	84,395,543
Receivables from Federal, State and Other Agencies	23,447,559	9,306,513
Inventory, Prepaid Expenses and Other	6,329,773	6,008,227
Total Current Assets	250,233,462	205,377,706
 <b>Noncurrent Assets:</b>		
Capital Assets:		
Interceptor Sewer Lines	959,767,867	942,407,230
Buildings, Structures and Improvements and Equipment	706,513,403	689,157,153
Sewage Treatment and Other Equipment	355,644,547	344,345,689
	2,021,925,817	1,975,910,072
Less Accumulated Depreciation	(739,611,245)	(694,235,969)
	1,282,314,572	1,281,674,103
Land	13,900,789	9,472,660
Construction in Progress	314,092,068	236,792,502
Net Capital Assets	1,610,307,429	1,527,939,265
 Unamortized Deferred Debt Expense	 3,460,193	 1,181,936
 Construction Funds	 391,648,537	 144,558,841
 Revenue Bond Debt Service Deposit	 31,938,694	 19,119,218
Total Noncurrent Assets	2,037,354,853	1,692,799,260
 Total Assets	 \$2,287,588,315	 \$ 1,898,176,966

Continued

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets (Continued)

December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 5,638,931	\$ 4,898,963
Construction Contracts and Retainages Payable	29,839,578	9,860,285
Accrued Interest	11,479,578	9,181,647
Other Accrued Liabilities	7,525,750	5,907,526
Current Maturities of Long-Term Debt	38,127,152	35,990,116
Total Current Liabilities	<u>92,610,989</u>	<u>65,838,537</u>
Noncurrent Liabilities:		
Long-Term Debt	899,686,743	548,749,433
Other Accrued Long-Term Liabilities	<u>5,250,000</u>	<u>4,000,000</u>
Total Liabilities	<u>997,547,732</u>	<u>618,587,970</u>
Net Assets:		
Invested in Capital Assets, net of Related Debt	1,038,270,319	1,006,102,174
Unrestricted	<u>251,770,264</u>	<u>273,486,822</u>
Total Net Assets	<u>\$ 1,290,040,583</u>	<u>\$ 1,279,588,996</u>

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the years ended December 31, 2010 and 2009

	2010	2009
Operating Revenues:		
Billing Agents, net	\$ 150,703,554	\$ 151,132,069
Direct Billed	14,663,082	12,697,756
Other	1,484,110	946,537
Total Operating Revenues, net	166,850,746	164,776,362
Operating Expenses:		
Salaries and Wages	38,061,309	37,024,254
Fringe Benefits	12,747,900	11,714,646
Utilities	16,042,200	18,924,173
Professional and Contractual Services	23,034,225	17,696,366
Other	7,392,509	8,194,326
Depreciation	46,061,584	45,410,351
Total Operating Expenses	143,339,727	138,964,116
Operating income	23,511,019	25,812,246
Non-Operating Revenues (Expenses):		
Interest income	4,150,556	7,240,399
Decrease in Fair Value of Investments, net	(19,034)	(3,874,343)
Non-Operating Grant Revenue	1,731,894	1,430,784
Non-Operating Grant Expenses	(1,731,894)	(1,430,784)
Other Non-Operating Expenses	-	(3,000,000)
Loss on disposals of equipment	(45,657)	(2,013,698)
Interest on Long-Term Debt	(26,583,173)	(24,598,935)
Total Non-Operating Expenses	(22,497,308)	(26,246,577)
Income (Loss) before Contributions	1,013,711	(434,331)
Capital Contributions	9,437,876	3,963,079
Change in Net Assets	10,451,587	3,528,748
Net Assets at Beginning of Year	1,279,588,996	1,276,060,248
Net Assets at End of Year	\$ 1,290,040,583	\$ 1,279,588,996

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



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Cash Flows

**For the years ended December 31, 2010 and 2009**

	2010	2009
Cash Flows from Operating Activities:		
Cash Received From Customers	\$ 156,290,211	\$ 157,033,988
Cash Payments to Suppliers for Goods and Services	(42,581,737)	(44,322,788)
Cash Payments to Employees for Services	(51,409,760)	(47,997,620)
Net Cash Provided by Operating Activities	62,298,714	64,713,580
Cash Flows from Investing Activities:		
Purchase of Investments	(680,854,029)	(459,526,632)
Issuance of Note Receivable to Other Governmental Agency	(313,541)	-
Proceeds from Maturities of Investments	437,560,001	499,699,733
Interest on Investments	3,691,469	8,107,903
Net Cash (Used in) Provided by Investing Activities	(239,916,100)	48,281,004
Cash Flows from Non-Capital Financing Activities		
Grant Payments	(1,731,894)	(378,289)
Grants Received	1,601,642	471,506
Net Cash (Used In) Provided by Non-Capital Financing Activities	(130,252)	93,217
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(36,806,879)	(34,177,061)
Interest Payments on Long-Term Debt	(24,013,907)	(25,228,945)
Proceeds from Issuance of Series 2010 Bonds	334,946,286	-
Proceeds from Water Pollution Control Loans	39,404,437	25,749,484
Deferred Debt Expense Payments	(427,600)	-
Acquisition and Construction of Capital Assets	(108,496,112)	(77,142,350)
Proceeds from Capital Grants	9,753,218	-
Net Cash Provided by (Used In) Capital and Related Financing Activities	214,359,443	(110,798,872)
Net Increase in Cash	36,611,805	2,288,929
Cash at Beginning of Year	2,302,363	13,434
Cash at End of Year	\$ 38,914,168	\$ 2,302,363

Continued

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Cash Flows (Continued)

**For the years ended December 31, 2010 and 2009**

	2010	2009
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 23,511,019	\$ 25,812,246
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	46,061,584	45,410,351
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(10,560,535)	(7,742,374)
Inventory and Prepaid Expenses	(321,546)	717,221
Accounts Payable and Other Accrued Liabilities	3,608,192	516,136
Total Adjustments	38,787,695	38,901,334
Net Cash Provided by Operating Activities	\$ 62,298,714	\$ 64,713,580

**Supplemental Schedule of Non-Cash Investing, Capital and Related Financing Activities:**

Long-Term Debt Recorded for Receivables from State Agencies in Connection with Water Pollution Control Loans	\$ 17,598,300	\$ 4,189,789
Long-Term Debt Increased (Decreased) due to Accrued Construction Interest and Recorded Receivables and Principal Adjustment	\$ 13,546,789	\$ (4,504,773)
Capital Contributions Recorded in Accounts Receivables	\$ 3,647,737	\$ 3,963,079
Capital Assets Decreased due to Capitalized Costs, Recorded Accounts Payable, and Asset Reclassifications	\$ (20,013,157)	\$ (3,921,325)
Decrease in Fair Value of Investments, net	\$ (19,034)	\$ (3,874,343)
Deferred Debt Expense withheld from Bond Proceeds	\$ 1,986,714	\$ -

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

### Note 1: Reporting Entity

The Northeast Ohio Regional Sewer District (the "District"), a political subdivision of the State of Ohio, was created by Order of the Cuyahoga County Court of Common Pleas and commenced operations on July 18, 1972, under statutory provisions of the Ohio Revised Code. The District provides wastewater treatment and interceptor sewer facilities for the region comprised of the City of Cleveland and 61 suburban communities.

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

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

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

### Note 2: Summary of Significant Accounting Policies

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

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

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

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

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

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

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

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

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

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

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

Revenue is recorded on the accrual basis when the exchange takes place. Contribution revenue is primarily recognized on a cost-reimbursement basis or in accordance with the terms of grant agreements. Expenses are recognized at the time they are incurred.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

#### **D. Cash Equivalents and Investments**

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

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

The District invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2010 and 2009. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on the respective statement of net assets date.

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

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

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

The District discloses estimated fair values for its financial instruments in accordance with the FASB ASC topic "Financial Instruments." Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Fair value estimates, methods, and assumptions are set forth below:

##### **Cash**

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

##### **Investments**

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

#### Long-Term Debt

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2010 were \$899,686,743 and \$883,511,546, respectively. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2009 were \$548,749,433 and \$593,223,548, respectively.

#### 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, 2010 and 2009, these funds consisted of cash, non-negotiable 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 Series 2005 Wastewater Improvement Revenue Refunding Bonds, 2007 Series Wastewater Improvement Revenue Bonds, and the 2010 Series Wastewater Improvement Revenue Bonds.

#### Revenue Bond Debt Service Deposit

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2010 and 2009 consisted of direct obligations of the United States Government, plus accrued interest.

#### H. Sewage Service Fees Receivable

Sewage service fees receivable are shown net of an allowance for uncollectibles. The allowance is based on aged accounts receivable, historical collection rates, economical trends, and current year operating revenues. The allowance amounts are \$28,000,000 at December 31, 2010 and \$20,000,000 at December 31, 2009.

#### I. Inventory

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

#### **J. Capital Assets**

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

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

#### **K. Unamortized Financing Costs**

The unamortized financing costs include insurance, consulting, and attorney fees incurred in connection with the revenue bond obligations. These amounts are being amortized on the effective interest method over the lives of the revenue bonds. Bond premiums, discounts and deferred loss are being amortized on the interest method over the lives of the revenue bonds. Amortization amounted to \$50,492 for 2010 and \$60,937 for 2009.

#### **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 2010 or 2009.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

#### L. Net Assets (continued)

The District's Board of Trustees adopted a reserve policy in July 2009 that annually designates amounts of the District's unrestricted net assets as Board-designated for specific purposes. Such amounts are not restricted, and may be designated for other purposes or eliminated at the discretion of the Board of Trustees. A summary of reserve amounts have been designated by the Board of Trustees at December 31, 2010 and 2009 follows:

	<u>2010</u>	<u>2009</u>
General Operating Reserve (Working Capital Reserve)	\$ 24,354,578	\$ 22,928,259
Debt Service Reserve	31,938,694	19,119,218
Equipment Repair and Replacement Reserve	54,935,902	53,386,395
Insurance Reserve	21,847,323	21,521,055
Rate Stabilization Account	3,000,000	3,000,000

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

#### M. Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment services. Operating revenues consist of user charges for sewage services based on water consumption. Operating revenues are shown net of bad debt expense of \$8,340,207 in 2010 and \$7,673,720 in 2009. Operating expenses include the cost of these sewer services, including administrative expenses and depreciation on capital assets.

