

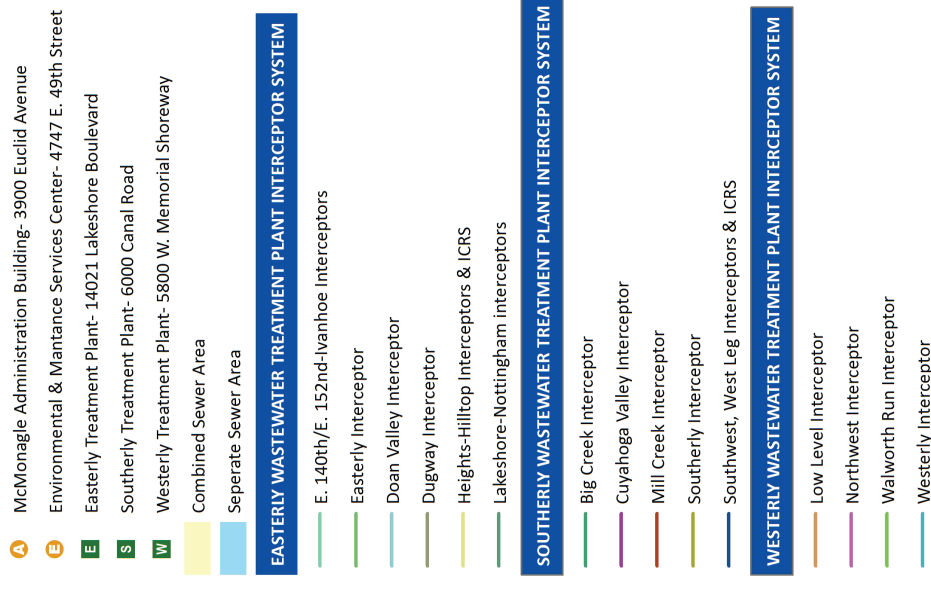


**Northeast Ohio
Regional Sewer District**

**2013
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2013
A POLITICAL SUBDIVISION OF
THE STATE OF OHIO

KEEPING OUR GREAT LAKE GREAT.
PAST. PRESENT. FUTURE.



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

Northeast Ohio Regional Sewer District

A Political Subdivision of the State of Ohio

2013 Comprehensive Annual Financial Report
For the Year Ended December 31, 2013

Prepared by the Department of Finance

Jennifer L. Demmerle, CPA
Director of Finance



NORTHEAST OHIO REGIONAL SEWER DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

DECEMBER 31, 2013

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NORTHEAST OHIO REGIONAL SEWER DISTRICT
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A large crowd of people, including children and adults, are swimming and playing in a lake. A large, leafy tree stands prominently on the left side of the image. The sky is blue with some clouds. The text "INTRODUCTORY" is written in a large, white, sans-serif font, and "section" is written in a smaller, white, cursive font below it. A stylized graphic of waves is located in the bottom right corner.

INTRODUCTORY

section



June 26, 2014

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

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements. These financial statements are required to be presented in conformity with generally accepted accounting principles (GAAP) audited in accordance with standards generally accepted in the United States of America by licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Northeast Ohio Regional Sewer District for the fiscal year ended December 31, 2013.

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. 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, 2013, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there is reasonable basis for rendering an unmodified opinion that the Northeast Ohio Regional Sewer District's financial statements for the fiscal year ended December 31, 2013 are fairly presented in conformity with GAAP. The Independent Auditor's Report is presented as the first component of the financial section of this report.

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

PROFILE OF THE DISTRICT

General

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

Service Area

The District's service area covers approximately 350 square miles. The District encompasses 97.0% of the City of Cleveland and all or portions of 61 suburban communities in Cuyahoga, Lake, Lorain and Summit Counties. The area contains a residential service population near one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District treats more wastewater than any other wastewater treatment system in the State of Ohio.

Governance

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

Budgets

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of the year to which they apply. Readers should refer to the Schedule of Revenues, Expenses and Changes in Net Position – Budget to Actual on page 54 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 the approval of a rate increase by the Board of Trustees. The region is not dominated by any single industry. Major industries with headquarters or divisions located in the District's service area or in close proximity include automotive manufacturers, industrial equipment, metals, paints and coatings producers, insurance and banking services. Major employers in the area include federal, state, county and municipal government agencies, health care providers, public schools, financial service providers, manufacturers and retail establishments. In recent years there has been a significant shift from manufacturing to a service and information based economy.

The annual unemployment rate in 2013 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, was 7.7%. Cuyahoga County's unemployment rate was 0.3% higher than (not seasonally adjusted) the rate of 7.4% for the State of Ohio and 0.9% higher than the national rate (not seasonally adjusted) of 6.8%. 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 a long range financing plan for its Operating and Capital budgets. The District's five-year financing plan for the capital budget provides for over \$1.2 billion in capital project expenditures from 2014 to 2018, primarily for improvements to our Southerly wastewater treatment plant and our CSO long-term control plan. This includes approximately \$306 million for the plants, \$845 million for the CSO projects, \$45 million for the collection system improvements, and \$99 million of miscellaneous District-wide improvements. Over this five-year period, the District will need to address both regulatory driven capital improvements and rehabilitation driven capital improvements at its three (3) wastewater treatment plants and within its collection system.

In 2010, the District completed a five-year long-term financial and rate impact model for rates in effect from 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 \$725,530,000. The debt, net of applicable bond premium costs, is \$758,794,691. The District has also obtained loans through the State of Ohio Water Pollution Control Loan Fund (WPCLF). As of December 31, 2013, the outstanding loan balance was \$468,816,156 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 statements of net position 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, for the purpose of providing funds for the acquisition, construction, and improvement of water resource projects, funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and paying certain costs of issuance of the Series 2007 Bonds. This information should be read in conjunction with Note 6 to the financial statements.

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

In 2013, the District issued \$249,535,000 Wastewater Improvement Revenue Bonds, Series 2013, for the purpose of providing funds for the acquisition, construction and improvement of wastewater facilities or water management facilities, constituting Water Resource Projects. This information should be read in conjunction with Note 6 to the financial statements.

MAJOR INITIATIVES

For the Year

2013 Awards

During 2013, the District received awards for 2012 plant performance from the National Association of Clean Water Agencies (NACWA). NACWA honored all three of our Wastewater Treatment Plants (WWTP's) for excellent performance in 2012.

The District's Easterly and Westerly plants earned a Peak Performance Gold award that recognizes facilities with no National Pollutant Discharge Elimination System (NPDES) permit exceedences in a year. The Southerly plant earned a Peak Performance Silver award which presented to member agency facilities that have had five or less NPDES permit violations during a calendar year. Awards for 2013 performance have not been announced as of the date of this report.

During 2013, the Government Finance Officers Association of the United States and Canada (GFOA) presented the Distinguished Budget Presentation Award to the District for the seventh time for its 2013 Budget.

Business Opportunity Program

The Office of Contract Compliance was formed in 2008. After receiving the recommendations from the Disparity Study in 2010, the Business Opportunity Program (BOP) was created which allows Minority Business Enterprise (MBE), Women Business Enterprise (WBE), and Small Business Enterprise (SBE) goals to be placed on projects. The Office of Contract Compliance monitors payments, prevailing wages and provides outreach services for certified firms. The BOP is designed to contribute to the economic health and vitality of the region by providing a greater opportunity to conduct business with the District, resulting in job and business growth for the local business community. Bringing new companies into the District's procurement process enhances the competitive bidding process which helps deliver the greatest value. The District awarded \$19,874,893 dollars worth of business to MBE/WBE/SBE businesses across Northeast Ohio in 2013. This exceeded the targeted goals by over 8.0%.

Vendor Registration

In November 2013, the Purchasing Department implemented the new Oracle eBusiness Suite which included Purchasing, Sourcing and the iSupplier online registration system. Suppliers will benefit from a more streamlined purchasing process that involves electronic communication. They will be able to view all purchase order activity for their company, provide quotes and see awarded quotes, create invoices and track payment status using iSupplier. The system tracks product and services provided by the registered supplier for future quoting opportunities and suppliers interested in participating in the Business Opportunity Program. The District currently has over 4,800 registered suppliers.

Human Resources Programs

District employees are integral to leading our organization in accomplishing our mission. We value our employee's contributions and dedication to the organization and make a concentrated effort to ensure that the District offers comprehensive benefit offerings and employee programs to recognize their efforts. These programs include but are not limited to a first class health and wellness program, employee recognition, performance management as well as robust benefit offerings that are comprehensive in scope and that address health concerns across generations. These programs benefit our employees not only professionally but personally, and help to foster a stronger, healthier more united organization as a whole.

Some highlights of our programs include but are not limited to the following:

- *Health and Wellness*

The health and wellness of our employees and their dependents are of vital importance to our organization. We pride ourselves on our active approach towards health and wellness, and understand that our organization benefits tremendously when our employees and their dependents are well. Our wellness initiatives engage our employees and their dependents in healthy life style improvements, which become an individual and collective portal for *Living Well*. Some examples of activities include on-site health screenings and flu shots for employees and family members; an annual 5k run at our Southerly WWTC; the District sponsored Weight Watchers at Work programs and a variety of presentations and demonstrations throughout the year under focus areas such as physical wellness, mental wellness, financial wellness, and others.

- *Performance Management*

Our organization continually embraces opportunities to perform at exceptional levels. Throughout the last number of years we have measured organizational performance and successes through the establishment and facilitation of a performance management system. Our performance management system incorporates measurements of individual goals, organizational core values, organizational core competencies, and leadership and management competencies and rewards employees for their accomplishments with performance bonuses.

- *Employee Recognition*

For the fifth straight year, employees with continuous full-time service with the District were recognized at the District's annual Service Awards ceremony held outside of work at a local venue. The 2013 Service Awards ceremony was held at the Cleveland Museum of Art, in the museum's beautiful new atrium. Over 170 employees and guests enjoyed a wonderful dinner and a touching and uplifting recognition ceremony.

- *Giving Beyond the District's Walls*

In 2013, the employees of the District raised over \$86,000 for local charities which is a fundraising record for the District. Employees generously gave to three lead organizations including The Greater Cleveland United Way, The Greater Cleveland Community Shares, and The United Negro College fund. The President and CEO of The Greater Cleveland United Way publically thanked our organization at a Northeast Ohio Regional Sewer District Board meeting noting that we were one of the only organizations where our giving level continues to increase annually.

- *Diversity and Inclusion*

The District's commitment to diversity and inclusion is a long-term strategy that maximizes the development of cultural competence. We strive to achieve greater productivity, and to respond proactively to America's evolving cultural demographics. The District's Diversity and Inclusion (D&I) Team continued to address the initiatives as set forth in the Diversity Strategic Plan during the 2013 fiscal year. The team worked on the following four specific areas: develop consistent employee understanding of business value of D&I, build an inclusive and cohesive workforce to drive employee engagement, improve perceived equity of people processes & practices and develop and enhance strategic business and community partnerships/relationships. To show our dedication for communication, education, accountability, measurement and accomplishments, here are some of the District's 2013 accomplishments:

According to the Commission on Economic Inclusion, the District continued to rank high in the region for its overall percentage of supplier diversity spent both locally and regionally for 2013. The organization was in the top 20.0% of both categories when compared with our peers in the region. The District also scored well when ranked on its numbers for minority representation on the Board, senior management and overall minority representation in the workforce.

During the first half of the 2013 fiscal year, the Organization & Employee Development (OED) team conducted 3 D&I workshops. OED also hosted a number of Crucial Conversations sessions and participated in the annual LeadDiversity program for the past several years.

The Administrative Professionals Network (APN) and Employee Resource Groups (ERG) experienced great success during the 2013 fiscal year. The group focused on increasing professional development for their members this year. Throughout the year employees of the group attended a variety of workshops that provided hands on learning opportunities to enhance their professional skills. The Veterans Employee Resource Group staged a special district-wide celebration of military veterans across the district in honor of Memorial Day.

- *Employee Recognition Program*

The Employee Recognition program which was implemented in late 2009 gained great acceptance during 2010 and continues to thrive, 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. The program's goal is to celebrate employees' contributions for the value they add to furthering the District's mission and vision as demonstrated by our core values.

In 2010, a permanent work group was formed to review the Employee Recognition program. Since then, the workgroup continues to meet and suggest enhancements to the program, such as adding a Quarterly Team Award and an Annual Spirit Award, in addition to the Employee of the Month Award. In 2013, 42 employees were given the Employee of the Month Award; 28 teams were recognized; and three employees were presented with Annual Spirit Awards.

CSO Long-Term Control Plan

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

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

In 2015, the District is scheduled to complete construction on its second large-scale tunnel, the Euclid Creek Tunnel, and commence construction of its third large-scale tunnel, the Dugway Storage Tunnel. These tunnels when complete will have the capacity to store 117 million gallons of combined sewage for treatment at the District's Easterly Wastewater Treatment Plant controlling approximately 1 billion gallons of CSO in a typical year. Ultimately, the District will construct seven tunnels, 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 Mill Creek Tunnel, a structure that has the capacity to store 75 million gallons of combined sewage until it can be treated at the District's Southerly Wastewater Treatment Plant.

Some of the other major CSO projects outside of the storage tunnels include the expansion of the Easterly WWTP secondary treatment capacity which commenced construction in 2014 and a chemically enhanced high rate treatment (CEHRT) facility for treatment and disinfection of CSO 001 during wet weather events. At the Southerly WWTP the District will expand secondary treatment capacity and include CEHRT and disinfection for treatment of additional wet weather flows. The District will upgrade the existing Westerly CSO Treatment Facility (CSOTF) with CEHRT and disinfection for further treatment of CSO 002, thereby increasing wet weather treatment capacity at this facility.

The District has incorporated opportunities to construct more sustainable and cost-effective green infrastructure in place of traditional gray infrastructure in its proposal, which includes a commitment to a minimum of \$42 million in green infrastructure projects, reducing 44 million gallons of wet weather CSO flows beyond those captured by the tunnel systems. Many of these projects, which are required to be constructed by 2019, are under design with several currently under construction.