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

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, 2010 and 2009 are unbilled sewage service fees of \$25,579,632 and \$26,215,827, respectively.

#### N. Interest Expense

It is the District's intention that all expenses, including interest incurred in connection with financing the constructions of new facilities, be recovered on a current basis. The annual budget process is governed by a number of factors, including a covenant in the 2005 Wastewater Improvement Revenue Refunding Bond Resolution, 2007 Wastewater Improvement Revenue Bond Resolution and the 2010 Wastewater Improvement Revenue Bond Resolution which requires that the current year "net revenues" be at least 115%



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

of its debt service requirements. As the District does not intend that interest costs be recovered from subsequent years' revenue, it has excluded interest as an allowable cost for future rate-making purposes.

Therefore, in accordance with FASB ASC topic "Regulated Operations", all interest is expensed but is included as non-operating on the statement of revenues, expenses, and changes in net assets as incurred.

#### **O. Use of Estimates**

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

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

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

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

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 24, 2011, the date the financial statements were available to be issued.

### Note 3: Deposits and Investments

#### **Deposits**

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The District's practice is to place deposits with commercial banks and savings and loan associations within its service area. At December 31, 2010, the carrying amount of the District's deposits, including certificates of deposit of \$21,661,734, was \$362,959,082 and the bank balance was \$367,217,606. Of the bank balance, \$500,000 was covered by Federal depository insurance and \$366,717,606 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. At December 31, 2009, the carrying amount of the District's deposits, including certificates of deposit of \$1,295,962 was \$3,598,326 and the bank balance was \$7,180,120. Of the bank balance, \$750,000 was covered by Federal depository insurance and \$6,430,120 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. In the event of default by the pledging financial institution, the District may make written demand upon the Federal Reserve Bank of Boston, Massachusetts for surrender of the collateral.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2010 and 2009**

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

**Investments**

The District's investment policies are currently governed by its Series 2010 and 2007 Wastewater Improvement Revenue Bond Resolution (the "Resolution") as permitted by state statute. The Resolution allows the District to purchase certain instruments, including obligations of the U.S. Treasury, its agencies and instrumentalities, interest-bearing demand or time deposits, repurchase agreements and, in certain situations, pre-refunded municipal obligations, general obligations of any state and other fixed income securities. Repurchase transactions are not to exceed one year and must be collateralized by obligations of the U.S. Government or its agencies which are held by a third party custodian.

The investments included in the Revenue Bond Debt Service Deposit are governed by the provisions of a trust agreement which provides for interest and principal payments on the 2005, 2007 and 2010 Series Bonds.

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2010 and 2009**

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

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

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

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

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy authorizes investments in obligations of the U.S. Treasury, U.S. agencies and instrumentalities, interest-bearing demand or time deposits, State Treasury Asset Reserve of Ohio ("STAR Ohio"), money market mutual funds, repurchase agreements, and in certain situations, pre-funded municipal obligations, general obligations of any state and other fixed income securities. Repurchase transactions are not to exceed one year and must be collateralized by obligations of the U.S. Government or its agencies which are held by a third party custodian. Star Ohio is an investment pool created pursuant to Ohio statutes and is managed by the Treasurer of the State of Ohio. As of December 31, 2010, the District's investment in U.S. instrumentalities ( Federal Farm Credit Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Guaranteed Investment Contracts) were all rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The investments in Star Ohio, and Bank of New York were rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

**Custodial Credit Risk:** Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the requirements of State Law, it is the policy of the District to require full collateralization of all investments other than obligations of U.S. Government, its agencies and instrumentalities. The District's investment in U.S. agencies with fair values totaling \$126,774,678 has maturities of \$30,200,392 in less than one year and \$96,574,286 within two years. Investments in U.S. agencies are held in the account of PNC National Bank ("Trustee"), at the Federal Reserve Bank of Cleveland. The District's securities associated with the principal and interest payment of bond proceeds in the amount of \$31,939,056 are held in the account of Bank of New York under the Master Trust Agreement. Assets held by the Trustee as a custodial agent are considered legally separate from the other assets of Trustee.

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

### 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 2010 and 2009 are as follows:

	2010	2009
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 70,917,856	\$ 59,794,293
Amounts billed to District customers by the City during the year	145,753,041	149,059,043
Cash collected from District customers by the City and remitted to the District during the year	(130,135,450)	(132,329,924)
Write off of inactive accounts	-	(1,575,072)
Cash collected directly by the District on invoices rendered by the City and other adjustments	3,575,130	(4,030,484)
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	\$ <u>90,110,577</u>	\$ <u>70,917,856</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

### Note 4: Transactions with the City of Cleveland (continued)

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

As a result of the City implementing a new billing system, certain billing estimates were revised from 2009 and prior. The effect of the revision resulted in an overall significant increase in the balance due from customers in sewage service fees receivable balance as of December 31, 2010.

Fees paid to the City for billing and collection services in 2010 and 2009 were \$5,386,184 and \$4,499,769, respectively.

### Note 5: Capital Assets and Depreciation

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2010 and 2009**

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

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

	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
<b>Non-depreciable:</b>					
Land	\$ 8,950,592	\$ -	\$ (42,806)	\$ 564,874	\$ 9,472,660
Construction in Progress	194,456,735	78,139,500	-	(35,803,733)	236,792,502
	<u>203,407,327</u>	<u>78,139,500</u>	<u>(42,806)</u>	<u>(35,238,859)</u>	<u>246,265,162</u>
<b>Depreciable:</b>					
Interceptor Sewer Lines	923,044,031	2,129	-	19,361,070	942,407,230
Buildings, Structures and Improvements and Equip.	686,213,505	179,433	(2,772,011)	5,536,226	689,157,153
Sewage Treatment and Other Equipment	337,340,453	2,742,613	(6,078,940)	10,341,563	344,345,689
	<u>1,946,597,989</u>	<u>2,924,175</u>	<u>(8,850,951)</u>	<u>35,238,859</u>	<u>1,975,910,072</u>
Total Historical Cost	<u>2,150,005,316</u>	<u>81,063,675</u>	<u>(8,893,757)</u>	<u>-</u>	<u>2,222,175,234</u>
<b>Less Accumulated Depreciation For:</b>					
Interceptor Sewer Lines	(146,549,366)	(12,939,489)	-	-	(159,488,855)
Buildings, Structures and Improvements	(317,483,501)	(18,505,482)	1,992,642	-	(333,996,341)
Sewage Treatment and Other Equipment	(192,189,462)	(13,965,380)	5,404,069	-	(200,750,773)
Total Accumulated Depreciation	<u>(656,222,329)</u>	<u>(45,410,351)</u>	<u>7,396,711</u>	<u>-</u>	<u>(694,235,969)</u>
Capital Assets, Net	<u>\$ 1,493,782,987</u>	<u>\$ 35,653,324</u>	<u>\$ (1,497,046)</u>	<u>\$ -</u>	<u>\$ 1,527,939,265</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 45,410,351</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2010 and 2009**

**Note 6: Long-Term Obligations**

A summary of long-term debt outstanding at December 31, 2010 and 2009 follows:

	Interest Rate	2010	2009
Wastewater Improvement			
Revenue Refunding Bonds, 2005			
Serial Bonds Maturing 2010 through 2016	4.00% - 5.00%	\$ 43,660,000	\$ 48,925,000
Wastewater Improvement			
Revenue Bonds, 2007			
Serial Bonds Maturing 2010 through 2037	3.75% - 5.00%	119,645,000	121,865,000
Wastewater Improvement			
Revenue Bonds, 2010			
Serial Bonds Maturing 2010 through 2040	5.438% - 6.038%	336,930,000	-
Water Pollution Control Loans Payable			
Through 2031	3.20% - 5.20%	435,356,845	411,543,948
Total Debt		935,591,845	582,333,948
Less Current Maturities		(38,127,152)	(35,990,116)
Bond Premium, Net		2,222,050	2,405,601
Total Long-Term Debt		\$ 899,686,743	\$ 548,749,433

Wastewater Improvement Revenue Refunding Bonds, Series 2005

The District issued \$68,280,000 of Wastewater Improvement Revenue Refunding Bonds, Series 2005 (the "2005 Series Bonds"), in connection with the advance refunding of its Wastewater Improvement Revenue Bonds, Series 1995 (the "1995 Series Bonds"). The 2005 Series Bonds are payable from the revenues of the District, after payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. The bonds are additionally secured by a pledge of and lien on monies and investments comprising the Revenue Bond Debt Service Deposit.

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

#### Wastewater Improvement Revenue Bonds, Series 2007

On May 22, 2007, the District issued \$126,055,000 of Wastewater Improvement Revenue Bonds, Series 2007. The Wastewater Improvement Revenue Bonds, Series 2007 Bonds (the "Series 2007 Bonds") were issued for the purpose of (i) providing funds for the acquisition, construction and improvement of Water Resource Projects, (ii) funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and (iii) paying certain costs of issuance of the Series 2007 Bonds. These bonds are payable from the revenues of the District, after the payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. The bonds are additionally secured by a pledge of and lien on the monies and investments in the Revenue Bond Debt Service Deposit.

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

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

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

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



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

#### Build America Bonds Subsidy

Under the Build America Bonds agreement, the District is to receive 35% of the Bond interest as the Build America Bonds Subsidy. The amount received in 2010 was \$858,034. Below is a schedule of the amounts to be received in future years:

<u>Year Ending</u> <u>December 31,</u>	<u>Subsidy Amount</u>
2011	\$ 6,912,478
2012	6,941,400
2013	6,941,401
2014	6,941,401
2015	6,941,401
2016 - 2020	34,707,005
2021 - 2025	34,707,002
2026 - 2030	33,219,265
2031 - 2035	25,883,265
2036 - 2040	11,469,844
	<u>\$ 174,664,462</u>

#### Water Pollution Control Loans

Title VI of the Clean Water Act, as amended, authorizes the Administrator of the U.S. Environmental Protection Agency to make Federal capitalization grants to states for deposit in state water pollution control revolving funds (SRFs). From these funds, states can provide loans and other types of financial assistance, but not grants, to governmental entities for the construction of publicly owned wastewater treatment facilities. In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. These loans are subordinate to the 2005, 2007 and 2010 Series Bonds and are payable from the revenues of the District, after payment of operating and maintenance costs and are secured by a pledge of and lien on such net revenues. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project.

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 60 SRF loan awards related to projects, 6 of which were not complete as of December 31, 2010. Loans related to completed construction projects are being repaid in

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

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, 2010 follow:

Completion or Expected Completion Year of Projects	Number of Projects	Current Amount Including Accrued Construction Period Interest	Additional Available Borrowings Including Construction Period Interest
1993 – 2010	54	\$ 367,743,288	\$ 6,498,601
2011	5	48,113,050	45,285,995
2014	1	19,500,507	12,313,942
		\$ 435,356,845	\$ 64,098,538

#### Defeasance Transactions

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

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

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

In 2005, the District issued \$68,280,000 in Wastewater Improvement Revenue Refunding Bonds, Series 2005 to advance refund and defease the series 1995 Wastewater Improvement Refunding Bonds of \$64,165,000. The net proceeds were used to purchase direct obligations of the U.S. government. Those securities were deposited in an irrevocable trust with an escrow agent. The securities and fixed earnings from the securities

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

are sufficient to provide for all future debt service payments on the series 1995 wastewater improvement bonds. As a result, the 1995 wastewater improvement bonds are considered defeased. As of December 31, 2010, \$39,530,000 of the defeased debt remained outstanding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$3,413,626. This difference, reported in the accompanying statement of net assets as a deduction from long-term debt, is being charged to operations through the year 2016 using the weighted average method. The unamortized balance of the deferral totaled \$823,830 at December 31, 2010 and \$1,101,250 at December 31, 2009. The Series 2005 Bonds are not subject to redemption at the option of the District prior to their stated maturity.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2010 and 2009**

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

Future Debt Service Requirements

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

The total future debt service requirements for all long-term debt not defeased or refunded as of December 31, 2010 follows:

	Wastewater Improvement Revenue Refunding Bonds Series 2005		Wastewater Improvement Revenue Bonds Series 2007		Wastewater Improvement Revenue Bonds Series 2010	
	Principal	Interest	Principal	Interest	Principal	Interest *
2011	\$ 5,470,000	\$ 2,044,300	\$ 2,315,000	\$ 5,540,925	\$ -	\$ 19,722,392
2012	5,665,000	1,852,850	2,400,000	5,454,113	-	19,832,573
2013	5,890,000	1,626,250	2,500,000	5,358,113	-	19,832,573
2014	6,190,000	1,331,750	2,625,000	5,233,112	-	19,832,573
2015	6,495,000	1,022,250	2,755,000	5,101,862	-	19,832,573
2016 - 2020	13,950,000	697,500	15,950,000	23,326,150	-	99,162,865
2021 - 2025	-	-	19,905,000	19,376,675	-	99,162,865
2026 - 2030	-	-	24,985,000	14,292,888	49,530,000	95,248,866
2031 - 2040	-	-	46,210,000	8,784,850	287,400,000	108,865,562
	<u>\$ 43,660,000</u>	<u>\$ 8,574,900</u>	<u>\$ 119,645,000</u>	<u>\$ 92,468,688</u>	<u>\$ 336,930,000</u>	<u>\$ 501,492,842</u>

\*Interest includes federal subsidy payments

	Water Pollution Control Loans		Total Future Debt Service Requirements	
	Principal	Interest	Principal	Interest
2011	\$ 30,342,152	\$ 15,409,758	\$ 38,127,152	\$ 42,717,375
2012	32,913,423	14,267,474	40,978,423	41,407,010
2013	33,178,988	13,538,733	41,568,988	40,355,669
2014	34,141,286	12,508,492	42,956,286	38,905,927
2015	32,766,786	11,135,830	42,016,786	37,092,515
2016 - 2020	134,020,810	38,608,703	163,920,810	161,795,218
2021 - 2025	99,387,988	15,988,802	119,292,988	134,528,342
2026 - 2030	33,356,414	3,262,639	107,871,414	112,804,393
2031 - 2040	5,248,998	226,089	338,858,998	117,876,501
	<u>\$ 435,356,845</u>	<u>\$ 124,946,520</u>	<u>\$ 935,591,845</u>	<u>\$ 727,482,950</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2010 and 2009**

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

Bond premium, loss on defeasance activity for the year:

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

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

Long-term debt activity for the year:

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

### Note 7: Pension Plans

#### Ohio Public Employees Retirement System

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

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2010, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. District members were required to contribute 10.0% of their annual covered payroll to fund pension obligations in 2010. The 2010 employer contribution rate for the District was 14.0% of covered payroll. The District’s contributions to the OPERS for the years ended December 31, 2010, 2009 and 2008 were \$5,445,060, \$5,317,654, and \$4,971,551, respectively, which are the required contributions for each year. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer’s records.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

### Note 8: Post-Employment Benefits

#### Ohio Public Employees Retirement System

##### A. Plan Description

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

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

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

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

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

##### B. Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. For the District's employer units, the 2010 contribution rate was 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for District employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

January 1 through February 28, 2010, and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

#### C. District Contributions

The portion of the District's contribution used to fund post-employment benefits for 2010, 2009, and 2008 was \$1,976,920, \$2,231,686, and \$2,485,776 respectively. District percent contribution for January 1 through February 28, 2010 was 39.29%, and for the period March 1 through December 31, 2010, 35.71%. District percent contribution for January 1 through March 31, 2009 was 50.0%, and for the period April 1 through December 31, 2009, 39.29%. District percent contribution for January 1 through December 31, 2008 was 50.0%.

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

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

### Note 9: Deferred Compensation Plans

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

The District follows the provisions of GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans. In accordance with the provisions of GASB Statement No. 32, at both December 31, 2010 and 2009, 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'



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

### Note 10: Risk Management (continued)

compensation and purchases commercial insurance for other specific types of coverage. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance and the insurance reserve are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years.

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

	Beginning Balance	Claims Paid	Increase in Estimate	Ending Balance
2010	\$ 114,107	\$ (59,752)	\$ -	\$ 54,355
2009	169,733	(55,626)	-	114,107

Estimated liabilities are not material with respect to the financial position of the District. The claims liability is included in other accrued liabilities in the accompanying statements of net assets and is estimated to be paid during the year ending December 31, 2011. The District's insurance reserve as of December 31, 2010 and 2009 was \$21,847,323 and \$21,521,055, respectively, and is included in short-term investments on the District's statement of net assets.

### Note 11: Commitments and Contingencies

#### Cleveland Metroparks West Creek Reservation Stewardship Center

In June 2007, the Board of Trustees approved to enter into a long-term partnership with the Cleveland Metroparks to support construction of the Watershed Stewardship Center at the West Creek Reservation with a capital investment of \$3 million with naming rights of the building. As part of the agreement, the District would also provide in-kind services of \$250,000 in staff support and program support. During the year ended December 31, 2009 the conditions were met for the long-term partnership for the Cleveland Metroparks Stewardship Center. During 2010, it was determined that the project would be completed during the year ending December 31, 2011. As such, the District has reclassified \$3 million dollars to other accrued current liabilities from other accrued long-term liabilities.

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

In August 2009, the Board of Trustees approved to enter into a Project and Financing Agreement with the City of Pepper Pike for a maximum loan amount of \$1,715,000 at a simple interest rate of 3.5%. As of December 31, 2010 and 2009, \$313,541 and \$0, respectively, was due from the City of Pepper Pike. A repayment schedule will be agreed upon by both parties at the completion of the project.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

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

The District finalized Consent Decree negotiations with Ohio and US EPA, US Department of Justice, and the Ohio Attorney General's Office. The Board of Trustees authorized the signature of the Consent Decree and it was logged with the US District Court in December 2010. It is anticipated that the US District Court will approve the Consent Decree in the latter part of 2011. Implementation of the Combined Sewer Overflows Long-Term Control Plan under the Consent Decree would be expected to begin 30 days after approval by the US District Court, although the District has already begun work on certain projects that will be required under the Consent Decree. Funding for those projects is included in the District's existing capital plan. The District currently estimates the costs for implementing the CSO capital improvement program to be approximately \$3 billion in 2009 dollars. These expenditures constitute a "high burden" on District ratepayers, and based upon the estimated costs of the program and high burden status, the District received a 25-year implementation schedule.

Upon approval of the Consent Decree, the District expects to pay civil penalties to the United States and State of Ohio in cash in the amount of \$1.2 million. To mitigate additional civil penalties, the District is obligated to implement a federal Supplemental Environmental Project (SEP) in the amount of \$1 million to provide for the collection and disposal of household hazardous waste. In 2010, the District entered into an agreement with the Cuyahoga County Solid Waste Management District to satisfy the federal SEP obligation. The District is obligated to implement a State SEP known as the Canal Pump Station Operation and Maintenance Project, estimated at \$800,000, or implement an Alternate SEP by making a cash payment of \$800,000 to Ohio EPA. As such, the District has recorded \$3 million and \$2 million as other accrued liabilities on the accompanying statement of net assets as of December 31, 2010 and 2009 respectively.