Asset Management

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

Capital Planning:

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

Maintenance Activities:

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

Biosolids Management

Approximately 43,000 dry tons of biosolids (sewage sludge) were removed from the wastewater at the District's three wastewater treatment plants in 2013. Of this amount, roughly 92.0% was burned in the District's six multiple hearth biosolids incinerators. The balance was 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 was to continue incineration, with land filling as a secondary option. As a result, the District has undertaken a program to replace the four existing incinerators located at the Southerly WWTP with three new state-of-the-art fluidized bed incinerators. The final design of the project included a Renewable Energy Facility (REF) to house waste heat boilers and a turbine generator to create electricity that will supply power from the incineration process to the Southerly WWTP. The new REF and incinerator facility was placed into service in 2014 and has a current total project cost estimate of approximately \$165 million. After the REF facility was placed into service, the four multiple hearth incinerators were decommissioned.

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 over \$3 billion since its inception on sanitary sewage-related projects. To address the regional stormwater portion of this mandate, the District procured services in 2007 to assist with the development and implementation of a Regional Stormwater Management Program (the "Stormwater Program"). Tasks related to defining stormwater program roles and responsibilities, funding approaches, resource needs, legal issues, customer service requirements and data/billing issues were addressed, leading to the development of the District's Stormwater Code of Regulations (Title V), which the District's Board of Trustees approved in January 2010.

From 2010-2012, the Stormwater Program was in litigation in the Cuyahoga County Common Pleas Court over issues related to the District's "authority" to implement the program as an Ohio 6119 entity, and "fee versus tax" issues related to the District's stormwater fee. The District prevailed in the litigation, and began the Stormwater Program in January 2013. The Stormwater Program is designed to address long-standing regional stormwater flooding, erosion and water quality issues resulting from the incremental increases in stormwater runoff from hard surfaces that make their way into storm sewers and streams. The fees collected from the Stormwater Program will be used to fund construction projects to solve regional stream flooding and erosion problems, operation and maintenance activities to minimize the potential for flooding and erosion and master planning studies to outline a long-term construction and maintenance program along regional streams. Twenty-five percent (25.0%) of cash collected from each municipality within the service area will be returned to the respective member community for funding of local stormwater management projects.

In July 2012, parties opposed to the District's Regional Stormwater Management Program filed an appeal to the 8th Appellate District to seek a halt to the Regional Stormwater Management Program. On September 26, 2013, the Appellate Court halted the District's Regional Stormwater Management Program by a 2 to 1 decision with a strong dissent. The District immediately suspended its program and placed all fees collected into an interest bearing escrow account pending an appeal to the Supreme Court of Ohio. The District filed its notice of appeal in November 2013, and the Supreme Court accepted the case in February 2014. The case is now in the briefing phase and it is expected that proceedings in the Supreme Court will be finalized by the end of 2014.

Strategic Plan

In the fall of 2012, Executive Director Julius Ciaccia, along with the Senior Staff, updated and revised the District's Strategic Plan to chart the organization's direction for the next four years. The Strategic Plan covers 2013 through 2016.

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's 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 five strategic goals to guide the organization over the next four years: Those strategic goals are as follows: (1) Operational Excellence; (2) Fiscal Responsibility; (3) Customer Service; (4) Community Partnerships; and, (5) Organization and Employee Effectiveness.

The Strategic Plan provides a navigational guide for the District over the next four 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. 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, 2012. This was the 18th 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,

A handwritten signature in dark ink, appearing to read 'Julius Ciaccia', written over a horizontal line.

Julius Ciaccia
Executive Director

A handwritten signature in dark ink, appearing to read 'Jennifer L. Demmerle', written over a horizontal line.

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



2012 Comprehensive Annual Financial Reporting Award



*2013 Government Finance Officers Association
Distinguished Budget Award*



**NORTHEAST OHIO REGIONAL SEWER DISTRICT
TABLE OF ORGANIZATIONS
DECEMBER 31, 2013**

BOARD OF TRUSTEES



Darnell Brown,
Board President



Ronald D. Sulik,
Vice President



Sheila J. Kelly,
Secretary



Mayor Jack M. Bacci



Mayor Timothy
DeGeeter



Walter O'Malley



Mayor Gary W. Starr

DIRECTORS



Julius Ciaccia
Executive Director



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



Jennifer L. Demmerle
Director of Finance
Finance: 43 Employees



Marlene Sundheimer
Director of Law
Legal: 12 Employees



Constance T. Haqq
Director of Administration
& External Affairs (AEA)
AEA: 32 Employees



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



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



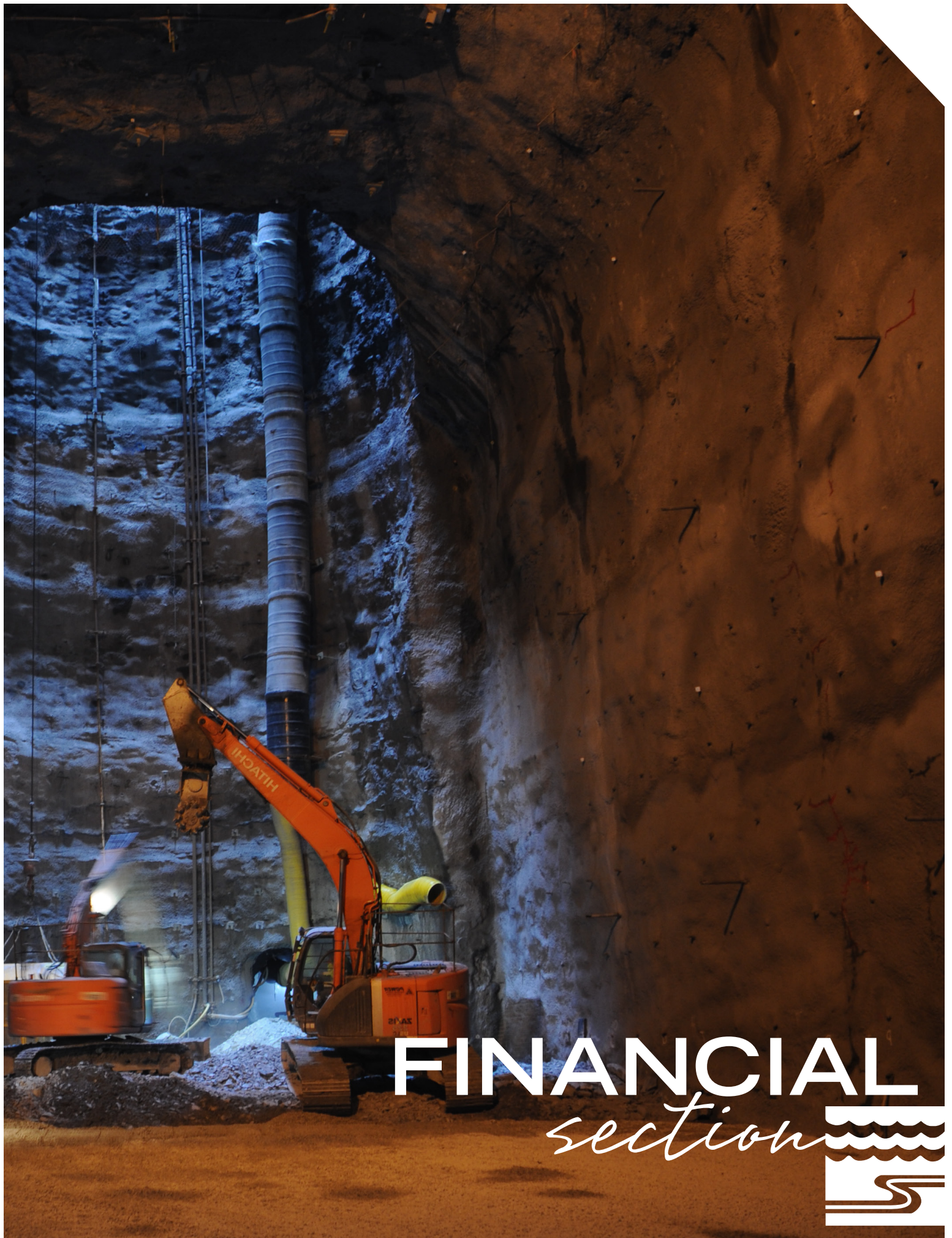
Raymond Weeden
Director of Operation &
Maintenance
Operation & Maintenance:
344 Employees



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



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



FINANCIAL *section*



Independent Auditor's Report

Board of Trustees
Northeast Ohio Regional Sewer District

Report on the Financial Statements

We have audited the accompanying financial statements of the Northeast Ohio Regional Sewer District (the "District"), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 12 to the basic financial statements, in 2013 the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and as a result restated their December 31, 2012 and 2011 net position due to the reclassification of debt issuance costs to an expense in the period incurred rather than amortizing over the life of the debt. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Board of Trustees
Northeast Ohio Regional Sewer District

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Cini & Panichi, Inc.

Cleveland, Ohio
June 26, 2014

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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, 2013. This information should be read in conjunction with the letter of transmittal and basic financial statements included in this report.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities by \$1,316,327,734.
- Net position increased by \$15,269,570.
- Net investment in capital assets increased by \$2,244,107.
- Unrestricted net position increased by \$13,025,463.
- Retirements of debt principal were \$44,374,851.
- Operating revenues increased by \$22,548,748.
- Operating expenses increased by \$4,780,180.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are the statements of net position, the statements of revenues, expenses and changes in net position, the statements of cash flows and the accompanying notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements. These statements report information about the District as a whole and about its activities. The District is a single enterprise fund using proprietary fund accounting, which means these statements are presented in a manner similar to a private-sector business. The statements are presented using the economic resources measurement focus and the accrual basis of accounting.

The statements of net position present the District's financial position and report the resources owned by the District (assets) and deferred outflows of resources, and obligations owed by the District (liabilities) and District net position (the difference between assets, and deferred outflows of resources, and liabilities). The statements of revenues, expenses and changes in net position present a summary of how the District's net position 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 2013, 2012 and 2011, respectively. 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 Position December 31, (In Thousands)

	2013	Restated 2012	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 444,913	\$ 216,424	\$ 228,489	105.6%
Capital Assets, Net	2,078,467	1,924,494	153,973	8.0%
Other Noncurrent Assets	89,083	172,416	(83,333)	(48.3%)
Total Assets	<u>2,612,463</u>	<u>2,313,334</u>	<u>299,129</u>	<u>12.9%</u>
<u>Deferred Outflows of Resources</u>				
Deferred Charge on Refunding	256	407	(151)	(37.1%)
Total Assets and Deferred Outflows of Resources	<u>2,612,719</u>	<u>2,313,741</u>	<u>298,978</u>	<u>12.9%</u>
<u>Liabilities</u>				
Current Liabilities	112,543	98,022	14,521	14.8%
Long-Term Debt	1,183,048	913,611	269,437	29.5%
Other Long-Term Liabilities	800	1,050	(250)	(23.8%)
Total Liabilities	<u>1,296,391</u>	<u>1,012,683</u>	<u>283,708</u>	<u>28.0%</u>
<u>Net Position</u>				
Net Investment in Capital Assets	1,067,650	1,065,406	2,244	0.2%
Unrestricted	248,678	235,652	13,026	5.5%
Total Net Position	<u>\$ 1,316,328</u>	<u>\$ 1,301,058</u>	<u>\$ 15,270</u>	<u>1.2%</u>

Net position may serve as a useful indicator of financial position. The District's assets and deferred outflows of resources exceeded liabilities by \$1,316,327,734 as of December 31, 2013, of which \$1,067,650,046 is for net investment in capital assets.

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

During 2013, net position increased by \$15,269,570. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$1,807,669.
- Receivables from Federal and State agencies decreased by \$1,606,519.
- Construction funds in the capital project account decreased by \$88,115,858.
- Capital assets increased by \$153,973,421 due mainly to construction in progress and additions to the wastewater treatment and conveyance systems.
- Total debt increased by a net amount of \$239,490,198. Additions of \$34,330,049 were for WPCLF and \$249,535,000 were for Wastewater Improvement Revenue Bonds, Series 2013. The reductions of \$44,374,851 were for repayment of debt principal on General Obligation Bonds and WPCLF.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

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

	Restated 2012	Restated 2011	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 216,424	\$ 226,969	\$ (10,545)	(4.6%)
Capital Assets, Net	1,924,494	1,763,120	161,374	9.2%
Other Noncurrent Assets	172,416	329,906	(157,490)	(47.7%)
Total Assets	<u>2,313,334</u>	<u>2,319,995</u>	<u>(6,661)</u>	<u>(0.3%)</u>
<u>Deferred Outflows of Resources</u>				
Deferred Charge on Refunding	407	595	(188)	(31.6%)
Total Assets and Deferred Outflows of Resources	<u>2,313,741</u>	<u>2,320,590</u>	<u>(6,849)</u>	<u>(0.3%)</u>
<u>Liabilities</u>				
Current Liabilities	98,022	91,710	6,312	6.9%
Long-Term Debt	913,611	931,247	(17,636)	(1.9%)
Other Long-Term Liabilities	1,050	3,775	(2,725)	(72.2%)
Total Liabilities	<u>1,012,683</u>	<u>1,026,732</u>	<u>(14,049)</u>	<u>(1.4%)</u>
<u>Net Position</u>				
Net Investment in Capital Assets	1,065,406	1,055,247	10,159	1.0%
Unrestricted	235,652	238,611	(2,959)	(1.2%)
Total Net Position	<u>\$ 1,301,058</u>	<u>\$ 1,293,858</u>	<u>\$ 7,200</u>	<u>0.6%</u>

Net position may serve as a useful indicator of financial position. The District's assets and deferred outflows of resources exceeded liabilities by \$1,301,058,164 as of December 31, 2012, of which \$1,065,405,939 is for net investment in capital assets.

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

During 2012, net position increased by \$7,199,333. The majority of this increase was due to the following:

- Sewage service fees receivable from customers decreased by \$7,196,622.
- Receivables from Federal and State agencies increased by \$2,753,426.
- Construction funds in the capital project account decreased by \$158,225,674.
- Capital assets increased by \$161,374,374 due mainly to construction in progress and additions to the wastewater treatment and conveyance systems.
- Total debt decreased by a net amount of \$15,865,701. Additions of \$26,353,646 were for WPCLF. The reductions of \$42,219,347 were for repayment of debt principal on General Obligation Bonds and WPCLF.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

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

	2013	Restated 2012	Change	
			Amount	%
<u>Operating Revenues, Net</u>				
Sewer Service Fees				
Billing Agents				
City of Cleveland	\$ 179,391	\$ 159,114	\$ 20,277	12.7%
Other Billing Agents	13,210	11,943	1,267	10.6%
Total Billing Agents	192,601	171,057	21,544	12.6%
Direct Billed Sewer Service Fees	16,228	14,832	1,396	9.4%
Total Sewer Service Fees	208,829	185,889	22,940	12.3%
Other Operating Revenue				
Septic Tank and Municipal Sludge Fees	403	504	(101)	(20.0%)
Miscellaneous	558	848	(290)	(34.2%)
Total Other Operating Revenue	961	1,352	(391)	(28.9%)
Total Operating Revenues, Net	209,790	187,241	22,549	12.0%
<u>Non-Operating Revenues</u>				
Interest Revenue	1,879	2,828	(949)	(33.5%)
Proceeds from Insurance Claim	-	792	(792)	(100.0%)
Federal Subsidy Revenue	6,327	6,942	(615)	(8.9%)
Non-Operating Grant Revenue	1,384	759	625	82.3%
Decrease in Fair Value of Investments, Net	(417)	(889)	472	53.1%
Total Non-Operating Revenues	9,173	10,432	(1,259)	(12.1%)
Total Revenues	218,963	197,673	21,290	10.8%
<u>Operating Expenses</u>				
Salaries and Wages	43,890	41,255	2,635	6.4%
Fringe Benefits	14,204	13,657	547	4.0%
Utilities	14,898	13,980	918	6.6%
Professional and Contractual Services	24,747	21,827	2,920	13.4%
Other	2,156	3,388	(1,232)	(36.4%)
Depreciation	50,180	51,187	(1,007)	(2.0%)
Total Operating Expenses	150,075	145,294	4,781	3.3%
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	51,758	44,718	7,040	15.7%
Non-Operating Grant Expenses	1,520	759	761	100.3%
Loss on Disposals of Equipment	341	622	(281)	(45.2%)
Total Non-Operating Expenses	53,619	46,099	7,520	16.3%
Total Expenses	\$ 203,694	\$ 191,393	\$ 12,301	6.4%

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

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

	2013	Restated 2012	Change	
			Amount	%
Income Before Contributions	\$ 15,270	\$ 6,280	\$ 8,990	143.2%
Capital Contributions	-	920	(920)	(100.0%)
Change in Net Position	15,270	7,200	8,070	112.1%
Net Position at Beginning of Year - Restated (See Note 12)	1,301,058	1,293,858	7,200	0.6%
Net Position at End of Year	<u>\$ 1,316,328</u>	<u>\$ 1,301,058</u>	<u>\$ 15,270</u>	<u>1.2%</u>

Operating revenues consist 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, 2013:

- Operating revenues increased by \$22,548,748 (12.0%) compared to 2012. The increase was due to higher billing rates in 2013, coupled with a slow decrease in consumption and an increase in delinquencies.
- Non-operating revenues decreased by \$1,258,698 (12.1%). The decrease in fair value of investments for 2013 was \$471,921 (53.1%) more than experienced in 2012. 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 revenues consist of interest revenue, grant revenue, Federal subsidy revenue, proceeds on insurance claims and the change in fair value of investments. Interest revenue decreased by \$948,636 (33.5%) due to lower interest rates. Non-operating grant revenue increased by \$624,576 (82.3%) due to the increase of funds received for Water Resource Sponsorship Programs. Federal subsidy revenue decreased by \$614,314 (8.9%). No proceeds on insurance claims occurred during 2013.
- Operating expenses increased \$4,780,180 (3.3%) compared to 2012. Main components of operating expenses are as follows:
 - Salary and wages increased \$2,634,408 (6.4%).
 - Fringe benefits increased \$546,917 (4.0%).
 - Professional and Contractual Services increased \$2,920,138 (13.4%) due to an increase in non-capitalized costs from the Stormwater project and general engineering services. Utilities increased \$918,313 (6.6%) due to increases in power and water costs. Solid handling waste removal decreased \$378,704 (20.7%); Materials and Supplies decreased \$980,552 (19.4%) and Judgments and Awards decreased \$608,816 (90.7%). The decreases were offset by increases in other expenses of: \$41,989 (5.4%) for Insurance to manage our risk of loss; \$290,352 (17.7%) for Chemicals used in the Wastewater Treatment Plants and \$684,045 (32.9%) for Repairs and Maintenance.
- Non-operating expenses increased \$7,519,566 (16.3%). Interest expense increased by \$7,039,945 (15.7%). Losses on equipment disposals decreased \$281,916 (45.2%) due to a decrease in disposals of obsolete equipment in 2013. Non-operating grant expense increased \$761,537 (100.3%). No extraordinary events occurred during 2013.

The following table on the next page summarizes the changes in revenues and expenses for the District between 2012 and 2011.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

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

	Restated 2012	Restated 2011	Change	
			Amount	%
<u>Operating Revenues, Net</u>				
Sewer Service Fees				
Billing Agents				
City of Cleveland	\$ 159,114	\$ 144,327	\$ 14,787	10.2%
Other Billing Agents	11,943	11,016	927	8.4%
Total Billing Agents	171,057	155,343	15,714	10.1%
Direct Billed Sewer Service Fees	14,832	16,275	(1,443)	(8.9%)
Total Sewer Service Fees	185,889	171,618	14,271	8.3%
Other Operating Revenue				
Septic Tank and Municipal Sludge Fees	504	458	46	10.0%
Miscellaneous	848	646	202	31.3%
Total Other Operating Revenue	1,352	1,104	248	22.5%
Total Operating Revenues, Net	187,241	172,722	14,519	8.4%
<u>Non-Operating Revenues</u>				
Interest Revenue	2,828	3,825	(997)	(26.1%)
Proceeds from Insurance Claim	792	622	170	27.3%
Federal Subsidy Revenue	6,942	6,912	30	0.4%
Non-Operating Grant Revenue	759	677	82	12.1%
Decrease in Fair Value of Investments, Net	(889)	(151)	(738)	(488.7%)
Total Non-Operating Revenues	10,432	11,885	(1,453)	(12.2%)
Total Revenues	197,673	184,607	13,066	7.1%
<u>Operating Expenses</u>				
Salaries and Wages	41,255	39,190	2,065	5.3%
Fringe Benefits	13,657	12,939	718	5.5%
Utilities	13,980	15,512	(1,532)	(9.9%)
Professional and Contractual Services	21,827	18,766	3,061	16.3%
Other	3,388	3,907	(519)	(13.3%)
Depreciation	51,187	47,272	3,915	8.3%
Total Operating Expenses	145,294	137,586	7,708	5.6%
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	44,718	43,019	1,699	3.9%
Non-Operating Grant Expenses	759	677	82	12.1%
Loss on Extraordinary Event	-	1,188	(1,188)	(100.0%)
Loss on Disposals of Equipment	622	1,021	(399)	(39.1%)
Total Non-Operating Expenses	46,099	45,905	194	0.4%
Total Expenses	\$ 191,393	\$ 183,491	\$ 7,902	4.3%

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

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

	Restated 2012	Restated 2011	Change Amount	%
Income Before Contributions	\$ 6,280	\$ 1,116	\$ 5,164	462.7%
Capital Contributions	920	6,162	(5,242)	(85.1%)
Change in Net Position	7,200	7,278	(78)	(1.1%)
Net Position at Beginning of Year - Restated (See Note 12)	1,293,858	1,286,580	7,278	0.6%
Net Position at End of Year	<u>\$ 1,301,058</u>	<u>\$ 1,293,858</u>	<u>\$ 7,200</u>	<u>0.6%</u>

Operating revenues consist 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, 2012:

- Operating revenues increased by \$14,519,009 (8.4%) compared to 2011. The increase was due to higher billing rates in 2012, coupled with a decrease in consumption and an increase in delinquencies.
- Non-operating revenues decreased by \$1,454,049 (12.2%). The decrease in fair value of investments for 2012 was \$738,260 (490.0%) more than experienced in 2011. 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 revenues consist of interest revenue, grant revenue, Federal subsidy revenue, proceeds on insurance claims and the change in fair value of investments. Interest revenue decreased by \$997,127 (26.1%) due to a decrease in funds available for investment. Non-operating grant revenue increased by \$82,108 (12.1%) due to the increase of funds received for Water Resource Sponsorship Programs. Federal subsidy revenue increased by \$28,923 (0.4%). Proceeds on insurance claims increased by \$170,307 (27.3%) due to claims from the Southerly flood being realized in 2012.
- Operating expenses increased \$7,708,083 (5.6%) compared to 2011. Main components of operating expenses are as follows:
 - Salary and wages increased \$2,064,593 (5.3%).
 - Fringe benefits increased \$718,007 (5.5%).
 - Professional and Contractual Services increased \$3,060,829 (16.3%) due to an increase in non-capitalized costs from the Stormwater project and general engineering services.
 - Utilities decreased \$1,531,746 (9.9%) due to a decrease in power and gas costs from negotiated contracts. Decreases in Other Expenses include \$361,969 (14.8%) for Repairs and Maintenance and \$448,283 (36.5%) for Insurance to manage our risk of loss. The decreases were offset by increases in Other Expenses of: \$653,166 (4053.4%) for Judgments and Awards due to a refund with a customer; \$977,955 (115.4%) for Solids Handling waste removal; \$491,556 (10.8%) for Materials and Supplies; and \$312,400 (23.5%) for Chemicals used in the treatment processes at the Wastewater Treatment Plants.
- Non-operating expenses increased \$194,230 (0.4%). Interest expense increased by \$1,698,811 (3.9%). Losses on equipment disposals decreased \$398,200 (39.0%) due to a decrease in disposals of obsolete equipment in 2012. Non-operating grant expense increased \$82,108 (12.1%). Non-operating expenses were offset by the decrease of \$1,188,489 (100.0%) for loss on extraordinary events that occurred during in 2011. No extraordinary events occurred during 2012.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Capital Assets

At the end of 2013, the District had \$2,078,467,492 invested in capital assets. This amount represents a net increase of approximately \$154 million, or 8.0% over 2012. 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)

	2013	2012	Change	
			Amount	%
Land	\$ 14,846	\$ 13,901	\$ 945	6.8%
Construction in Progress	516,505	448,607	67,898	15.1%
Interceptor Sewer Lines	959,166	975,074	(15,908)	(1.6%)
Buildings, Structures and Improvements and Equip.	396,660	330,496	66,164	20.0%
Sewage Treatment and Other Equipment	185,989	150,926	35,063	23.2%
Right to Use-Intangible	5,301	5,490	(189)	(3.4%)
Total	\$ 2,078,467	\$ 1,924,494	\$ 153,973	8.0%

Major Additions Placed into Service in 2013, at Cost Included:

Southerly Renewable Energy Facility	\$ 90,107
Easterly Screen Conveyance & Grit Handling	8,076
Easterly Code & Safety Improvements	7,566
EMSC Lab Improvements	7,408
Chemically Enhanced/High Rate Treatment (CE-HRT) Pilots---All Plants	6,098
CSO Rehab Contracts	5,272
HVAC Renovation---All Plants	3,712
Walworth Run Outfall (Ph II)	2,499
Dugway Interceptor	2,327
Automated Regulator Rehabs	2,103
Roof Renovations & Repairs ---All Plants	1,272
	\$ 136,440

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Capital Assets

At the end of 2012, the District had \$1,924,494,071 invested in capital assets. This amount represents a net increase of approximately \$161 million, or 9.2% over 2011. 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)

	2012	2011	Change	
			Amount	%
Land	\$ 13,901	\$ 13,901	\$ -	0.0%
Construction in Progress	448,607	364,958	83,649	22.9%
Interceptor Sewer Lines	975,074	894,432	80,642	9.0%
Buildings, Structures and Improvements and Equip.	330,496	338,655	(8,159)	(2.4%)
Sewage Treatment and Other Equipment	150,926	151,174	(248)	(0.2%)
Right to Use-Intangible	5,490	-	5,490	100.0%
Total	\$ 1,924,494	\$ 1,763,120	\$ 161,374	9.2%

Major Additions Placed into Service in 2012, at Cost Included:

Mill Creek Tunnel #3 (MCT-3, MCT-3C)	\$ 50,189
Westerly CSOTF Rehabilitation (CSOTF-R)	3,286
Mill Creek Interceptor Repair and Re-Routing (MCI-VB/MB)	7,411
Southerly Substation Replacements (SSE-1)	9,237
Lee Road Relief Sewer (LLRS)	20,267
Miles Avenue Relief Sewer (MARS)	2,302
Easterly Aeration Tank Rehabilitation (ART-3)	3,293
District Incinerator Rehabilitations (IR-13A/B)	3,042
S. Maintenance Bldg Exterior Wall Panel Restoration (EPR-1)	2,981
CSO Rehab Contract -Service and Cleaning (CSORC-10)	2,112
CSO Relining and Replacement (CSORC-RARC)	12,286
	<u>\$ 116,406</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Debt Administration

At December 31, 2013, the District had total debt outstanding of \$1,227,610,847 compared to \$957,154,684 at December 31, 2012. This represents an increase of \$270,456,163 for total debt due to the issuance of the 2013 Wastewater Improvement Revenue Bonds. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund decreased \$1,654,802; total debt retirements were \$44,374,851. The carrying value of the long-term portion of debt at December 31, 2013 was \$1,183,048,291 and the fair value of the long-term debt was \$1,213,597,101.

At December 31, 2012, the District had total debt outstanding of \$957,154,684 compared to \$973,367,788 at December 31, 2011. This represents a decrease of \$16,213,104 for total debt. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund decreased \$7,800,701; total debt retirements were \$42,219,347. The carrying value of the long-term portion of debt at December 31, 2012 was \$913,610,744 and the fair value of the long-term debt was \$1,087,062,966.

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)

	2013	2012	2011
Revenue Bonds	\$ 758,795	\$ 486,684	\$ 495,096
Water Pollution Loans Payable	468,816	470,471	478,272
Total Debt	<u>\$ 1,227,611</u>	<u>\$ 957,155</u>	<u>\$ 973,368</u>

Economic Factors

In June, 2011 the District's Board of Trustees approved a schedule of rate increases for the five years 2012 through 2016. Increasingly stringent federal regulations and remaining legal obligations are key factors that led to these rate increases. A rate study of a projected five-year period concluded that the need to finance \$1 billion in federally mandated capital projects between 2012 and 2016, combined with the repayment of existing debt service for past projects and an anticipated decrease in billed consumption, necessitated the rate increases. Effective January 1, 2013, rates charged to District customers increased 11.9% to \$55.45 per mcf for City of Cleveland customers, and 10.7% to \$58.15 per mcf for the suburban customers. Also effective January 1, 2013, the fixed fee was increased to \$6.30 per quarter for all customers. Effective January 1, 2012, rates charged to District customers increased 10.8% to \$49.55 per mcf for City of Cleveland customers, and 9.5% to \$52.55 per mcf for the suburban customers. Also effective January 1, 2012, a new fixed fee of \$5.85 per quarter for all customers was implemented to replace the discontinued minimum 1 mcf per quarter charge.