#### Mill Creek Tunnel 3 Project

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

#### Big Creek Interceptor – 3D

On or about November 17, 2004, the District entered into an approximate \$12,706,205 construction contract with KM&M Joint Venture ("KM&M") for the Big Creek Interceptor-3D ("BCI-3D") project. The District exercised its right to set off amounts due to the failure of a polymer liner installed by contractor. On April 15, 2008, KM&M filed for breach of contract action claiming damages of approximately \$900,000 against the

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

District. On July 28, 2008, the District filed a counterclaim and third-party complaint against KM&M and its surety for damages in excess of \$4 million, which is primarily related to costs for completion of unfinished work and remediation of the failed liner system. The case was settled prior to trial, and a voluntary dismissal, with prejudice, of all claims was filed in September 2010. The District received \$1,000,000 pursuant to the settlement agreement. The District has recorded the proceeds from the settlement as a reduction of the project costs.

#### Former General Counsel Litigation

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

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

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

Mr. Schatz entered a plea agreement on May 18, 2010, pleading guilty to all charges. He pleaded guilty to all charges on October 19, 2010, and he was sentenced to 70 months in federal prison. The District filed a victim impact statement with the District Court asking the court to award any restitution ordered to be paid to the District. Mr. Schatz was ordered to make restitution to the District in the amount of \$849,070; however, as of December 31, 2010, the District has received no funds pursuant to the restitution order. The District will recognize the restitution when realized.

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

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

NEORS is aggressively pursuing three major civil lawsuits involving the recovery of millions of dollars, and hired a firm to review and investigate all legal settlements submitted to the Board by Mr. Schatz during his tenure with the District, along with all construction contracts where change orders were approved by District engineering staff that exceeded 10% in the aggregate of the contract amount. The final report on past practices was presented to the Board of Trustees in February 2011. Based upon the findings and

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

recommendations, the District determined that no further legal action will be taken with regard to these matters.

The District also entered into an agreement with the Ohio Auditor of State to conduct a performance audit on current contracting practices and procedures. A final report is anticipated in July 2011.

**Regional Stormwater Management Program Litigation**

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

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

The court granted the District's motion for partial summary judgment regarding its authority to implement a regional stormwater management program under Chapter 6119 of the Ohio Revised Code. The remaining issues in dispute, including the stormwater fee, have been scheduled for trial in September 2011. In the interim, the parties have been engaged in non-binding mediation facilitated by the Cuyahoga County Executive's Office.

The District is moving forward with upgrades to the billing system to issue stormwater bills through agreements with the Cleveland Water Division, its billing agent. However, the District has entered into a stipulation agreement to refrain from enforcing its Stormwater Code, including the collection of stormwater fees, without first giving 60 days written notice to the Court and the parties of its intent prior to commencing any enforcement activities.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2010 and 2009

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

#### **Other Litigation**

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

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

In June 2008, the GASB issued Statement No. 53, "Accounting for Financial Reporting for Derivative Instruments." This statement provides guidance regarding the accounting and reporting of derivative instruments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The implementation of this Statement did not affect the presentation of the financial statements of the District.

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

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

In December 2009, the GASB issued Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies." The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The implementation of this Statement did not affect the presentation of the financial statements of the District.

During 2010, the GASB issued Statement No. 59, "Financial Instruments Omnibus." The implementation of this Statement did not affect the presentation of the financial statements of the District.

In November 2010, the GASB issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

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

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2010 and 2009**

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

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

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2010 and 2009**

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

Financial assets consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/10</u>
<u>Cash and Cash Equivalents</u>				
Money Market and Savings	\$ 38,914,168	\$ -	\$ -	\$ 38,914,168
<u>Short-Term Investments</u>				
Money Market Funds	27,160,517	-	-	27,160,517
CDs	21,661,734	-	-	21,661,734
US Gov't Obligations	-	37,509,683	-	37,509,683
<u>Long-Term Construction Fund</u>				
Bond Proceeds Money Markey Funds	302,383,542	-	-	302,383,542
US Gov't Obligations	-	89,264,995	-	89,264,995
<u>Revenue Debt Service Fund</u>				
Fixed Income Security	-	7,175,938	-	7,175,938
US Gov't Obligations	-	24,762,756	-	24,762,756
	<u>\$ 390,119,961</u>	<u>\$ 158,713,372</u>	<u>\$ -</u>	<u>\$ 548,833,333</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/09</u>
<u>Cash and Cash Equivalents</u>				
Money Market and Savings	\$ 2,302,363	\$ -	\$ -	\$ 2,302,363
<u>Short-Term Investments</u>				
Money Market Funds	68,264,273	-	-	68,264,273
CDs	1,295,962	-	-	1,295,962
US Gov't Obligations	-	33,804,825	-	33,804,825
<u>Long-Term Construction Fund</u>				
US Gov't Obligations	-	144,558,841	-	144,558,841
<u>Revenue Debt Service Fund</u>				
Fixed Income Security	-	7,175,938	-	7,175,938
US Gov't Obligations	-	11,943,280	-	11,943,280
	<u>\$ 71,862,598</u>	<u>\$ 197,482,884</u>	<u>\$ -</u>	<u>\$ 269,345,482</u>

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2010 and 2009**

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

In June 2011, the Board of Trustees approved rate increases scheduled for the years 2012 through 2016. Effective January 1, 2012 the minimum charge will be eliminated and a base charge will be added to all quarterly bills and rates charged to customers will increase approximately 13% for customers in the City of Cleveland, and 12% for the suburban customers. In addition to the current rate reduction Homestead Program, the District has added two new affordability programs - the Crisis Voucher Program and a Wastewater Affordability Program for those households with income level at or below 175% poverty level.



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

**For the year ended December 31, 2010**

	Original Budget	Final Budget	Actual	Positive (Negative)
<u>Revenues:</u>				
User Charges:				
Billed	\$ 167,288,403	\$ 167,288,403	\$ 164,248,046	\$ (3,040,357)
Unbilled	3,000,000	3,000,000	1,118,590	(1,881,410)
Other Revenue	896,216	896,216	1,484,110	587,894
 Total Revenues	 <u>171,184,619</u>	 <u>171,184,619</u>	 <u>166,850,746</u>	 <u>(4,333,873)</u>
 <u>Expenses:</u>				
Salary and Wages	39,208,269	39,208,269	38,061,309	1,146,960
Benefits	12,628,092	12,628,092	12,747,900	(119,808)
Power	10,780,925	10,780,925	9,879,693	901,232
Materials and Supplies	5,182,455	5,182,455	4,729,166	453,289
Collection Fees	6,000,000	6,000,000	5,805,347	194,653
Gas	5,224,030	5,224,030	4,292,298	931,732
Chemicals	1,715,857	1,715,857	1,293,973	421,884
Repairs and Maintenance	3,356,085	3,356,085	2,901,283	454,802
Solids Handling	2,544,256	2,544,256	2,190,398	353,858
Water	1,150,670	1,150,670	1,054,989	95,681
Professional Services	12,564,401	12,564,401	12,264,571	299,830
Insurance	1,182,448	1,182,448	1,161,822	20,626
Judgements and Awards	50,000	50,000	1,052,383	(1,002,383)
Other Operating Expenses	6,274,813	6,274,813	5,520,981	753,832
Capitalized Construction Costs	(5,792,364)	(5,792,364)	(5,677,970)	(114,394)
Depreciation	46,000,000	46,000,000	46,061,584	(61,584)
 Total Operating Expenses	 <u>148,069,937</u>	 <u>148,069,937</u>	 <u>143,339,727</u>	 <u>4,730,210</u>
 Excess of Revenues Over Operating Expenses	 <u>\$ 23,114,682</u>	 <u>\$ 23,114,682</u>	 <u>\$ 23,511,019</u>	 <u>\$ 396,337</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2010

Reconciliation to Change in Net Assets:

Excess of Revenues Over Operating Expenses	\$	23,511,019
Non-Operating Grant Revenue		1,731,894
Interest Income		4,150,556
Decrease in Fair Value of Investments		(19,034)
Non-Operating Grant Expenses		(1,731,894)
Loss on Disposals of Equipment		(45,657)
Interest Expense on Long-Term Debt		<u>(26,583,173)</u>
Income before Contribution		1,013,711
Capital Contributions		<u>9,437,876</u>
Change in Net Assets		10,451,587
Net Assets at Beginning of Year		<u>1,279,588,996</u>
Net Assets at End of Year	\$	<u><u>1,290,040,583</u></u>

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

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

**For the year ended December 31, 2010**

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

#### **Budgetary Basis of Accounting**

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

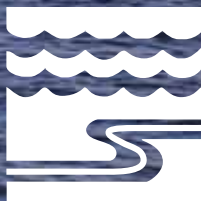
General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of each year.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

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



# STATISTICAL *section*

UNAUDITED





## STATISTICAL SECTION (UNAUDITED)

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

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help the reader understand the District's financial performance and well-being and how they have changed over time.</i>	54
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant revenue source, user charges.</i>	58
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.</i>	66
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.</i>	68
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the District's financial report relates to the services the District provides and the activities it performs.</i>	70
Continuing Disclosure Requirements <i>These schedules are required by Continuing Disclosure Agreement with respect to outstanding Revenue Bonds. They contain information pertinent to each of the categories above.</i>	78

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

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Invested in Capital Assets, Net of Related Debt	\$ 758,721,984	\$ 799,299,807	\$ 836,065,355	\$ 899,552,635
Unrestricted	<u>369,576,559</u>	<u>370,368,464</u>	<u>357,871,693</u>	<u>307,707,118</u>
Total	<u><u>\$ 1,128,298,543</u></u>	<u><u>\$ 1,169,668,271</u></u>	<u><u>\$ 1,193,937,048</u></u>	<u><u>\$ 1,207,259,753</u></u>

Note:

2006 and 2007 restated to comply with GASB 51.

Source: District accounting records.