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, by telephone at (216) 881-6600, or at www.neorsd.org.



Protecting Your Health and Environment

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Position

December 31, 2013 and 2012

	Assets	
	2013	Restated 2012
Current Assets:		
Cash	\$ 267,321,271	\$ 23,858,459
Stormwater Cash Escrow	20,845,132	-
Short-Term Investments	49,989,968	86,267,539
Sewage Service Fees Receivable, Less Allowance for Doubtful Accounts of \$24,000,000 in 2013 and \$22,000,000 in 2012	91,839,980	90,032,311
Receivables from Federal, State and Other Agencies	8,152,764	9,759,283
Inventory, Prepaid Expenses and Other	6,763,609	6,505,914
Total Current Assets	<u>444,912,724</u>	<u>216,423,506</u>
Noncurrent Assets:		
Capital Assets:		
Interceptor Sewer Lines	1,176,991,620	1,176,329,092
Buildings, Structures and Improvements and Equipment	807,252,881	721,709,619
Sewage Treatment and Other Equipment	434,821,616	388,419,087
Right to Use-Intangible	5,489,451	5,490,089
	<u>2,424,555,568</u>	<u>2,291,947,887</u>
Less Accumulated Depreciation	(877,438,403)	(829,962,027)
	1,547,117,165	1,461,985,860
Land	14,845,659	13,900,789
Construction in Progress	516,504,668	448,607,422
Net Capital Assets	<u>2,078,467,492</u>	<u>1,924,494,071</u>
Construction Funds	60,529,485	148,645,343
Revenue Bond Debt Service Deposit	28,553,170	23,771,144
Total Noncurrent Assets	<u>2,167,550,147</u>	<u>2,096,910,558</u>
Total Assets	<u>2,612,462,871</u>	<u>2,313,334,064</u>
Deferred Outflows of Resources:		
Deferred Charge on Refunding	256,027	406,764
Total Assets and Deferred Outflows of Resources	<u>\$ 2,612,718,898</u>	<u>\$ 2,313,740,828</u>

Continued

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Position (Continued)

December 31, 2013 and 2012

	Liabilities and Net Position	
	2013	Restated 2012
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 6,996,740	\$ 6,059,304
Stormwater Liability	20,845,132	-
Construction Contracts and Retainages Payable	20,602,691	29,071,540
Accrued Interest	12,272,548	10,857,730
Other Accrued Liabilities	7,263,206	8,489,406
Current Maturities of Long-Term Debt	44,562,556	43,543,940
Total Current Liabilities	<u>112,542,873</u>	<u>98,021,920</u>
Noncurrent Liabilities:		
Long-Term Debt	1,183,048,291	913,610,744
Other Accrued Long-Term Liabilities	<u>800,000</u>	<u>1,050,000</u>
Total Liabilities	<u>1,296,391,164</u>	<u>1,012,682,664</u>
Net Position:		
Net Investment in Capital Assets	1,067,650,046	1,065,405,939
Unrestricted	<u>248,677,688</u>	<u>235,652,225</u>
Total Net Position	<u>\$ 1,316,327,734</u>	<u>\$ 1,301,058,164</u>

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Revenues, Expenses and Changes in Net Position

For the years ended December 31, 2013 and 2012

	2013	Restated 2012
Operating Revenues, Net:		
Billing Agents	\$ 192,601,300	\$ 171,056,663
Direct Billed	16,227,994	14,832,256
Other	960,830	1,352,457
Total Operating Revenues, Net	<u>209,790,124</u>	<u>187,241,376</u>
Operating Expenses:		
Salaries and Wages	43,889,545	41,255,137
Fringe Benefits	14,203,943	13,657,026
Utilities	14,898,125	13,979,812
Professional and Contractual Services	24,747,308	21,827,170
Other	2,155,767	3,387,828
Depreciation	50,179,846	51,187,381
Total Operating Expenses	<u>150,074,534</u>	<u>145,294,354</u>
Operating Income	<u>59,715,590</u>	<u>41,947,022</u>
Non-Operating Revenues (Expenses):		
Interest Revenue	1,879,311	2,827,947
Decrease in Fair Value of Investments, Net	(417,004)	(888,925)
Non-Operating Grant Revenue	1,383,517	758,941
Non-Operating Grant Expenses	(1,520,478)	(758,941)
Proceeds on Insurance Claims	-	792,245
Loss on Disposals of Equipment	(340,588)	(622,504)
Interest on Long-Term Debt	(51,757,865)	(44,717,920)
Federal Subsidy Revenue	6,327,087	6,941,401
Total Non-Operating Revenues (Expenses)	<u>(44,446,020)</u>	<u>(35,667,756)</u>
Income Before Contributions	15,269,570	6,279,266
Capital Contributions	<u>-</u>	<u>920,067</u>
Change in Net Position	15,269,570	7,199,333
Net Position at Beginning of Year - Restated (See Note 12)	<u>1,301,058,164</u>	<u>1,293,858,831</u>
Net Position at End of Year	<u><u>\$ 1,316,327,734</u></u>	<u><u>\$ 1,301,058,164</u></u>

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flows

For the years ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash Received From Customers	\$ 207,968,064	\$ 194,437,998
Cash Payments to Suppliers for Goods and Services	(41,028,329)	(37,886,036)
Cash Payments to Employees for Services	(59,412,818)	(51,808,049)
Net Cash Provided by Operating Activities	<u>107,526,917</u>	<u>104,743,913</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(217,651,720)	(358,382,448)
Issuance of Note Receivable to Other Governmental Agency	-	(349,806)
Proceeds from Restricted Cash for Stormwater Activity	20,845,132	-
Proceeds from Maturities of Investments	316,312,012	495,992,646
Interest on Investments	2,107,765	3,059,808
Net Cash Provided by Investing Activities	<u>121,613,189</u>	<u>140,320,200</u>
Cash Flows from Non-Capital Financing Activities:		
Grant Payments	(14,391)	(117,506)
Grants Received	14,391	126,013
Net Cash Provided by Non-Capital Financing Activities	<u>-</u>	<u>8,507</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(44,374,851)	(42,219,347)
Interest Payments on Long-Term Debt	(47,052,116)	(37,391,510)
Proceeds from Issuance of Series 2013 Bonds	282,734,765	-
Proceeds from Water Pollution Control Loans	34,718,008	22,135,319
Proceeds of Sale and Settlements on Capital Acquisitions	1,045,887	-
Acquisition and Construction of Capital Assets	(212,979,135)	(213,534,252)
Proceeds from Capital Grants	230,148	1,031,684
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>14,322,706</u>	<u>(269,978,106)</u>
Net Increase (Decrease) in Cash	243,462,812	(24,905,486)
Cash at Beginning of Year	<u>23,858,459</u>	<u>48,763,945</u>
Cash at End of Year	<u>\$ 267,321,271</u>	<u>\$ 23,858,459</u>

Continued

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flows (Continued)

For the years ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating Income	\$ 59,715,590	\$ 41,947,022
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	50,179,846	51,187,381
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(1,822,060)	7,196,622
Inventory and Prepaid Expenses	(257,695)	(43,942)
Accounts Payable and Other Accrued Liabilities	(288,764)	4,456,830
Total Adjustments	47,811,327	62,796,891
Net Cash Provided by Operating Activities	<u>\$ 107,526,917</u>	<u>\$ 104,743,913</u>
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	<u>\$ (2,100,819)</u>	<u>\$ 1,919,351</u>
Long-Term Debt Increased due to Accrued		
Construction Interest and Principal Adjustment	<u>\$ 1,712,859</u>	<u>\$ 2,298,978</u>
Capital Contributions Recorded in Accounts Receivables	<u>\$ -</u>	<u>\$ 230,148</u>
Capital Assets Increased (Decreased) due to Capitalized Costs,		
Recorded Accounts Payable, and Asset Reclassifications	<u>\$ 8,470,745</u>	<u>\$ (343,297)</u>
Decrease in Fair Value of Investments, net	<u>\$ (417,004)</u>	<u>\$ (888,925)</u>
Deferred Debt Expense withheld from Bond Proceeds	<u>\$ 1,186,866</u>	<u>\$ -</u>

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 1: Reporting Entity

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

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

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

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

Note 2: Summary of Significant Accounting Policies

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Summary of Significant Accounting Policies (continued)

The District adopted authoritative guidance issued by the Financial Accounting Standards Board (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.

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

Basis of Presentation

The District's basic financial statements consist of statements of net position; statements of revenues, expenses and changes in net position; and statements of cash 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 position, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Measurement Focus

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

Basis of Accounting

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

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Summary of Significant Accounting Policies (continued)

Cash Equivalents and Investments

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

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

The District invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2013 and 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on the respective statements of net position dates.

Short-term Investments

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

Fair Value of Financial Instruments

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

Cash

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

Investments

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Long-Term Debt

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2013 were \$1,183,048,291 and \$1,213,597,101, respectively. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2012 were \$913,610,744 and \$1,087,062,966, respectively.

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, 2013 and 2012, these funds consisted of cash, non-negotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAR Ohio. They are used to finance construction expenditures approved by the Board of Trustees. Under certain circumstances, the funds may be used for repayment of principal and interest costs on the Series 2005 Wastewater Improvement Revenue Refunding Bonds, the 2007 Series Wastewater Improvement Revenue Bonds, the 2010 Series Wastewater Improvement Revenue Bonds, and the 2013 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, 2013 and 2012 consisted of direct obligations of the United States Government, plus accrued interest.

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 \$24,000,000 at December 31, 2013 and \$22,000,000 at December 31, 2012.

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, 2013 and 2012

Note 2: Summary of Significant Accounting Policies (continued)

Capital Assets

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

<u>Description</u>	<u>Estimated Lives</u>
Interceptor Sewer Lines	Primarily 75 years
Buildings, Structures and Improvements and Equipment	Primarily 40 years
Sewage Treatment and Other Equipment	5 to 20 years
Right to Use-Intangible	Primarily 30 years

Bond Premium

Bond premiums are deferred and amortized over the term of the bonds using the effective-interest method. Bond premiums are presented as an increase of the face amount of the bonds payable.

Deferred Charge on Refunding

On the District financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective-interest method and is presented as deferred outflows of resources on the statements of net position.

Capital Contributions

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Summary of Significant Accounting Policies (continued)

Net Position

In the District financial statements, net position is categorized into three categories. The first is net investment in capital assets, reduced by accumulated depreciation and any outstanding debt incurred to acquire, construct or improve those assets excluding unexpended bond proceeds, restricted or unrestricted. This category represents net investment in property, plant, equipment and infrastructure. The second category is restricted, which represents assets restricted by requirements of revenue bonds, other externally imposed constraints, or by legislation, in excess of the related liabilities payable from restricted assets. The third category; unrestricted portion of net position, consists of all assets that do not meet the definition of either of the other two categories of net position. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The District did not have any restrictions at December 31, 2013 or 2012.

The District's Board of Trustees adopted a reserve policy in July 2009 that annually designates amounts of the District's unrestricted net position as Board-designated for specific purposes. Such amounts are not restricted, and may be designated for other purposes or eliminated at the discretion of the Board of Trustees. A summary of reserve amounts that have been designated by the Board of Trustees at December 31, 2013 and 2012 follows:

	2013	2012
General Operating Reserve	\$ 25,787,758	\$ 23,486,937
Debt Service Reserve	28,553,170	23,771,144
Equipment Repair and Replacement Reserve	55,708,737	55,518,234
Insurance Reserve	22,700,745	22,537,391
Rate Stabilization Account	6,000,000	6,000,000

During 2013, the General Operating Reserve had a net increase of \$2,300,821 due to a decrease in transfers to the Capital Project Account. The Debt Service Reserve increased by \$4,782,026 due to the increase in total annual debt service. The Equipment Repair and Replacement Reserve increased \$190,503 due to interest revenue. The Insurance Reserve had a net increase of \$163,354 due to insurance proceeds related to the flood at the Southerly Wastewater Treatment Plant (WWTP) and interest revenue.

During 2012, the General Operating Reserve had a net decrease of \$456,478 due to an increase in transfers to the Capital Project Account. The Debt Service Reserve increased by \$735,779 due to interest revenue. The Equipment Repair and Replacement Reserve increased \$316,843 due to interest revenue. The Insurance Reserve had a net increase of \$732,398 due to insurance proceeds related to the flood at the Southerly WWTP and interest revenue.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Summary of Significant Accounting Policies (continued)

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 \$5,933,299 in 2013 and \$7,755,544 in 2012. 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, 2013 and 2012 are unbilled sewage service fees of \$25,759,894 and \$23,904,595, respectively.

In June 2011, the Board of Trustees approved rate increases scheduled for the years 2012 through 2016. Effective January 1, 2012 the minimum charge will be eliminated and a base charge will be added to all quarterly bills. Rates charged to customers will increase approximately 13.0% for customers in the City of Cleveland, and 12.0% for the suburban customers. In addition to the current rate reduction Homestead Program, the District has added two new affordability programs - the Crisis Voucher Program and a Wastewater Affordability Program for those households with income level at or below 200.0% poverty level.

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, the 2010 Wastewater Improvement Revenue Bond Resolution and the 2013 Wastewater Improvement Revenue Bond Resolution which requires that the current year "net revenues" be at least 115.0% of its debt service requirements. As the District does not intend that interest costs be recovered from subsequent years' revenue, it has excluded interest as an allowable cost for future rate-making purposes. Therefore, in accordance with FASB ASC topic "Regulated Operations", all interest is expensed but is included as non-operating on the statements of revenues, expenses and changes in net position as incurred.

Use of Estimates

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and deferred outflows of resources and liabilities and 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.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 2: Summary of Significant Accounting Policies (continued)

Comparative Data/Reclassifications

Comparative data for the prior years are presented in order to provide an understanding of the changes in financial position and operations.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 26, 2014, 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, 2013, the carrying amount of the District's deposits, including certificates of deposit of \$3,027,608, was \$270,348,879 and the bank balance was \$271,540,604. Of the bank balance, \$750,000 was covered by Federal depository insurance and \$270,790,604 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. At December 31, 2012, the carrying amount of the District's deposits, including certificates of deposit of \$2,717,098, was \$60,155,742 and the bank balance was \$64,251,131. Of the bank balance, \$10,663,686 was covered by Federal depository insurance and \$61,155,570 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, 2013 and 2012

Note 3: Deposits and Investments (continued)

Investments

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

At December 31, 2013 the District's investment balances and maturities were as follows:

Investment Type	Fair Value	% of Total	Maturities (in years)	
			Less than 1	1 through 5
Federal National Mortgage Assoc.	\$ 62,786,615	40%	\$ 24,418,263	\$ 38,368,352
Federal Home Loan Mortgage Corp.	38,497,673	24%	28,449,528	10,048,145
Federal Home Loan Bank	21,720,511	14%	21,720,511	-
Forward Delivery Agreement/FNMA	8,100,375	5%	8,100,375	-
Guaranteed Investment Contracts	7,173,079	5%	-	7,173,079
U.S. Treasury Bills	13,359,039	9%	13,359,039	-
General Electric Bond	1,006,606	1%	-	1,006,606
Dreyfus Cash Management	1,434,524	1%	1,434,524	-
State Treasury Asset Reserve	2,230,473	1%	2,230,473	-
Huntington Fund IV	72,847	0%	72,847	-
Key Bank - Money Market	508,405	0%	508,405	-
	<u>\$ 156,890,147</u>		<u>\$ 100,293,965</u>	<u>\$ 56,596,182</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 3: Deposits and Investments (continued)

At December 31, 2012 the District's investment balances and maturities were as follows:

Investment Type	Fair Value	% of Total	Maturities (in years)	
			Less than 1	1 through 5
Federal National Mortgage Assoc.	\$ 70,219,372	32%	\$ 30,235,964	\$ 39,983,408
Federal Home Loan Mortgage Corp.	58,102,448	26%	27,665,416	30,437,032
Federal Home Loan Bank	56,937,702	26%	45,819,593	11,118,109
U.S. Treasury Note	10,000,494	4%	10,000,494	-
Forward Delivery Agreement/FNMA	8,099,812	4%	8,099,812	-
Guaranteed Investment Contracts	7,176,891	3%	-	7,176,891
U.S. Treasury Bills	7,068,175	3%	7,068,175	-
General Electric Bond	2,534,339	1%	2,534,339	-
Dreyfus Cash Management	1,426,266	1%	1,426,266	-
State Treasury Asset Reserve	821,244	0%	821,244	-
	<u>\$ 222,386,743</u>		<u>\$ 133,671,303</u>	<u>\$ 88,715,440</u>

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 3: Deposits and Investments (continued)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy authorizes investments in obligations of the U.S. Treasury, U.S. agencies and instrumentalities, interest-bearing demand or time deposits, State Treasury Asset Reserve of Ohio ("STAR Ohio"), money market mutual funds, repurchase agreements, and in certain situations, pre-funded municipal obligations, general obligations of any state and other fixed income securities. Repurchase transactions are not to exceed one year and must be collateralized by obligations of the U.S. Government or its agencies which are held by a third party custodian. STAR Ohio is an investment pool created pursuant to Ohio statutes and is managed by the Treasurer of the State of Ohio. As of December 31, 2013, the District's investment in U.S. instrumentalities (Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank) were all rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. Investments backed by the Federal Deposit Insurance Corporation were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. Investments in General Electric were rated AA+ by Standard & Poor's and Aa2 by Moody's. Investments in Proctor & Gamble Bonds were rates AA- by Standard & Poor's and Aa3 by Moody's. Investments in U.S. Treasury Notes were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The Investments in STAR Ohio and Bank of New York were rated AAAm by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the requirements of State Law, it is the policy of the District to require full collateralization of all investments other than obligations of U.S. Government, its agencies and instrumentalities. The District's investment in U.S. agencies with fair values totaling \$123,004,799 has maturities of \$74,588,302 in less than one year and \$48,416,497 within five years. U.S. agencies are held in the account of PNC National Bank ("Trustee"), at the Federal Reserve Bank of Cleveland. The District's securities associated with the principal and interest payment of bond proceeds in the amount of \$28,553,170 are held in the account of Bank of New York under the Master Trust Agreement. Assets held by the Trustee as a custodial agent are considered legally separate from the other assets of Trustee.

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

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 is 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 2013 and 2012 are as follows:

	2013	2012
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 79,651,042	\$ 92,943,429
Amounts billed to District customers by the City during the year	183,411,624	170,935,986
Cash collected from District customers by the City and remitted to the District during the year	(175,977,876)	(164,701,737)
Write off of inactive accounts	(3,517,623)	(16,733,446)
Cash collected directly by the District on invoices rendered by the City and other adjustments	(2,645,117)	(2,793,190)
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	<u>\$ 80,922,050</u>	<u>\$ 79,651,042</u>

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

Fees paid to the City for billing and collection services in 2013 and 2012 were \$7,360,986 and \$6,295,723, respectively.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 5: Capital Assets and Depreciation

Capital Asset Activity for the year ended December 31, 2013 was as follows:

	Balance December 31, 2012	Additions	Retirements	Transfers	Balance December 31, 2013
Non-depreciable:					
Land	\$ 13,900,789	\$ -	\$ -	\$ 944,870	\$ 14,845,659
Construction in Progress	448,607,422	197,248,177	-	(129,350,931)	516,504,668
	<u>462,508,211</u>	<u>197,248,177</u>	<u>-</u>	<u>(128,406,061)</u>	<u>531,350,327</u>
Depreciable:					
Interceptor Sewer Lines	1,176,329,092	6,109	-	656,419	1,176,991,620
Buildings, Structures and Improvements and Equip.	721,709,619	288,756	(320,881)	85,575,387	807,252,881
Sewage Treatment and Other Equipment	388,419,087	6,965,347	(2,737,073)	42,174,255	434,821,616
Right to Use-Intangible (*)	5,490,089	-	(638)	-	5,489,451
	<u>2,291,947,887</u>	<u>7,260,212</u>	<u>(3,058,592)</u>	<u>128,406,061</u>	<u>2,424,555,568</u>
Total Historical Cost	<u>2,754,456,098</u>	<u>204,508,389</u>	<u>(3,058,592)</u>	<u>-</u>	<u>2,955,905,895</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(201,255,145)	(16,569,919)	-	-	(217,825,064)
Buildings, Structures and Improvements and Equip.	(391,214,036)	(19,513,063)	134,946	-	(410,592,153)
Sewage Treatment and Other Equipment	(237,492,846)	(13,908,456)	2,568,524	-	(248,832,778)
Right to Use-Intangible (*)	-	(188,408)	-	-	(188,408)
Total Accumulated Depreciation	<u>(829,962,027)</u>	<u>(50,179,846)</u>	<u>2,703,470</u>	<u>-</u>	<u>(877,438,403)</u>
Capital Assets, Net	<u>\$ 1,924,494,071</u>	<u>\$ 154,328,543</u>	<u>\$ (355,122)</u>	<u>\$ -</u>	<u>\$ 2,078,467,492</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 50,179,846</u>			

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 5: Capital Assets and Depreciation (continued)

(*) During 2012, the District acquired an intangible asset due to an agreement with the City of Cleveland Department of Public Utilities Division of Cleveland Public Power (the "City"). Per this agreement, the District has the right to use the power provided from the Nine Mile Creek substation, which was constructed by the District, but is owned by the City. The construction of the substation was completed in 2012. The entire asset value was capitalized as of December 31, 2012. Below is a schedule of the amounts to be expensed in future years:

Year Ending December 31,	Amortization of Intangible Asset
2014	\$ 182,795
2015	182,795
2016	182,795
2017	182,795
2018	182,795
2019-2023	913,973
2024-2028	913,973
2029-2033	913,973
2034-2038	913,973
2039-2042	731,176
	<u>\$ 5,301,043</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 5: Capital Assets and Depreciation (continued)

Capital Asset Activity for the year ended December 31, 2012 was as follows:

	Balance December 31, 2011	Additions	Retirements	Transfers	Balance December 31, 2012
Non-depreciable:					
Land	\$ 13,900,789	\$ -	\$ -	\$ -	\$ 13,900,789
Construction in Progress	364,957,652	209,336,785	-	(125,687,015)	448,607,422
	<u>378,858,441</u>	<u>209,336,785</u>	<u>-</u>	<u>(125,687,015)</u>	<u>462,508,211</u>
Depreciable:					
Interceptor Sewer Lines	1,080,505,056	-	(30,655)	95,854,691	1,176,329,092
Buildings, Structures and Improvements and Equip.	711,825,768	104,700	(1,656,619)	11,435,770	721,709,619
Sewage Treatment and Other Equipment	374,038,147	3,749,470	(2,274,995)	12,906,465	388,419,087
Right to Use-Intangible (*)	-	-	-	5,490,089	5,490,089
	<u>2,166,368,971</u>	<u>3,854,170</u>	<u>(3,962,269)</u>	<u>125,687,015</u>	<u>2,291,947,887</u>
Total Historical Cost	<u>2,545,227,412</u>	<u>213,190,955</u>	<u>(3,962,269)</u>	<u>-</u>	<u>2,754,456,098</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(186,072,624)	(15,212,698)	30,656	(479)	(201,255,145)
Buildings, Structures and Improvements and Equip.	(373,170,612)	(19,368,365)	1,339,628	(14,687)	(391,214,036)
Sewage Treatment and Other Equipment	(222,864,479)	(16,606,318)	1,962,785	15,166	(237,492,846)
Right to Use-Intangible (*)	-	-	-	-	-
Total Accumulated Depreciation	<u>(782,107,715)</u>	<u>(51,187,381)</u>	<u>3,333,069</u>	<u>-</u>	<u>(829,962,027)</u>
Capital Assets, Net	<u>\$ 1,763,119,697</u>	<u>\$ 162,003,574</u>	<u>\$ (629,200)</u>	<u>\$ -</u>	<u>\$ 1,924,494,071</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 51,187,381</u>			

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 6: Long-Term Obligations

A summary of long-term debt outstanding at December 31, 2013 and 2012 follows:

	<u>Interest Rate</u>	<u>2013</u>	<u>2012</u>
Wastewater Improvement Revenue Refunding Bonds, 2005 Serial Bonds Maturing 2012 through 2016	3.50% - 5.00%	\$ 26,635,000	\$ 32,525,000
Wastewater Improvement Revenue Bonds, 2007 Serial Bonds Maturing 2012 through 2037	3.75% - 5.00%	112,430,000	114,930,000
Wastewater Improvement Revenue Bonds, 2010 Serial Bonds Maturing 2012 through 2040	5.44% - 6.04%	336,930,000	336,930,000
Waste Water Improvement Revenue Bonds, 2013 Serial Bonds Maturing 2013 through 2043	2.00% - 5.00%	249,535,000	-
Water Pollution Control Loans Payable Through 2035	2.44% - 5.20%	468,816,156	470,470,958
Total Debt		1,194,346,156	954,855,958
Less Current Maturities		(44,562,556)	(43,543,940)
Bond Premium		33,264,691	2,298,726
Total Long-Term Debt		<u>\$ 1,183,048,291</u>	<u>\$ 913,610,744</u>

Wastewater Improvement Revenue Refunding Bonds, Series 2005

The District issued \$68,280,000 of Wastewater Improvement Revenue Refunding Bonds, Series 2005 (the "2005 Series Bonds"), in connection with the advance refunding of its Wastewater Improvement Revenue Bonds, Series 1995 (the "1995 Series Bonds"). The 2005 Series Bonds are payable from the revenues of the District, after payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. Revenues includes all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on monies and investments comprising the Revenue Bond Debt Service Deposit.

The 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, 2013 and 2012

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

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

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

On November 17, 2010, the District issued \$336,930,000 of Wastewater Improvement Revenue Bonds, Series 2010 (the "Series 2010 Bonds") as Federally Taxable - "Build America Bonds" for purposes consistent with the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") and to receive a cash subsidy from the United States Treasury in connection therewith (the "Direct Payment"). Pursuant to the Recovery Act, the District is entitled to receive Direct Payments rebating a portion of the interest on the Build America Bonds from the United States Treasury equal to 35.0% of the interest payable on the Series 2010 Bonds. 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. Revenues includes all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on the monies and investments in the Revenue Bond Debt Service Deposit.

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 6: Long-Term Obligations (continued)

Build America Bonds Subsidy

Under the Build America Bonds agreement, the District is to receive 35.0% of the Bond interest as the Build America Bonds Subsidy. The subsidy payments amount received in 2013 was \$6,327,087, which is a reduced amount due to the recent sequester by Congress. Below is a schedule of the amounts to be received in future years:

<u>Year Ending December 31,</u>	<u>Subsidy Amount</u>
2014	\$ 6,691,510
2015	6,941,400
2016	6,941,401
2017	6,941,401
2018	6,941,401
2019 - 2023	34,707,004
2024 - 2028	34,461,478
2029 - 2033	29,758,804
2034 - 2038	18,589,326
2039 - 2040	2,513,242
	<u>\$ 154,486,967</u>

Wastewater Improvement Revenue Bonds, Series 2013

On March 26, 2013, the District issued \$249,535,000 of Wastewater Improvement Revenue Bonds, Series 2013. The Wastewater Improvement Revenue Bonds, Series 2013 Bonds (the "Series 2013 Bonds") were issued for the purpose of (i) providing funds for the acquisition, construction and improvement of Water Resource Projects, (ii) funding the Debt Service Reserve Requirement for the Series 2013 Bonds, and (iii) paying certain costs of issuance of the Series 2013 Bonds. These bonds are payable from the revenues of the District, after the payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. Revenues includes all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on the monies and investments in the Revenue Bond Debt Service Deposit.

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 6: Long-Term Obligations (continued)

Water Pollution Control Loans

Title VI of the Clean Water Act, as amended, authorizes the Administrator of the U.S. Environmental Protection Agency to make Federal capitalization grants to states for deposit in state water pollution control revolving funds (SRFs). From these funds, states can provide loans and other types of financial assistance, but not grants, to governmental entities for the construction of publicly owned wastewater treatment facilities. In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. These loans are subordinate to the 2005, 2007, 2010, and 2013 Series Bonds and are payable from the revenues of the District, after payment of operating and maintenance costs and are secured by a pledge of and lien on such net revenues. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project.