<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 937,597,258	\$ 980,197,219	\$ 978,861,950	\$ 995,487,741	\$ 1,006,102,174	\$ 1,038,270,319
<u>285,112,392</u>	<u>259,740,301</u>	<u>281,436,951</u>	<u>280,572,507</u>	<u>273,486,822</u>	<u>251,770,264</u>
<u><u>\$ 1,222,709,650</u></u>	<u><u>\$ 1,239,937,520</u></u>	<u><u>\$ 1,260,298,901</u></u>	<u><u>\$ 1,276,060,248</u></u>	<u><u>\$ 1,279,588,996</u></u>	<u><u>\$ 1,290,040,583</u></u>

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Operating Revenues</u>				
Billing Agents	\$ 124,027,444	\$ 119,515,859	\$ 117,755,171	\$ 122,078,222
Direct Billed	9,780,118	10,277,561	11,504,702	11,442,284
Other (4)	805,196	964,619	615,506	762,782
Total Operating Revenues (1)	<u>134,612,758</u>	<u>130,758,039</u>	<u>129,875,379</u>	<u>134,283,288</u>
<u>Operating Expenses</u>				
Salaries & Wages (2)	24,647,491	25,977,019	27,542,022	29,127,972
Fringe Benefits	6,774,095	7,790,909	8,521,645	9,916,038
Utilities	15,454,158	13,865,509	14,517,622	15,053,259
Professional & Contractual	10,759,907	10,793,057	11,731,572	12,272,328
Other (4)	5,096,634	3,625,200	4,019,822	4,439,180
Depreciation (2)	31,495,906	29,749,276	34,167,297	35,668,913
Total Operating Expenses	<u>94,228,191</u>	<u>91,800,970</u>	<u>100,499,980</u>	<u>106,477,690</u>
Operating Income	40,384,567	38,957,069	29,375,399	27,805,598
<u>Non-Operating Revenues (Expenses)</u>				
Interest Income	18,580,276	14,247,954	12,267,626	11,264,860
Increase (Decrease) in Fair Value of Investments	3,331,519	5,457,490	(5,709,818)	(6,662,611)
Non-Operating Grant Revenue (4)	-	-	-	-
Non-Operating Grant Expenses (4)	-	-	-	-
Other Non-Operating Expenses (5)	-	-	-	-
Loss on Disposals of Equipment	(768,357)	(1,317,155)	(123,555)	(1,025,183)
Interest on Long-Term Debt	(17,443,676)	(18,283,691)	(19,289,590)	(19,352,880)
Total Non-Operating Revenues(Expenses)	<u>3,699,762</u>	<u>104,598</u>	<u>(12,855,337)</u>	<u>(15,775,814)</u>
Capital Contributions (3)	<u>3,377,953</u>	<u>5,253,943</u>	<u>9,402,297</u>	<u>1,703,878</u>
Change in Net Assets	<u>\$ 47,462,282</u>	<u>\$ 44,315,610</u>	<u>\$ 25,922,359</u>	<u>\$ 13,733,662</u>

- (1) Year 2001 operating revenue increased due to higher unbilled consumption. Increases in other years are due primarily to rate increases. Decreases are due primarily to lower billed consumption.
- (2) 2002 restated for December 31, 2002 prior period adjustments. Depreciation decreased \$2,639,240 from the amount originally reported, and accrued payroll expenses increased by \$144,800.
- (3) Beginning in 2001 contributions for construction grants are reported as revenue in accordance with GASB 33. Prior to that date contributions were recorded as direct additions to equity.
- (4) Beginning in 2007 Reclassified Non-Operating Grant Revenue and Expenses.
- (5) Other Non-Operating Expenses include Agreement with the Cleveland Metroparks. Refer to Note 11.

Source: District accounting records.

2005	2006	2007	2008	2009	2010
\$ 131,938,350	\$ 135,732,973	\$ 145,221,599	\$ 147,605,404	\$ 151,132,069	\$ 150,703,554
12,623,945	13,220,817	13,062,958	13,832,074	12,697,756	14,663,082
734,253	1,200,272	769,744	833,463	946,537	1,484,110
<u>145,296,548</u>	<u>150,154,062</u>	<u>159,054,301</u>	<u>162,270,941</u>	<u>164,776,362</u>	<u>166,850,746</u>
31,283,367	33,021,551	33,724,279	35,102,015	37,024,254	38,061,309
10,944,618	11,225,384	10,732,240	11,493,925	11,714,646	12,747,900
17,595,315	17,814,509	18,893,296	20,632,885	18,924,173	16,042,200
13,389,541	14,076,004	14,808,434	18,727,176	17,696,366	23,034,225
5,566,881	6,917,693	7,046,216	5,757,037	8,194,326	7,392,509
35,968,351	40,093,478	43,261,151	44,448,564	45,410,351	46,061,584
<u>114,748,073</u>	<u>123,148,619</u>	<u>128,465,616</u>	<u>136,161,602</u>	<u>138,964,116</u>	<u>143,339,727</u>
30,548,475	27,005,443	30,588,685	26,109,339	25,812,246	23,511,019
8,816,261	8,645,525	12,417,477	11,714,888	7,240,399	4,150,556
(3,190,247)	1,774,960	3,157,199	2,332,208	(3,874,343)	(19,034)
-	-	35,430	1,592,151	1,430,784	1,731,894
-	-	(940,016)	(1,204,204)	(1,430,784)	(1,731,894)
-	-	-	-	(3,000,000)	-
(776,203)	(4,216,914)	(468,601)	(180,689)	(2,013,698)	(45,657)
(19,821,947)	(20,641,227)	(24,428,793)	(24,602,346)	(24,598,935)	(26,583,173)
<u>(14,972,136)</u>	<u>(14,437,656)</u>	<u>(10,227,304)</u>	<u>(10,347,992)</u>	<u>(26,246,577)</u>	<u>(22,497,308)</u>
45,133	6,359,637	-	-	3,963,079	9,437,876
<u>\$ 15,621,472</u>	<u>\$ 18,927,424</u>	<u>\$ 20,361,381</u>	<u>\$ 15,761,347</u>	<u>\$ 3,528,748</u>	<u>\$ 10,451,587</u>

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Operating Revenues</u>				
Sewer Service Fees				
City of Cleveland Billing Agent	\$ 113,591,867	\$ 109,416,694	\$ 107,662,424	\$ 110,815,131
Other Billing Agents	10,435,577	10,099,165	10,092,747	11,263,091
Other Sewer Service Fees	9,780,118	10,277,561	11,504,702	11,442,284
Other Operating Revenue	<u>805,196</u>	<u>964,619</u>	<u>615,506</u>	<u>762,782</u>
Total Operating Revenue (1)	134,612,758	130,758,039	129,875,379	134,283,288
<u>Non-Operating Revenues</u>				
Interest Income	18,580,276	14,247,954	12,267,626	11,264,860
Increase (Decrease) in Fair Value of Investments	3,331,519	5,457,490	(5,709,818)	(6,662,611)
Non-Operating Grant Revenue (3)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenues (3)	21,911,795	19,705,444	6,557,808	4,602,249
Capital Contributions (2)	<u>3,377,953</u>	<u>5,253,943</u>	<u>9,402,297</u>	<u>1,703,878</u>
Total Revenues	<u>\$ 159,902,506</u>	<u>\$ 155,717,426</u>	<u>\$ 145,835,484</u>	<u>\$ 140,589,415</u>

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

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

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

Source: District accounting records.

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 120,578,807	\$ 123,897,778	\$ 135,185,688	\$ 137,760,081	\$ 141,082,193	\$ 140,059,765
11,359,543	11,835,195	10,035,911	9,845,323	10,049,876	10,643,789
12,623,945	13,220,817	13,062,958	13,832,074	12,697,756	14,663,082
<u>734,253</u>	<u>1,200,272</u>	<u>769,744</u>	<u>833,463</u>	<u>946,537</u>	<u>1,484,110</u>
145,296,548	150,154,062	159,054,301	162,270,941	164,776,362	166,850,746
8,816,261	8,645,525	12,417,477	11,714,888	7,240,399	4,150,556
(3,190,247)	1,774,960	3,157,199	2,332,208	(3,874,343)	(19,034)
<u>-</u>	<u>-</u>	<u>35,430</u>	<u>1,592,151</u>	<u>1,430,784</u>	<u>1,731,894</u>
5,626,014	10,420,485	15,610,106	15,639,247	4,796,840	5,863,416
<u>45,133</u>	<u>6,359,637</u>	<u>-</u>	<u>-</u>	<u>3,963,079</u>	<u>9,437,876</u>
<u><u>\$ 150,967,695</u></u>	<u><u>\$ 166,934,184</u></u>	<u><u>\$ 174,664,407</u></u>	<u><u>\$ 177,910,188</u></u>	<u><u>\$ 173,536,281</u></u>	<u><u>\$ 182,152,038</u></u>

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Salaries and Wages	\$ 24,647,491	\$ 25,977,019	\$ 27,542,022	\$ 29,127,972
Benefits	6,774,095	7,790,909	8,521,645	9,916,038
Power	9,267,991	9,147,231	9,370,436	9,230,045
Materials and Supplies	3,375,647	3,383,852	3,599,091	3,981,807
Collection Fees	5,110,654	4,977,231	5,598,772	4,977,801
Gas	4,926,932	3,805,104	3,587,102	4,085,469
Chemicals	765,279	742,794	777,478	735,715
Repairs and Maintenance	3,641,665	2,435,869	2,505,875	2,287,614
Solids Handling	1,495,717	1,181,476	782,822	989,915
Water	831,926	500,030	1,128,576	1,242,143
Professional Services	1,484,679	2,097,685	2,488,843	3,132,075
Insurance	819,952	908,484	1,005,164	1,087,302
All Other Expenses (2)	2,686,842	2,668,495	2,857,775	3,301,927
Capitalized Construction Costs	(3,096,585)	(3,564,485)	(3,432,918)	(3,287,046)
Depreciation	<u>31,495,906</u>	<u>29,749,276</u>	<u>34,167,297</u>	<u>35,668,913</u>
Total Operating Expenses	<u>\$ 94,228,191</u>	<u>\$ 91,800,970</u>	<u>\$ 100,499,980</u>	<u>\$ 106,477,690</u>

(1) 2002 restated for December 31, 2002 prior period adjustments. Depreciation decreased \$2,639,240 from the amount originally reported, and accrued payroll expenses increased by \$144,800.

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

Source : District accounting records.

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 31,283,367	\$ 33,021,551	\$ 33,724,279	\$ 35,102,015	\$ 37,024,254	\$ 38,061,309
10,944,618	11,225,384	10,732,240	11,493,925	11,714,646	12,747,900
9,612,943	9,698,130	10,087,278	11,101,067	10,591,495	9,879,693
4,136,824	4,467,163	4,498,829	4,261,239	4,190,172	4,729,166
5,344,377	5,577,407	5,558,472	5,435,973	5,725,215	5,805,347
6,311,146	6,411,117	7,094,373	7,801,361	6,600,201	4,292,298
1,156,059	1,419,372	1,523,535	1,268,036	1,615,452	1,293,973
2,649,356	3,109,610	4,008,618	3,036,704	2,362,155	2,901,283
1,665,083	1,282,171	1,462,056	861,768	1,831,793	2,190,398
1,101,448	1,036,930	1,070,362	1,021,701	1,007,356	1,054,989
3,228,625	4,083,289	4,469,991	8,991,475	7,886,179	12,264,571
1,138,447	1,139,139	1,120,774	1,097,763	997,672	1,161,822
3,432,862	4,262,270	3,624,958	3,758,449	5,466,842	6,573,364
(3,225,433)	(3,678,392)	(3,771,300)	(3,518,438)	(3,459,667)	(5,677,970)
<u>35,968,351</u>	<u>40,093,478</u>	<u>43,261,151</u>	<u>44,448,564</u>	<u>45,410,351</u>	<u>46,061,584</u>
<u>\$ 114,748,073</u>	<u>\$ 123,148,619</u>	<u>\$ 128,465,616</u>	<u>\$ 136,161,602</u>	<u>\$ 138,964,116</u>	<u>\$ 143,339,727</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
COMMUNITIES SERVED BY THE DISTRICT AND  
ESTIMATED POPULATION SERVED  
DECEMBER 31, 2010**

<u>Municipality</u>	Estimated Service <u>Population (1)</u>	<u>Municipality</u>	Estimated Service <u>Population (1)</u>
<b>SUBDISTRICT 1</b>			
Cleveland City	396,815		
<b>SUBDISTRICT 2</b>			
Bath Township	- (3)	Mayfield Village	3,460
Beachwood City	11,953	Middleburg Heights City	15,946
Bedford City	- (3)	Newburgh Heights Village	2,167
Bedford Heights City	- (3)	North Randall Village	1,027
Berea City	19,093	North Royalton City	5,711 (2)
Boston Heights Village	908 (2)	Northfield Village	5,839
Bratenahl Village	1,197	Northfield Center Township	3,677
Brecksville City	13,656 (2)	Oakwood Village	2,873 (2)
Broadview Heights City	17,450 (2)	Olmsted Falls City	8,422 (2)
Brook Park City	19,212	Olmsted Township	7,116 (2)
Brooklyn City	11,169	Orange Village	496 (2)
Brooklyn Heights Village	1,543	Parma City	81,601
Cleveland Heights City	46,121	Parma Heights City	20,718
Columbia Township	944 (2)	Pepper Pike City	2,239 (2)
Cuyahoga Heights Village	638	Richfield Village	757 (2)
East Cleveland City	17,843	Richfield Township	3,490 (2)
Euclid City	1,952 (2)	Richmond Heights City	3,193 (2)
Garfield Heights City	28,849	Sagamore Hills Township	10,947
Gates Mills Village	300 (2)	Seven Hills City	11,332
Glenwillow Village	31 (2)	Shaker Heights City	26,391
Highland Heights City	8,345	Solon City	170 (2)
Highland Hills Village	1,130	South Euclid City	22,295
Hudson City	9,052 (2)	Strongsville City	23,603 (2)
Independence City	7,133	Twinsburg City	9 (2)
Lakewood City	- (3)	Twinsburg Township	263 (2)
Linndale Village	179	University Heights City	13,539
Lyndhurst City	14,001	Valley View Village	2,034
Macedonia City	11,188	Walton Hills Village	2,281
Maple Heights City	23,138	Warrensville Heights City	13,542
Mayfield Heights City	19,155	Willoughby Hills City	- (3)
		Total Subdistrict 2	<u>581,319</u>
<b>Total estimated service population</b>			<b><u><u>978,134</u></u></b>

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

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

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

Source: District administrative records.

2011





Northeast Ohio Regional  
**Sewer District**

*Protecting Your Health and Environment*

**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**LARGEST CUSTOMERS OF THE DISTRICT**  
**AS OF DECEMBER 31, 2010**  
**and NINE YEARS PRIOR**

	2010			
	CONSUMPTION	AMOUNT	RANK	PERCENTAGE OF
	MCF (1)	BILLED		OPERATING
				REVENUE
<b><u>SUBDISTRICT 1</u></b>				
Cuyahoga Metropolitan Housing Agency (2)	65,732.5	\$2,729,983	1	1.6%
Cleveland Clinic (2)	42,469.7	1,719,977	2	1.0%
City of Cleveland Water Filtration Plants	29,397.2	1,569,653	3	0.9%
Case Western Reserve University	28,946.6	1,146,287	5	0.7%
Mittal Steel (ISG Cleveland)	22,045.9	1,153,097	6	0.7%
University Hospitals (2)	23,363.6	916,089	8	0.5%
Cleveland Board of Education	19,007.9	765,050	10	0.5%
Cuyahoga County (2)	17,844.5	724,414	11	0.4%
Metro Health Medical Centers	15,064.0	560,643	12	0.3%
Ferro Corporation (2)	10,613.4	440,882	14	0.3%
Cleveland State University (2)	10,297.9	412,905	15	0.2%
Columbus Road Realty	6,207.5	256,028	17	0.2%
Cleveland Metroparks Zoo	4,327.6	230,575	18	0.1%
Veterans Administration Hospitals (2)	2,564.0	103,201	20	0.1%
Holiday Inn (2)	-	-	-	.
General Electric Company	-	-	-	-
Cleveland Thermal Energy Corporation	-	-	-	-
LTV Steel	-	-	-	-
Synthetic Products	-	-	-	-
Clean Harbors of Cleveland Inc.	-	-	-	-
Longwood Apartments Inc.	-	-	-	-
Total Subdistrict 1	297,882.3	\$12,728,783		7.6%
<b><u>SUBDISTRICT 2</u></b>				
Aluminum Corporation of America	31,631.8	\$ 1,394,694	4	0.8%
Ford Motor Corporation	25,468.4	1,126,977	7	0.7%
NASA John H Glenn Research Center	19,319.9	854,683	9	0.5%
Forest City Management (2)	12,585.8	542,106	13	0.3%
Eaton Estates/ Nagy Park	9,451.8	412,679	16	0.2%
Fairhill Towers LLC (Zehman & Wolfe Management)	4,792.4	205,482	19	0.1%
General Motors Corporation	-	-	-	-
Total Subdistrict 2	103,250.1	\$ 4,536,620		1.9%
Grand Total	401,132.4	\$17,265,404		9.5%

(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.

2001

CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
123,752.6	\$ 3,506,084	1	2.7%
48,956.8	1,376,922	3	1.0%
33,776.2	1,086,600	5	0.8%
29,569.7	848,115	8	0.6%
-	-	-	-
21,189.9	610,484	10	0.5%
24,824.4	709,742	9	0.5%
19,347.0	538,998	11	0.4%
17,583.7	482,057	13	0.4%
14,990.5	414,744	16	0.3%
11,782.6	334,348	19	0.3%
14,742.3	345,585	17	0.3%
7,539.4	206,066	23	0.2%
11,910.2	342,442	18	0.3%
17,749.4	437,474	14	0.3%
46,430.2	1,356,649	4	1.0%
15,715.3	440,522	15	0.3%
4,000.5	248,508	21	0.2%
8,295.5	232,058	22	0.2%
<u>472,156.2</u>	<u>\$ 13,517,398</u>		<u>10.2%</u>
37,624.8	\$ 1,029,558	6	0.8%
56,689.7	1,525,395	2	1.2%
34,340.1	912,805	7	0.7%
19,626.1	531,819	12	0.4%
-	-	-	-
-	-	-	-
9,859.9	262,273	20	0.2%
<u>158,140.6</u>	<u>\$ 4,261,850</u>		<u>3.2%</u>
<u><u>630,296.8</u></u>	<u><u>\$ 17,779,248</u></u>		<u><u>13.4%</u></u>

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Debt by Type, In Thousands</b>				
Revenue Bond Issues				
\$97,830 Series 1995	\$ 79,775	\$ 76,175	\$ 72,415	\$ 68,415
\$68,280 Series 2005 (A)	-	-	-	-
\$126,055 Series 2007 (B)	-	-	-	-
\$336,930 Series 2010 (C)	-	-	-	-
Total Revenue Bonds	<u>79,775</u>	<u>76,175</u>	<u>72,415</u>	<u>68,415</u>
Ohio Water Development Authority Loans	4,580	1,907	1,599	1,274
Water Pollution Control Loans	296,459	329,332	346,073	350,908
Other	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total All Debt</b>	<b><u>\$ 380,827</u></b>	<b><u>\$ 407,414</u></b>	<b><u>\$ 420,087</u></b>	<b><u>\$ 420,597</u></b>
<b>Number of Customer Accounts (1)</b>	326,146	325,022	325,292	330,190
<b>Outstanding Debt Per Customer Account</b>	\$ 1,168	\$ 1,253	\$ 1,291	\$ 1,274

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

Historical Number of Customer Accounts (see pages 78 & 79)	310,600	308,809	308,197	313,043
Less Master Meter Communities	(4)	(4)	(4)	(4)
Add estimated number of customers in Master Meter Communities	<u>15,550</u>	<u>16,217</u>	<u>17,099</u>	<u>17,151</u>
Number of Customer Accounts	<b><u>326,146</u></b>	<b><u>325,022</u></b>	<b><u>325,292</u></b>	<b><u>330,190</u></b>

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

Note: This schedule should be read in conjunction with Note 6 to the Audited Financial Statements for December 31, 2010.