The repayment period for each loan commences no later than the first January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. The District is required to submit final eligible project costs within one year of the project completion date at which time the final loan amount is determined and semi-annual payment amounts are adjusted to reflect such costs. The District had a SRF loan award related to a project which was not complete as of December 31, 2013. Loans related to completed construction projects are being repaid in semi-annual payments of principal and interest over a period of up to twenty three years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2013 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	\$ 277,948,050	\$ 5,871,739
2011	4	51,675,245	8,330,289
2012-2016	7	139,192,861	93,268,505
		\$ 468,816,156	\$ 107,470,533

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.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 6: Long-Term Obligations (continued)

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 \$64,164,000. The net proceeds were used to purchase direct obligations of the U.S. Government. Those securities were deposited in an irrevocable trust with an escrow agent. The securities and fixed earnings from the securities are sufficient to provide for all future debt service payments on the series 1995 wastewater improvement bonds. As a result, the 1995 wastewater improvement bonds are considered defeased. As of December 31, 2013, \$21,370,000 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 statements of net position as a deduction from long-term debt, is being charged to operations through the year 2016 using the weighted average method. The unamortized balance of the deferred charge on refunding totaled \$256,027 at December 31, 2013 and \$406,764 at December 31, 2012. 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, 2013 and 2012

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, 2013 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
2014	\$ 6,190,000	\$ 1,331,750	\$ 2,625,000	\$ 5,233,113	\$ -	\$ 12,891,173
2015	6,495,000	1,022,250	2,755,000	5,101,863	-	12,891,173
2016	13,950,000	697,500	2,890,000	4,964,112	-	12,891,173
2017	-	-	3,035,000	4,819,613	-	12,891,173
2018	-	-	3,190,000	4,667,862	-	12,891,173
2019 - 2023	-	-	18,250,000	21,029,588	-	64,455,865
2024 - 2028	-	-	22,780,000	16,497,675	23,150,000	63,999,887
2029 - 2033	-	-	28,720,000	10,560,812	84,610,000	55,266,350
2034 - 2038	-	-	28,185,000	3,240,900	150,395,000	34,523,035
2039 - 2043	-	-	-	-	78,775,000	4,667,449
	<u>\$ 26,635,000</u>	<u>\$ 3,051,500</u>	<u>\$ 112,430,000</u>	<u>\$ 76,115,538</u>	<u>\$ 336,930,000</u>	<u>\$ 287,368,451</u>

	Wastewater Improvement Revenue Bonds Series 2013		Water Pollution Control Loans		Total Future Debt Service Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ -	\$ -	\$ 35,747,556	\$ 13,657,837	\$ 44,562,556	\$ 33,113,873
2015	-	6,085,950	36,314,582	13,471,280	45,564,582	38,572,516
2016	-	12,171,900	35,892,594	13,679,213	52,732,594	44,403,898
2017	-	12,171,900	32,942,730	12,367,314	35,977,730	42,250,000
2018	-	12,171,900	32,341,771	11,143,978	35,531,771	40,874,913
2019 - 2023	10,790,000	60,049,950	144,738,675	38,834,293	173,778,675	184,369,696
2024 - 2028	19,495,000	57,451,500	92,295,137	16,436,278	157,720,137	154,385,340
2029 - 2033	36,215,000	51,360,250	49,801,118	5,222,170	199,346,118	122,409,582
2034 - 2038	58,205,000	41,308,500	8,741,993	285,612	245,526,993	79,358,047
2039 - 2043	124,830,000	19,770,000	-	-	203,605,000	24,437,449
	<u>\$249,535,000</u>	<u>\$272,541,850</u>	<u>\$ 468,816,156</u>	<u>\$ 125,097,975</u>	<u>\$ 1,194,346,156</u>	<u>\$ 764,175,314</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 6: Long-Term Obligations (continued)

Bond premium activity for the year:

<u>December 31, 2013</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2005	\$ 385,776	\$ (143,636)	\$ -	\$ -	\$ 242,140
Bond Premium, Series 2007	1,912,950	(157,788)	-	-	1,755,162
Bond Premium, Series 2013	-	(1,932,376)	-	33,199,765	31,267,389
Total	<u>\$ 2,298,726</u>	<u>\$ (2,233,800)</u>	<u>\$ -</u>	<u>\$ 33,199,765</u>	<u>\$ 33,264,691</u>

<u>December 31, 2012</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2005	\$ 564,834	\$ (179,058)	\$ -	\$ -	\$ 385,776
Bond Premium, Series 2007	2,081,292	(168,342)	-	-	1,912,950
Total	<u>\$ 2,646,126</u>	<u>\$ (347,400)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,298,726</u>

Long-term debt activity for the year:

<u>December 31, 2013</u>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in 2014
Wastewater Improvement Revenue Refunding Bonds, Series 2005	\$ 32,525,000	\$ -	\$ (5,890,000)	\$ 26,635,000	\$ 6,190,000
Wastewater Improvement Revenue Bonds, Series 2007	114,930,000	-	(2,500,000)	112,430,000	2,625,000
Wastewater Improvement Revenue Bonds, Series 2010	336,930,000	-	-	336,930,000	-
Wastewater Improvement Revenue Bonds, Series 2013	-	249,535,000	-	249,535,000	-
Water Pollution Control Loans	<u>470,470,958</u>	<u>34,330,049</u>	<u>(35,984,851)</u>	<u>468,816,156</u>	<u>35,747,556</u>
Total	<u>\$ 954,855,958</u>	<u>\$ 283,865,049</u>	<u>\$ (44,374,851)</u>	<u>\$ 1,194,346,156</u>	<u>\$ 44,562,556</u>

<u>December 31, 2012</u>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in 2013
Wastewater Improvement Revenue Refunding Bonds, Series 2005	\$ 38,190,000	\$ -	\$ (5,665,000)	\$ 32,525,000	\$ 5,890,000
Wastewater Improvement Revenue Bonds, Series 2007	117,330,000	-	(2,400,000)	114,930,000	2,500,000
Wastewater Improvement Revenue Bonds, Series 2010	336,930,000	-	-	336,930,000	-
Water Pollution Control Loans	<u>478,271,659</u>	<u>26,353,646</u>	<u>(34,154,347)</u>	<u>470,470,958</u>	<u>35,153,940</u>
Total	<u>\$ 970,721,659</u>	<u>\$ 26,353,646</u>	<u>\$ (42,219,347)</u>	<u>\$ 954,855,958</u>	<u>\$ 43,543,940</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

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 20.0% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

Authority to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. District members were required to contribute 10.0% of their annual covered payroll to fund pension obligations in 2013. The 2013 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, 2013, 2012 and 2011 were \$6,163,542, \$5,901,080, and \$5,562,696, respectively, which are the required contributions for each year. Total required employer contributions for all plans are equal to 100.0% of employer charges and should be extracted from the employer’s records.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 8: Post-Employment Benefits

Ohio Public Employees Retirement System

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

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

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

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

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 2013 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 Pension Plan was 1.0% during the calendar year 2013.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 8: Post-Employment Benefits (continued)

The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% during the calendar year 2013. The portion of the employer contributions allocated to the health care for the calendar year beginning January 1, 2014 was raised to 2.0% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

District Contributions

The rates stated above, are the contractually required contribution rates for OPERS. As part of this disclosure, it will be necessary for the employer to disclose the employer contributions actually made to fund post-employment benefits. The portion of your employer contributions that were used to fund post-employment benefits can be approximated by multiplying actual employer contributions for calendar year 2013 by 0.0714 for state and local employers.

OPERS Retirement Board Implements its Health Care Preservation Plan

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0% of the employer contributions toward the health care fund after the end of the transition period. For 2013, 92.9% has been contributed with the balance being reported as a payable. The full amount has been contributed for 2012 and 2011.

	Contribution Rate as a % of covered salaries	<u>2013</u>	Contribution Rate as a % of covered salaries	<u>2012</u>	Contribution Rate as a % of covered salaries	<u>2011</u>
By Statutory Authority	14.00%	\$6,163,542	14.00%	\$5,901,080	14.00%	\$5,562,696
Less Health Care Portion	1.00%	<u>(440,253)</u>	4.00%	<u>(1,686,023)</u>	4.00%	<u>(1,589,342)</u>
Required-Employer Contribution		<u>\$5,723,289</u>		<u>\$4,215,057</u>		<u>\$3,973,354</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

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, 2013 and 2012, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

Note 10: Risk Management

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

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

	Beginning Balance	Claims Paid	Increase in Estimate	Ending Balance
2012	\$ 90,703	\$ -	\$ 704	\$ 91,407
2013	91,407	(13,571)	33,447	111,283

Estimated liabilities are not material with respect to the financial position of the District. The claims liability is included in other accrued liabilities in the accompanying statements of net position and the balance as of December 31, 2013 is estimated to be paid during the year ending December 31, 2014. The District's insurance reserve as of December 31, 2013 and 2012 was \$22,700,745 and \$22,537,391, respectively, and is included in short-term investments on the District's statements of net position.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 11: Commitments and Contingencies

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

In August 2009, the Board of Trustees approved to enter into a Project and Financing Agreement with the City of Pepper Pike for a maximum loan amount of \$1,715,000 at a simple interest rate of 3.5%. As of December 31, 2013 and 2012, \$1,408,567 was due from the City of Pepper Pike. A repayment schedule will be agreed upon by both parties at the completion of the project.

Combined Sewer Overflows Long-Term Control Plan

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

Implementation of the Combined Sewer Overflows (CSO) Long-Term Control Plan under the Consent Decree began 30 days after approval by the U.S. District Court, although the District had already begun work on certain projects required under the Consent Decree. Funding for those projects is included in the District's existing capital plan. The District currently estimates the costs for implementing the CSO capital improvement program to be approximately \$3 billion in 2009 dollars. These expenditures constitute a "high burden" on District ratepayers, and based upon the estimated costs of the program and high burden status, the District received a 25-year implementation schedule.

Upon approval of the Consent Decree, the District paid civil penalties to the United States and State of Ohio in cash in the amount of \$1.2 million. To mitigate additional civil penalties, the District implemented a federal Supplemental Environmental Project (SEP) in the amount of \$1 million to provide for the collection and disposal of household hazardous waste. In 2010, the District entered into an agreement with the Cuyahoga County Solid Waste Management District to satisfy the federal SEP obligation. The District was obligated to implement a State SEP known as the Canal Pump Station Operation and Maintenance Project, estimated at \$800,000, or implement an Alternate SEP by making a cash payment of \$800,000 to Ohio EPA. The District implemented an Alternative SEP and made a cash payment of \$800,000 to Ohio EPA. As such, the District has recorded \$640,901 and \$786,933 as other accrued liabilities on the accompanying statements of net position as of December 31, 2013 and 2012, respectively.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 11: Commitments and Contingencies (continued)

Travelers Casualty and Surety Company of America Litigation

Based upon the criminal information and plea agreement documents filed with the U.S. District Court in the matter regarding former General Counsel William B. Schatz, who pleaded guilty to charges of bribery, theft, embezzlement, and tax fraud in connection with the District's Mill Creek Tunnel-2 and -3 contracts, the District filed a proof of loss with its insurance carrier, Travelers Casualty and Surety Company of America (Travelers), under various policies of crime and fidelity insurance, for claims relating to the District's financial losses. Travelers denied the District's claim, and on February 21, 2013, the District filed a complaint against Travelers seeking damages in the amount of \$7,265,280. Both parties have filed motions for summary judgment. The litigation is currently pending.

Regional Stormwater Management Program Litigation

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

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

On May 11, 2011 the Court, in granting the District's motion for partial summary judgment, ruled that R.C. Chapter 6119 authorizes the District to address intercommunity flooding, erosion and stormwater-related water quality issues. Subsequently, on February 15, 2012, after three weeks of trial on the legality of the District's stormwater fee, the Court again ruled in favor of the District in an interim Opinion that the District's stormwater fee is authorized under R.C. Chapter 6119 and is not an unlawful imposition of a tax. The Court scheduled a final hearing on March 19, 2012 to resolve all pending issues; however, upon issuance of the February 15, 2012 Opinion, several opposition parties filed appeals. The District's motions to dismiss the appeals and subsequent motions for reconsideration were granted for lack of a final appealable order. After a post-trial hearing, the Court issued its final order on June 28, 2012 confirming the District's stormwater fee was authorized under R.C. Chapter 6119.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 11: Commitments and Contingencies (continued)

In the interim, the District engaged in extensive non-binding mediations facilitated by both the Cuyahoga County Executive's Office and the Court. At this time, the District has executed settlement agreements with the Cleveland Catholic Diocese and the Cleveland Municipal School District. Subsequently, the District reached settlement with the Summit County member communities, resulting in the dismissal of the litigation filed in Summit County. The District also settled issues with the City of North Royalton.

In July 2012, appeals were filed by eleven (11) member communities and the intervening Greater Cleveland Association of Building Owners. On September 26, 2013, the Eighth Appellate District Court issued an opinion adverse to the District finding the District had no authority under Ohio R.C. Chapter 6119 or its Charter to enact its Regional Stormwater Management Program and a stormwater fee, and was enjoined from carrying out its program.

The District filed a notice of appeal from the Eighth Appellate District's opinion in the Supreme Court of Ohio on November 12, 2013. The Supreme Court of Ohio accepted jurisdiction on February 19, 2014. The case is in the briefing phase. Amicus briefs in support of the District were filed by a group of 18 supporting member communities, the City of Cleveland, The Cleveland Metropolitan Park District, The National Association of Clean Water Agencies, the Association of Ohio Metropolitan Wastewater Agencies, the Coalition of Ohio Regional Districts, and the State of Ohio. Oral arguments are expected to be scheduled by late summer 2014 with a decision at the end of the year.

Mel Murphy vs. Northeast Ohio Regional Sewer District

After the Appellate Court's ruling on September 26, 2013, the District entered into an Escrow Agreement with Huntington National Bank and deposited all stormwater fees collected as of the date of the ruling into an interest bearing escrow account where the funds will remain pending the outcome of the appeal to the Supreme Court of Ohio. On October 2, 2013, a class action suit was filed with a motion for class certification. The Plaintiff asserted the stormwater funds should be transferred to a Court administered account to manage the refund of the stormwater fees should the Supreme Court of Ohio uphold the Eighth District Appellate Court ruling and find the District had no authority to implement its Regional Stormwater Management Program. After a hearing on December 18, 2013, the Court denied the Plaintiff's motion for class certification. All funds collected remain in the escrow account with Huntington National Bank.

Other Litigation

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 12: Changes in Accounting Principles and Restatement of Prior Years' Net Position

Changes in Accounting Principles

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 implementation of this Statement did not affect the presentation of the financial statements of the District.

In March 2012, the GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. This Statement properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the District's financial statements during the 2013 fiscal year which included a restatement of the prior years' beginning net position.