- (A) The Series 1995 Bonds were refunded on December 20, 2005 and replaced by the Series 2005 Bonds.
- (B) The Series 2007 Bonds were issued on May 22, 2007.
- (C) The Series 2010 Bonds were issued on November 17, 2010.

Source: District accounting records.

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
68,280	63,525	58,850	53,985	48,925	43,660
-	-	126,055	124,000	121,865	119,645
-	-	-	-	-	336,930
<u>68,280</u>	<u>63,525</u>	<u>184,905</u>	<u>177,985</u>	<u>170,790</u>	<u>500,235</u>
932	573	194	-	-	-
387,380	417,777	418,262	417,080	411,544	435,356
-	-	-	-	-	-
<u>\$ 456,592</u>	<u>\$ 481,875</u>	<u>\$ 603,361</u>	<u>\$ 595,065</u>	<u>\$ 582,334</u>	<u>\$ 935,591</u>
328,417	325,389	328,856	328,856	319,629	315,794
\$ 1,390	\$ 1,481	\$ 1,835	\$ 1,810	\$ 1,822	\$ 2,963
312,093	308,769	318,515	311,937	306,791	302,838
(4)	(4)	(4)	(3)	(3)	(3)
16,328	16,624	16,339	16,922	12,841	12,959
<u>328,417</u>	<u>325,389</u>	<u>334,850</u>	<u>328,856</u>	<u>319,629</u>	<u>315,794</u>

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

Year	Estimated Population Served (1)	Cuyahoga County		
		Unemployment Rate (2)	Total Personal Income (000's) (3)	Per Capita Personal Income (3)
2001	1,085,204	4.5%	\$ 45,282,921	\$ 32,753
2002	1,085,204	6.7%	45,703,641	33,322
2003	1,085,071	6.8%	45,655,393	33,590
2004	1,085,071	6.3%	47,818,353	35,521
2005	1,041,392	6.1%	49,335,286	37,082
2006	1,032,670	5.5%	51,236,686	39,134
2007	1,027,184	6.1%	52,893,000	40,838
2008	1,026,500	6.8%	53,946,514	42,051
2009	1,016,650	9.2%	52,802,000	41,391
2010	978,134	8.6%	n/a	n/a

(1) Sources are District administrative records, 2010 U.S. Census, and U.S. Census Block Data as presented in the Northeast Ohio Areawide Coordinating Agency Magic 2001 Database.

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

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

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

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
PRINCIPAL EMPLOYERS OF CUYAHOGA COUNTY, OHIO  
AS OF DECEMBER 31, 2010  
and NINE YEARS PRIOR**

Employer Name (1)	2010				2001				
	Number of Employees (1)	Rank (1)	Percentage of Total County Employment (2)	Number of Employees (1)	Rank (1)	Percentage of Total County Employment (2)	Number of Employees (1)	Rank (1)	Percentage of Total County Employment (2)
	FTE* 12-31-2010			FTE* 12-31-2001					
Cleveland Clinic Health System	34,000	1	5.04%	20,500	1	2.58%			
U.S. Office of Personnel Management	14,843	2	2.20%	10,750	2	1.35%			
University Hospitals	13,224	3	1.96%	-		0.00%			
State of Ohio	9,932	4	1.47%	-		0.00%			
Progressive Corp.	8,900	5	1.32%	-		0.00%			
Cuyahoga County	8,036	6	1.19%	9,750	3	1.22%			
Summa Health System	8,000	7	1.19%	-		0.00%			
United State Postal Service	7,641	8	1.13%	9,000	5	1.13%			
City of Cleveland	7,580	9	1.12%	9,200	4	1.16%			
Cleveland Municipal School District	7,385	10	1.09%	8,000	6	1.01%			
Key Corp	-	-	-	6,700	7	0.84%			
Metro Health System	-	-	-	6,500	8	0.82%			
Ford Motor Company	-	-	-	6,000	9	0.75%			
LTV Corporation	-	-	-	5,500	10	0.69%			
<b>Total</b>	<b>119,541</b>		<b>17.71%</b>	<b>91,900</b>		<b>11.55%</b>			
<b>Total Cuyahoga County Employment (2)</b>			<b>675,000</b>			<b>796,000</b>			

\* Full-Time Equivalent.

(1) Sources are *Crain's Cleveland Business*, December 2010 and March 2001.

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

(2) Sources are District administrative records,  
and U.S. Department of Labor, Bureau of Labor Statistics.

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b><u>TREATMENT PLANT FLOW</u></b>				
<b>Billions of gallons of sewage treated per plant:</b>				
Easterly	36.7	37.3	40.4	40.6
Southerly	38.9	37.2	43.1	44.2
Westerly	11.1	10.4	11.0	10.5
Total	<u>86.7</u>	<u>84.9</u>	<u>94.5</u>	<u>95.3</u>
<b>Total sewage treated, in MCFs (1)</b>	<u>11,590,909</u>	<u>11,350,267</u>	<u>12,633,690</u>	<u>12,740,642</u>
<b>MCFs billed, total District</b>	<u>5,342,696</u> (3)	<u>5,191,506</u>	<u>5,094,136</u>	<u>4,930,817</u>
<b><u>STAFFING LEVELS</u></b>				
<b>Number of employees:</b>				
Plant Operations & Maintenance	400	382	383	404
Engineering	48	54	61	66
Finance	35	48	49	50
Human Resources (2, 5)	-	41	44	47
Information Technology (2)	-	19	20	18
District Administration	76	20	18	17
Legal	10	9	8	8
Communications & Community Relations	-	-	-	-
Watershed Programs (6)	-	-	-	-
Total	<u>569</u>	<u>573</u>	<u>583</u>	<u>610</u>
<b>Budgeted employees, total District</b>	<u>595</u>	<u>634</u>	<u>637</u>	<u>677</u>

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

(2) Reclassified from District Administration beginning in 2002.

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

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

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

(6) Watershed Programs reclassified from Plant Operations & Maintenance

Source: Various District records.



<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
38.4	34.4	35.3	36.1	31.2	30.9
46.6	45.8	45.3	43.8	39.1	39.2
10.4	9.6	10.0	10.8	10.1	9.0
<u>95.4</u>	<u>89.8</u>	<u>90.6</u>	<u>90.7</u>	<u>80.4</u>	<u>79.1</u>
<u>12,754,011</u>	<u>12,005,348</u>	<u>12,112,299</u>	<u>12,125,668</u>	<u>10,748,663</u>	<u>10,574,866</u>
<u>4,969,948</u> (4)	<u>4,745,269</u>	<u>4,756,809</u>	<u>4,507,357</u>	<u>4,267,959</u>	<u>4,136,903</u>
412	404	396	363	353	357
66	70	65	57	56	54
49	50	42	47	47	47
21	17	15	14	19	17
19	20	21	19	21	20
43	44	56	46	47	50
9	8	8	14	13	14
4	7	8	16	16	18
-	-	-	58	62	63
<u>623</u>	<u>620</u>	<u>611</u>	<u>634</u>	<u>634</u>	<u>640</u>
<u>672</u>	<u>676</u>	<u>662</u>	<u>660</u>	<u>668</u>	<u>679</u>

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





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

	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Number of Buildings</b>			
<u>Operations</u>			
Southerly Plant	36	36	36
Easterly Plant	17	16	18
Westerly Plant	16	17	17
Outlying Pump Buildings	6	6	6
<b>Total Operations</b>	<u>75</u>	<u>75</u>	<u>77</u>
<u>Administration</u>			
District Administration	2	2	2
Environmental Maintenance and Services Center	4	4	4
<b>Total Offices</b>	<u>6</u>	<u>6</u>	<u>6</u>
<b>Total Buildings</b>	<u><u>81</u></u>	<u><u>81</u></u>	<u><u>83</u></u>
<b>Miles of Interceptor Sewers Installed Annually*</b>	<u><u>3.18</u></u>	<u><u>0</u></u>	<u><u>3.75</u></u>
<b>Number of Outlying Systems</b>			
<u>Sewage Collection System</u>			
Interceptor Sewers & Tunnels	20	21	21
Inter-Community Relief Sewers	17	17	17
Automated Regulators	29	27	27
Pumping Stations	7	7	7
Force Mains	3	3	3
<b>Total Sewage Collection System</b>	<u>76</u>	<u>75</u>	<u>75</u>
<u>Support Facilities</u>			
Floatables Control Sites	5	5	5
Biofilter Odor Control Sites	5	5	5
Rain Gauge Sites	25	25	25
Lakeview Dam	1	1	1
<b>Total Support Facilities</b>	<u>36</u>	<u>36</u>	<u>36</u>
<b>Total Outlying Systems</b>	<u><u>112</u></u>	<u><u>111</u></u>	<u><u>111</u></u>
<b>Acres of Land</b>			
<u>Operations</u>			
Southerly Plant	311.2	311.2	311.2
Easterly Plant	77.7	77.7	77.7
Westerly Plant	14.5	14.5	14.5
<u>Administration</u>			
District Administration	1.5	1.5	1.5
Environmental Maintenance and Services Center	14.7	14.7	14.7
<b>Total Acres, Operations and Administration</b>	<u><u>419.6</u></u>	<u><u>419.6</u></u>	<u><u>419.6</u></u>

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





## CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Subdistrict 1</u>				
Cleveland (1)	136,332	133,611	132,541	137,746
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	4	4	4	4
Direct Service - Suburbs (1)	<u>174,264</u>	<u>175,194</u>	<u>175,652</u>	<u>175,293</u>
Subtotal	<u>174,268</u>	<u>175,198</u>	<u>175,656</u>	<u>175,297</u>
Total Customers	<u><u>310,600</u></u>	<u><u>308,809</u></u>	<u><u>308,197</u></u>	<u><u>313,043</u></u>

(1) 2001 through 2006 exclude inactive accounts.