In March 2012, the GASB issued Statement No. 66, "Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. The required disclosures are included in the basic financial statements and notes to the financial statements.

In June 2012, the GASB issued Statement No. 68, "Accounting and Financial Reporting for Pension—an amendment of GASB Statement No. 27." The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

In January 2013, the GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2013. The District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

In April 2013, the GASB issued Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013. 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, 2013 and 2012

Note 12: Changes in Accounting Principles and Restatement of Prior Years' Net Position (continued)

Changes in Accounting Principles (continued)

In November 2013, the GASB issued Statement No. 71, "Pension Transition for Contributions made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68." The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

Restatement of Prior Years' Net Position

During 2013, the District restated prior years' net position for the unamortized deferred debt expense due to the implementation of GASB Statement No. 65. This restatement decreased the 2012 net position by \$3,091,440, from \$1,304,149,604 to \$1,301,058,164. In addition, the net position at December 31, 2011 was restated by \$3,270,056, from \$1,297,128,887 to \$1,293,858,831.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

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. U.S. Government Obligations, Fixed Income Securities, and the Revenue Debt Service Fund Money Market Funds are valued at the closing price reported on the over-the-counter market on which the individual securities are traded. These inputs reflect management’s judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information which has been internally developed.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2013 and 2012

Note 13: Fair Value Measurements (continued)

Financial assets consisted of the following:

	Level 1	Level 2	Level 3	Total at 12/31/2013
<u>Cash & Cash Equivalents</u>				
Money Market & Savings	\$ 79,081,040	\$ -	\$ -	\$ 79,081,040
Bond Proceeds Money Market Fund	188,240,231	-	-	188,240,231
<u>Stormwater Escrow Fund</u>				
Money Market Funds	581,253	-	-	581,253
Fixed Income Securities	-	18,750,034	-	18,750,034
U.S. Gov't Obligations	-	1,513,845	-	1,513,845
<u>Short -Term Investments</u>				
Fixed Income Securities	-	1,006,606	-	1,006,606
U.S. Gov't Obligations	-	48,983,362	-	48,983,362
<u>Long-Term Construction Fund</u>				
Money Market Funds	2,230,473	-	-	2,230,473
CDs	-	3,027,522	-	3,027,522
U.S. Gov't Obligations	-	55,271,490	-	55,271,490
<u>Revenue Debt Service Fund</u>				
Fixed Income Securities	-	15,273,455	-	15,273,455
U.S. Gov't Obligations	-	11,845,192	-	11,845,192
Money Market Funds	1,434,523	-	-	1,434,523
	<u>\$ 271,567,520</u>	<u>\$ 155,671,506</u>	<u>\$ -</u>	<u>\$ 427,239,026</u>
	Level 1	Level 2	Level 3	Total at 12/31/2012
<u>Cash & Cash Equivalents</u>				
Money Market & Savings	\$ 23,858,459	\$ -	\$ -	\$ 23,858,459
<u>Short -Term Investments</u>				
Money Market Funds	821,244	-	-	821,244
CDs	-	2,717,098	-	2,717,098
Fixed Income Securities	-	2,534,339	-	2,534,339
U.S. Gov't Obligations	-	80,194,858	-	80,194,858
<u>Long-Term Construction Fund</u>				
Money Market Funds	33,580,186	-	-	33,580,186
U.S. Gov't Obligations	-	115,065,157	-	115,065,157
<u>Revenue Debt Service Fund</u>				
Fixed Income Securities	-	7,176,891	-	7,176,891
U.S. Gov't Obligations	-	15,167,987	-	15,167,987
Money Market Funds	-	1,426,266	-	1,426,266
	<u>\$ 58,259,889</u>	<u>\$ 224,282,596</u>	<u>\$ -</u>	<u>\$ 282,542,485</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
User Charges:				
Billed	\$ 202,134,056	\$ 202,134,056	\$ 206,362,246	\$ 4,228,190
Unbilled	3,585,371	3,585,371	2,467,048	(1,118,323)
Other Revenue	1,002,169	1,002,169	960,830	(41,339)
Total Revenues	206,721,596	206,721,596	209,790,124	3,068,528
<u>Expenses:</u>				
Salary and Wages	43,874,205	43,874,205	43,889,545	(15,340)
Fringe Benefits	14,489,479	14,489,479	14,203,943	285,536
Power	9,888,801	9,888,801	9,400,085	488,716
Materials and Supplies	5,174,915	5,174,915	4,075,901	1,099,014
Collection Fees	7,424,000	7,424,000	7,812,254	(388,254)
Gas	3,949,160	3,949,160	3,318,117	631,043
Chemicals	2,790,808	2,790,808	1,931,902	858,906
Repairs and Maintenance	3,213,225	3,213,225	2,762,386	450,839
Solids Handling	1,440,457	1,440,457	1,446,497	(6,040)
Water	1,164,184	1,164,184	1,260,155	(95,971)
Professional Services	7,225,121	7,225,121	10,553,455	(3,328,334)
Insurance	747,500	747,500	821,442	(73,942)
Judgements and Awards	65,000	65,000	60,464	4,536
Other Operating Expenses	5,843,215	5,843,215	6,713,695	(870,480)
Capitalized Construction Costs	(7,375,000)	(7,375,000)	(8,355,153)	980,153
Depreciation	52,000,000	52,000,000	50,179,846	1,820,154
Total Operating Expenses	151,915,070	151,915,070	150,074,534	1,840,536
Excess of Revenues Over Operating Expenses	\$ 54,806,526	\$ 54,806,526	\$ 59,715,590	\$ 4,909,064

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2013

Reconciliation to Change in Net Position:

Excess of Operating Revenues Over Operating Expenses	\$	59,715,590
Interest Revenue		1,879,311
Decrease in Fair Value of Investments, Net		(417,004)
Non-Operating Grant Revenue		1,383,517
Non-Operating Grant Expenses		(1,520,478)
Loss on Disposals of Equipment		(340,588)
Interest on Long-Term Debt		(51,757,865)
Federal Subsidy Revenue		<u>6,327,087</u>
Change in Net Position		15,269,570
Net Position at Beginning of Year - Restated (See Note 12)		<u>1,301,058,164</u>
Net Position at End of Year	\$	<u><u>1,316,327,734</u></u>

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2013

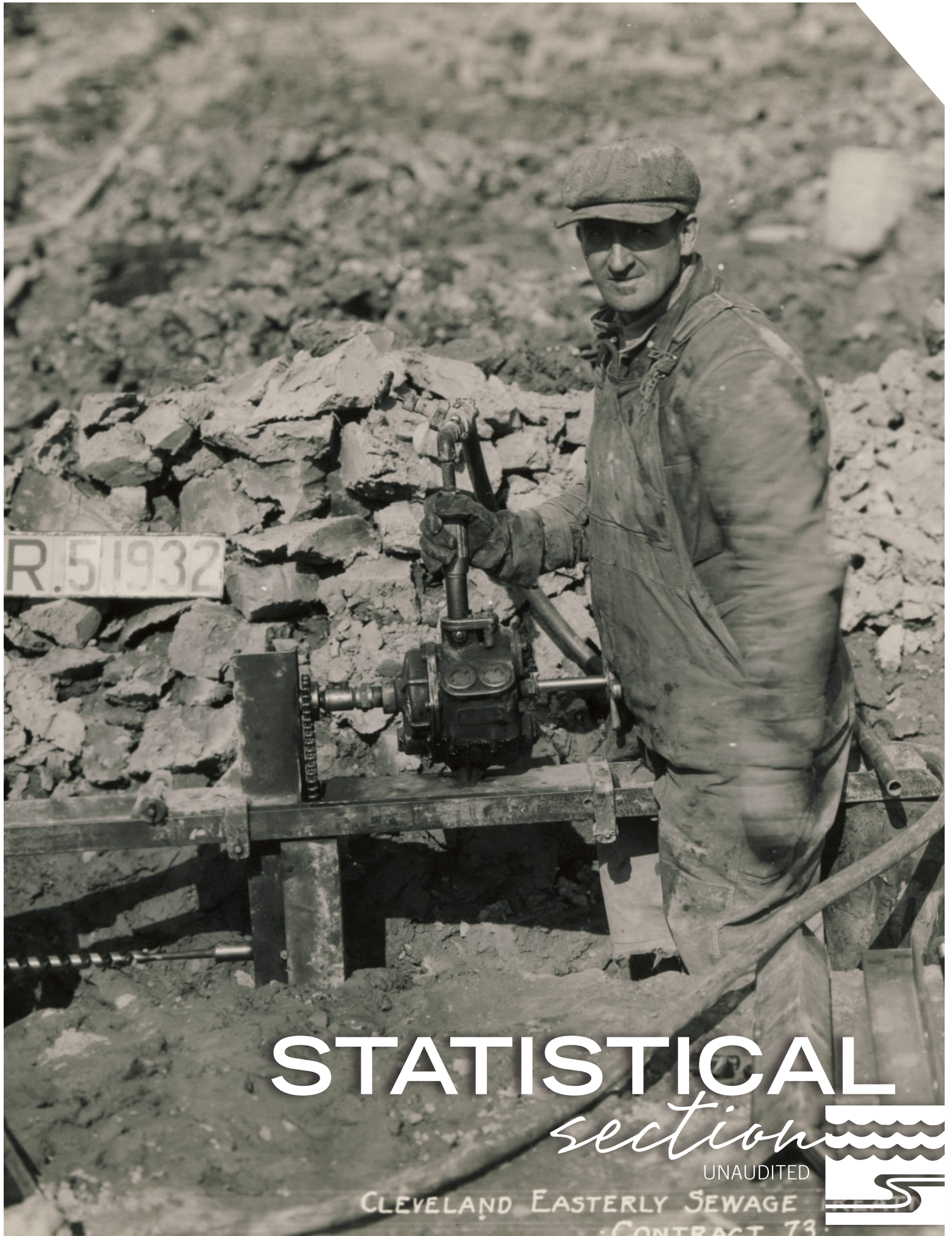
Note 1: Summary of Significant Accounting Policies

Budgetary Basis of Accounting

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

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The 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.

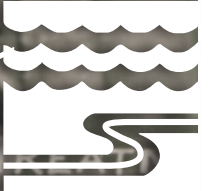
The annual Capital Plan outlines estimated cost by project. These projects are already authorized or to be considered by the Board of Trustees. Approval of the budgets by the Board of Trustees does not in itself authorize expenses for operations and maintenance or expenditures for capital projects. Requests 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 \$50,000. All budget appropriations lapse on December 31 of each year.



STATISTICAL *section*

UNAUDITED

CLEVELAND EASTERLY SEWAGE
CONTRACT 73



STATISTICAL SECTION (UNAUDITED)

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

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand the District's financial performance and well-being and how they have changed over time.</i>	58
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant revenue source, user charges.</i>	62
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>	70
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>	72
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>	74
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>	82

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT
NET POSITION BY COMPONENT
LAST TEN YEARS

	<u>2013</u>	<u>Restated 2012 (**)</u>	<u>Restated 2011 (**)</u>	<u>2010</u>
Net Investment in Capital Assets	\$ 1,067,650,046	\$ 1,065,405,939	\$ 1,055,247,281	\$ 1,038,270,319
Unrestricted	<u>248,677,688</u>	<u>235,652,225</u>	<u>238,611,550</u>	<u>251,770,264</u>
Total	<u>\$ 1,316,327,734</u>	<u>\$ 1,301,058,164</u>	<u>\$ 1,293,858,831</u>	<u>\$ 1,290,040,583</u>

Note:

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

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

Source: District accounting records.

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

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

	2013	2012 (5)	2011 (5)	2010
<u>Operating Revenues, Net</u>				
Billing Agents	\$ 192,601,300	\$ 171,056,663	\$ 155,342,800	\$ 150,703,554
Direct Billed	16,227,994	14,832,256	16,275,002	14,663,082
Other (1)	960,830	1,352,457	1,104,565	1,484,110
Total Operating Revenues, Net	<u>209,790,124</u>	<u>187,241,376</u>	<u>172,722,367</u>	<u>166,850,746</u>
<u>Operating Expenses</u>				
Salaries and Wages	43,889,545	41,255,137	39,190,544	38,061,309
Fringe Benefits	14,203,943	13,657,026	12,939,019	12,747,900
Utilities	14,898,125	13,979,812	15,511,558	16,042,200
Professional and Contractual Services	24,747,308	21,827,170	18,766,341	23,034,225
Other (1)	2,155,767	3,387,828	3,907,002	7,392,509
Depreciation	50,179,846	51,187,381	47,271,807	46,061,584
Total Operating Expenses	<u>150,074,534</u>	<u>145,294,354</u>	<u>137,586,271</u>	<u>143,339,727</u>
Operating Income	59,715,590	41,947,022	35,136,096	23,511,019
<u>Non-Operating Revenues (Expenses)</u>				
Interest Revenue	1,879,311	2,827,947	3,825,074	3,292,522
(Decrease) Increase in Fair Value of Investments	(417,004)	(888,925)	(150,665)	(19,034)
Non-Operating Grant Revenue (1)	1,383,517	758,941	676,833	1,731,894
Non-Operating Grant Expenses (1)	(1,520,478)	(758,941)	(676,833)	(1,731,894)
Other Non-Operating (Expenses) Revenues (2)	-	-	-	-
Proceeds on Insurance Claims (3)	-	792,245	621,938	-
Loss on Disposals of Equipment	(340,588)	(622,504)	(1,020,704)	(45,657)
Loss on Extraordinary Event	-	-	(1,188,489)	-
Interest on Long-Term Debt	(51,757,865)	(44,717,920)	(43,019,109)	(26,583,173)
Federal Subsidy Revenue (4)	6,327,087	6,941,401	6,912,478	858,034
Total Non-Operating Revenues (Expenses)	<u>(44,446,020)</u>	<u>(35,667,756)</u>	<u>(34,019,477)</u>	<u>(22,497,308)</u>
Capital Contributions	<u>-</u>	<u>920,067</u>	<u>6,161,822</u>	<u>9,437,876</u>
Change in Net Position	<u>\$ 15,269,570</u>	<u>\$ 7,199,333</u>	<u>\$ 7,278,441</u>	<u>\$ 10,451,587</u>

(1) Beginning in 2007 Reclassified Non-Operating Grant Revenue and Expenses.

(2) Other Non-Operating Expenses include Agreement with the Cleveland Metroparks.

(3) Proceeds from the flood at the Southerly WWTP.