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

Source: District accounting records.



<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
133,054	129,428	130,616	128,142	122,201	121,009
4	4	4	3	3	3
<u>179,035</u>	<u>179,337</u>	<u>187,895</u>	<u>183,792</u>	<u>184,587</u>	<u>181,826</u>
<u>179,039</u>	<u>179,341</u>	<u>187,899</u>	<u>183,795</u>	<u>184,590</u>	<u>181,829</u>
<u><u>312,093</u></u>	<u><u>308,769</u></u>	<u><u>318,515</u></u>	<u><u>311,937</u></u>	<u><u>306,791</u></u>	<u><u>302,838</u></u>

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Subdistrict 1</u>				
Cleveland (4)	2,665,282 (2)	2,662,602	2,495,126	2,379,632
<u>Subdistrict 2</u>				
Direct Service - Suburbs (3) (4)	2,387,609	2,231,962	2,287,825	2,241,819
Master Meter - Suburbs (1)	<u>289,805</u>	<u>296,942</u>	<u>311,185</u>	<u>309,366</u>
Subtotal	<u>2,677,414</u>	<u>2,528,904</u>	<u>2,599,010</u>	<u>2,551,185</u>
Total Service Area	<u><u>5,342,696</u></u>	<u><u>5,191,506</u></u>	<u><u>5,094,136</u></u>	<u><u>4,930,817</u></u>

- (1) Consumption of Master Meter Suburbs is presented at 80% of total consumption which is the billing basis. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in SubDistrict 2.
- (2) Restated 2005 and 2001 for consumption adjustment.
- (3) For 2002-2005, NASA was categorized as a Direct Bill customer in Subdistrict 1. Beginning in 2006, NASA has been categorized as a Subdistrict II customer to properly reflect consumption totals.
- (4) For 2010, the data is estimated based on billing records from the City of Cleveland.

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
2,370,567	2,209,563	2,217,887	2,127,084	1,915,736	1,895,333
2,288,026 (2)	2,215,147	2,250,184	2,184,458	2,189,464	2,071,277
<u>311,109</u>	<u>320,559</u>	<u>288,738</u>	<u>195,815</u>	<u>162,759</u>	<u>170,293</u>
<u>2,599,135</u>	<u>2,535,706</u>	<u>2,538,922</u>	<u>2,380,273</u>	<u>2,352,223</u>	<u>2,241,570</u>
<u><u>4,969,702</u></u>	<u><u>4,745,269</u></u>	<u><u>4,756,809</u></u>	<u><u>4,507,357</u></u>	<u><u>4,267,959</u></u>	<u><u>4,136,903</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>2001</u>	<u>2002</u>	<u>2003</u>
Operating Revenue	\$134,613	\$130,758	\$129,875
Non-Operating Revenue	21,143	18,388	6,434
Total Revenues	<u>155,756</u>	<u>149,146</u>	<u>136,309</u>
Operating Expenses (Exclusive of depreciation) (2)	<u>62,732</u>	<u>62,052</u>	<u>66,333</u>
Net Revenues Available for Debt Service	<u>\$ 93,024</u>	<u>\$ 87,094</u>	<u>\$ 69,976</u>
Total Revenue Bond Debt Service (1),(3)	\$ 7,932	\$ 7,934	\$ 7,930
Coverage on Revenue Bond Debt Service	11.73	10.98	8.82
Total All Debt Service (1)	\$ 34,866	\$ 35,984	\$ 35,886
Coverage on Total Debt Service	2.67	2.42	1.95

(1) Net Revenues are first used to pay debt service on Revenue Bonds and second to pay debt service on loans from the Ohio Water Development Authority (OWDA) and Water Pollution Control Loan Fund (WPCLF). The annual Debt Service Requirements on these obligations for the ten years ended December 31, 2008 were:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenue Bond Issues and Debt Service			
\$97,830 Series 1995	\$ 7,932	\$ 7,934	\$ 7,930
\$68,280 Series 2005 (A)	-	-	-
\$126,055 Series 2007 (B)	-	-	-
\$336,930 Series 2010 (C)	-	-	-
Total Revenue Bond Debt Service	<u>7,932</u>	<u>7,934</u>	<u>7,930</u>
OWDA Debt Service	4,079	3,136	408
WPCLF Debt Service	<u>22,855</u>	<u>24,914</u>	<u>27,548</u>
Total All Debt Service	<u>\$ 34,866</u>	<u>\$ 35,984</u>	<u>\$ 35,886</u>

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

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

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

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

(3) Bonds and loans are secured by a pledge of and lien on revenues of the District, after payment of operating and maintenance costs, and on monies and investments comprising the Construction Funds and Revenue Bond Debt Service Deposit.

Loans are subordinate to the Bonds.

Source: District accounting records.

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$134,283	\$145,297	\$150,154	\$159,055	\$162,271	\$164,776	\$166,851
3,577	4,850	10,421	15,575	14,047	3,366	4,131
<u>137,860</u>	<u>150,147</u>	<u>160,575</u>	<u>174,630</u>	<u>176,318</u>	<u>168,142</u>	<u>170,982</u>
<u>70,808</u>	<u>78,780</u>	<u>82,319</u>	<u>85,205</u>	<u>91,713</u>	<u>93,554</u>	<u>97,278</u>
<u>\$ 67,052</u>	<u>\$ 71,367</u>	<u>\$ 78,256</u>	<u>\$ 89,425</u>	<u>\$ 84,605</u>	<u>\$ 74,588</u>	<u>\$ 73,704</u>
\$ 7,935	\$ 7,935	\$ 7,490	\$ 10,174	\$ 15,375	\$ 15,373	\$ 15,375
8.45	8.99	10.45	8.79	5.61	4.85	4.79
\$ 42,029	\$ 42,552	\$ 44,257	\$ 54,905	\$ 58,140	\$ 59,430	\$ 60,821
1.60	1.68	1.77	1.63	1.46	1.26	1.21

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
\$ 7,935	\$ 7,935	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	7,490	7,514	7,517	7,517	7,520
-	-	-	2,660	7,858	7,856	7,855
-	-	-	-	-	-	-
<u>7,935</u>	<u>7,935</u>	<u>7,490</u>	<u>10,174</u>	<u>15,375</u>	<u>15,373</u>	<u>15,375</u>
409	409	409	409	204	-	-
<u>33,685</u>	<u>34,208</u>	<u>36,358</u>	<u>44,322</u>	<u>42,561</u>	<u>44,057</u>	<u>45,446</u>
<u>\$ 42,029</u>	<u>\$ 42,552</u>	<u>\$ 44,257</u>	<u>\$ 54,905</u>	<u>\$ 58,140</u>	<u>\$ 59,430</u>	<u>\$ 60,821</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
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
2004	24.40	7.5	16.45	7.5	29.40	5.2	19.70	5.3
2005	26.20	7.4	17.70	7.6	30.95	5.3	20.80	5.6
2006	28.10	7.3	18.95	7.1	32.60	5.3	21.90	5.3
2007	30.85	9.8	20.75	9.5	35.10	7.7	23.55	7.5
2008	33.85	9.7	22.75	9.6	37.85	7.8	25.40	7.9
2009	37.15	9.7	24.95	9.7	40.90	8.1	27.45	8.1
2010	40.75	9.7	27.35	9.6	44.25	8.2	29.70	8.2

(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, 2011 THROUGH 2020  
(In Thousands of Dollars)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>USES OF FUNDS</u>				
Sewage Treatment Plant Improvements				
Westerly	\$ 3,683	\$ 673	\$ 10,638	\$ 3,199
Southerly	103,419	51,012	51,082	37,915
Easterly	15,266	24,327	17,321	10,385
Sub-Total	<u>122,368</u>	<u>76,012</u>	<u>79,041</u>	<u>51,499</u>
Interceptors/Rehabilitation	40,233	23,361	13,875	11,719
Combined Sewer Overflow Control Program	75,001	77,108	130,913	248,939
Information Technology & Other Minor Equipment	1,875	420	8	-
TOTAL	<u>\$ 239,477</u>	<u>\$ 176,901</u>	<u>\$ 223,837</u>	<u>\$ 312,157</u>
<u>SOURCES OF FUNDS</u>				
WPCLF Loans (1)	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000
Net Bond Proceeds	198,477	132,901	179,337	232,157
Internally Generated Funds	6,000	9,000	9,500	45,000
TOTAL	<u>\$ 239,477</u>	<u>\$ 176,901</u>	<u>\$ 223,837</u>	<u>\$ 312,157</u>

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

Source: District accounting records.



<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>TOTAL</u>
\$ 356	\$ 2,685	\$ 363	\$ 6,277	\$ 16,426	\$ 5,431	\$ 49,731
17,105	83,287	25,518	5,856	15,662	14,818	405,674
920	1,373	3,876	244	3,250	945	77,907
<u>18,381</u>	<u>87,345</u>	<u>29,757</u>	<u>12,377</u>	<u>35,338</u>	<u>21,194</u>	<u>533,312</u>
2,221	1,934	5,586	9,474	4,152	619	113,174
91,628	168,125	180,791	129,021	124,825	91,066	1,317,417
-	-	-	-	-	-	2,303
<u>\$ 112,230</u>	<u>\$ 257,404</u>	<u>\$ 216,134</u>	<u>\$ 150,872</u>	<u>\$ 164,315</u>	<u>\$ 112,879</u>	<u>\$ 1,966,206</u>
\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 350,000
60,730	199,404	152,634	86,872	99,815	47,879	1,390,206
16,500	23,000	28,500	29,000	29,500	30,000	226,000
<u>\$ 112,230</u>	<u>\$ 257,404</u>	<u>\$ 216,134</u>	<u>\$ 150,872</u>	<u>\$ 164,315</u>	<u>\$ 112,879</u>	<u>\$ 1,966,206</u>

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*Your Sewer  
District...*

**Keeping  
our  
Great  
Lake  
great.**



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