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

(5) Restated to comply with GASB 65.

Source: District accounting records.

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT
REVENUES BY TYPE
LAST TEN YEARS

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Operating Revenues, Net</u>				
Sewer Service Fees				
City of Cleveland Billing Agent	\$ 179,391,021	\$ 159,114,027	\$ 144,326,900	\$ 140,059,765
Other Billing Agents	13,210,279	11,942,636	11,015,900	10,643,789
Other Sewer Service Fees	16,227,994	14,832,256	16,275,002	14,663,082
Other Operating Revenue	<u>960,830</u>	<u>1,352,457</u>	<u>1,104,565</u>	<u>1,484,110</u>
Total Operating Revenues, Net	209,790,124	187,241,376	172,722,367	166,850,746
<u>Non-Operating Revenues</u>				
Interest Revenue	1,879,311	2,827,947	3,825,074	3,292,522
(Decrease) Increase in Fair Value of Investments	(417,004)	(888,925)	(150,665)	(19,034)
Proceeds from Insurance Claim (1)	-	792,245	621,938	-
Federal Subsidy Revenue (2)	6,327,087	6,941,401	6,912,478	858,034
Non-Operating Grant Revenue (3)	<u>1,383,517</u>	<u>758,941</u>	<u>676,833</u>	<u>1,731,894</u>
Total Non-Operating Revenues (3)	9,172,911	10,431,609	11,885,658	5,863,416
Capital Contributions	<u>-</u>	<u>920,067</u>	<u>6,161,822</u>	<u>9,437,876</u>
Total Revenues	<u><u>\$ 218,963,035</u></u>	<u><u>\$ 198,593,052</u></u>	<u><u>\$ 190,769,847</u></u>	<u><u>\$ 182,152,038</u></u>

(1) Proceeds from Southerly Flood event.

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

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

Source: District accounting records.

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

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

	2013	2012	2011	2010
Salaries and Wages	\$ 43,889,545	\$ 41,255,137	\$ 39,190,544	\$ 38,061,309
Fringe Benefits	14,203,943	13,657,026	12,939,019	12,747,900
Power	9,400,085	8,068,363	9,258,484	9,879,693
Materials and Supplies	4,075,901	5,056,453	4,564,897	4,729,166
Collection Fees	7,812,254	6,725,143	5,975,072	5,805,347
Gas	3,318,117	3,825,221	4,254,679	4,292,298
Chemicals	1,931,902	1,641,550	1,329,150	1,293,973
Repairs and Maintenance	2,762,386	2,078,341	2,440,310	2,901,283
Solids Handling	1,446,497	1,825,201	847,246	2,190,398
Water	1,260,155	1,191,439	1,147,687	1,054,989
Professional Services	10,553,455	8,917,796	8,407,259	11,998,519
Insurance	821,442	779,453	1,227,736	1,161,822
All Other Expenses (*)	6,774,159	6,592,367	4,506,935	5,107,521
Capitalized Construction Costs	(8,355,153)	(7,506,517)	(5,774,554)	(3,946,075)
Depreciation	50,179,846	51,187,381	47,271,807	46,061,584
Total Operating Expenses	<u>\$ 150,074,534</u>	<u>\$ 145,294,354</u>	<u>\$ 137,586,271</u>	<u>\$ 143,339,727</u>

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

Source : District accounting records.

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

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMMUNITIES SERVED BY THE DISTRICT AND
ESTIMATED POPULATION SERVED
DECEMBER 31, 2013**

<u>Municipality</u>	<u>Estimated Service Population ⁽¹⁾</u>	<u>Municipality</u>	<u>Estimated Service Population ⁽¹⁾</u>
SUBDISTRICT 1			
Cleveland City	393,806		
SUBDISTRICT 2		SUBDISTRICT 2	
Bath Township	- ⁽³⁾	Middleburg Heights City	15,825
Beachwood City	11,867	Moreland Hills Village	1,205 ⁽²⁾
Bedford City	- ⁽³⁾	Newburgh Heights Village	2,149
Bedford Heights City	- ⁽³⁾	North Randall Village	1,020
Berea City	18,960	North Royalton City	4,712 ⁽²⁾
Boston Heights Village	552 ⁽²⁾	Northfield Center Township	5,423
Bratenahl Village	1,188	Northfield Village	3,663
Brecksville City	13,552	Oakwood Village	1,558 ⁽²⁾
Broadview Heights City	15,580 ⁽²⁾	Olmsted Falls City	7,805 ⁽²⁾
Brook Park City	19,063	Olmsted Township	4,993 ⁽²⁾
Brooklyn City	11,082	Orange Village	579 ⁽²⁾
Brooklyn Heights Village	1,531	Parma City	80,968
Cleveland Heights City	45,764	Parma Heights City	20,558
Columbia Township	945 ⁽²⁾	Pepper Pike City	2,981 ⁽²⁾
Cuyahoga Heights Village	634	Richfield Township	573 ⁽²⁾
East Cleveland City	17,705	Richfield Village	1,569 ⁽²⁾
Euclid City	180 ⁽²⁾	Richmond Heights City	4,251 ⁽²⁾
Garfield Heights City	28,625	Sagamore Hills Township	10,907
Gates Mills Village	274 ⁽²⁾	Seven Hills City	11,711
Glenwillow Village	30 ⁽²⁾	Shaker Heights City	28,226
Highland Heights City	8,280	Solon City	170 ⁽²⁾
Highland Hills Village	1,125	South Euclid City	21,619 ⁽²⁾
Hudson City	8,787 ⁽²⁾	Strongsville City	25,712 ⁽²⁾
Independence City	7,078	Twinsburg City	6 ⁽²⁾
Lakewood City	- ⁽³⁾	Twinsburg Township	630 ⁽²⁾
Linndale Village	178	University Heights City	13,445
Lyndhurst City	13,893	Valley View Village	2,018
Macedonia City	11,147	Walton Hills Village	2,263
Maple Heights City	22,959	Warrensville Heights City	13,437
Mayfield Heights City	19,005	Willoughby Hills City	- ⁽³⁾
Mayfield Village	3,434		
		Total Subdistrict 2	573,394
Total Estimated Service Population			967,200

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

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

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



Protecting Your Health and Environment

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
LARGEST CUSTOMERS OF THE DISTRICT
AS OF DECEMBER 31, 2013
and NINE YEARS PRIOR**

	2013			
	CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
SUBDISTRICT 1				
Cuyahoga Metropolitan Housing Agency (2)	73,545.1	\$ 4,045,819	1	1.9%
City of Cleveland Water Filtration Plants	42,901.8	3,194,294	2	1.5%
Case Western Reserve University	30,915.4	1,655,135	3	0.8%
University Hospitals	20,992.7	1,095,548	6	0.5%
Arcelor Mittal Steel (ISG Cleveland)	13,412.2	963,056	7	0.5%
Cuyahoga County (2)	15,824.9	871,189	8	0.4%
Cleveland Clinic (2)	15,106.0	840,219	9	0.4%
Cleveland Board of Education	15,035.5	824,475	10	0.4%
Ferro Corporation (2)	9,913.3	552,779	13	0.3%
Veterans Administration Hospitals (2)	8,819.1	501,018	14	0.2%
MetroHealth Medical Centers	8,240.2	449,193	16	0.2%
Cleveland State University	6,517.1	346,444	17	0.2%
Sherwin Williams (2)	6,208.1	345,704	18	0.2%
Cleveland Metroparks Zoo	3,742.4	270,177	19	0.1%
Inland Waters of Ohio	3,303.2	258,155	20	0.1%
Cleveland Public Power	3,114.6	171,864	24	0.1%
ISG Cleveland	-	-	-	-
Dominion Cleveland Thermal Energy Corporation	-	-	-	-
Synthetic Products	-	-	-	-
General Electric Company	-	-	-	-
Ninth Street - Euclid Ltd	-	-	-	-
Property Management Rental	-	-	-	-
Columbus Road Realty	-	-	-	-
Total Subdistrict 1	277,591.6	16,385,069		7.8%
SUBDISTRICT 2				
Aluminum Corporation of America	23,902.8	1,383,765	4	0.7%
NASA John H Glenn Research Center	22,432.8	1,305,527	5	0.6%
Forest City Management (2)	11,389.1	646,760	11	0.3%
Ford Motor Corporation	18,311.3	624,335	12	0.3%
Eaton Estates / Nagy Park	7,470.2	462,182	15	0.2%
Charter Steel	4,192.7	243,906	21	0.1%
Cuyahoga County Community College (2)	3,431.2	182,437	22	0.1%
Brooklyn Acres Homes (2)	3,025.7	176,521	23	0.1%
Zehman & Wolfe Management	1,820.9	105,019	25	0.1%
Total Subdistrict 2	95,976.7	5,130,452		2.5%
Grand Total	373,568.3	\$ 21,515,521		10.3%

(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.

2004

CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
107,341.0	\$ 3,449,045	1	2.6%
33,322.2	1,110,132	4	0.8%
26,712.7	851,079	8	0.6%
18,773.8	617,380	11	0.5%
-	-	-	-
17,333.7	555,292	13	0.4%
55,829.0	1,791,711	2	1.3%
26,165.4	838,758	9	0.6%
14,460.8	456,351	15	0.3%
12,540.3	392,657	16	0.3%
20,159.4	646,685	10	0.5%
10,204.8	341,312	17	0.3%
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
31,241.3	1,083,132	5	0.8%
18,034.9	612,831	12	0.5%
6,291.5	203,046	19	0.2%
7,920.6	252,089	18	0.2%
6,084.9	200,439	20	0.1%
5,327.2	171,342	23	0.1%
6,060.8	191,527	21	0.1%
423,804.3	13,764,808		10.2%
31,130.0	912,703	6	0.7%
29,844.3	877,281	7	0.7%
16,217.8	490,690	14	0.4%
58,129.7	1,727,017	3	1.3%
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
5,810.6	173,291	22	0.1%
141,132.4	4,180,982		3.2%
564,936.7	\$ 17,945,790		13.4%

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

Debt by Type, In Thousands	2013	2012	2011
Revenue Bond Issues			
\$97,830 Series 1995	\$ -	\$ -	\$ -
\$68,280 Series 2005 (A)	26,635	32,525	38,190
\$126,055 Series 2007 (B)	112,430	114,930	117,330
\$336,930 Series 2010 (C)	336,930	336,930	336,930
\$249,535 Series 2013 (D)	249,535	-	-
Total Revenue Bond Issues	725,530	484,385	492,450
Bond Premium	33,265	2,299	2,646
Total Revenue Bonds	758,795	486,684	495,096
Ohio Water Development Authority Loans	-	-	-
Water Pollution Control Loans	468,816	470,471	478,272
Total All Debt	<u>\$ 1,227,611</u>	<u>\$ 957,155</u>	<u>\$ 973,368</u>
Number of Customer Accounts (1)	326,720	326,412	323,567
Outstanding Debt Per Customer Account	\$ 3,757	\$ 2,932	\$ 3,008
(1)For this schedule, Number of Customer Accounts is adjusted for Master Meter Communities as follows.*			
Historical Number of Customer Accounts (see pages 80 & 81)	313,284	313,294	309,820
Less Master Meter Communities	(3)	(3)	(3)
Add estimated number of customers in Master Meter Communities	13,439	13,121	13,750
Number of Customer Accounts	<u>326,720</u>	<u>326,412</u>	<u>323,567</u>

*The Master Meter Communities bill their customers separately.

Master Meter Communities are Hudson, Richfield Village and Summit County.

Note: This schedule should be read in conjunction with Note 6 to the Audited Financial Statements for December 31, 2013.

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

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

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

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

Source: District accounting records.

2010	2009	2008	2007	2006	2005	2004
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,415
43,660	48,925	53,985	58,850	63,525	68,280	-
119,645	121,865	124,000	126,055	-	-	-
336,930	-	-	-	-	-	-
-	-	-	-	-	-	-
500,235	170,790	177,985	184,905	63,525	68,280	68,415
3,046	3,507	4,044	4,684	2,255	2,962	-
503,281	174,297	182,029	189,589	65,780	71,242	68,415
-	-	-	194	573	932	1,274
435,356	411,544	417,080	418,262	417,777	387,380	350,908
<u>\$ 938,637</u>	<u>\$ 585,841</u>	<u>\$ 599,109</u>	<u>\$ 608,045</u>	<u>\$ 484,130</u>	<u>\$ 459,554</u>	<u>\$ 420,597</u>
315,794	319,629	328,856	334,850	325,389	328,417	330,190
\$ 2,972	\$ 1,833	\$ 1,822	\$ 1,816	\$ 1,488	\$ 1,399	\$ 1,274
302,838	306,791	311,937	318,515	308,769	312,093	313,043
(3)	(3)	(3)	(4)	(4)	(4)	(4)
12,959	12,841	16,922	16,339	16,624	16,328	17,151
<u>315,794</u>	<u>319,629</u>	<u>328,856</u>	<u>334,850</u>	<u>325,389</u>	<u>328,417</u>	<u>330,190</u>

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

Year	Estimated	Cuyahoga County		
	Population Served (1)	Unemployment Rate (2)(4)	Total Personal Income (000's) (3)	Per Capita Personal Income (3)
2004	1,085,071	6.3%	\$ 47,818,353	\$ 35,521
2005	1,041,392	6.1%	49,335,286	37,082
2006	1,032,670	5.5%	51,236,686	39,134
2007	1,027,184	6.1%	52,893,000	40,838
2008	1,026,500	6.8%	53,946,514	42,051
2009	1,015,500	9.2%	52,802,000	41,391
2010	1,280,122	9.5%	52,898,050	41,347
2011	1,025,881	9.9%	n/a	44,088
2012	1,265,111	7.0%	n/a	40,838
2013	1,263,154	7.2%	n/a	43,861

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

(2) Sources are District administrative records, County of Cuyahoga, Ohio Comprehensive Annual Financial Report for 2013 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.

(4) The unemployment rate is seasonally adjusted

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, 2013
and NINE YEARS PRIOR**

Employer Name (1)	2013				2004			
	Number of		Percentage		Number of		Percentage	
	Employees (1)	FTE*	Rank (1)	Employment (2)	Employees (1)	FTE*	Rank (1)	Employment (2)
	12-31-2013				12-31-2004			
Cleveland Clinic Health System	33,514		1	5.10%	28,000		1	3.99%
University Hospitals	15,668		2	2.38%	12,500		2	1.78%
U.S. Office of Personnel Management	14,810		3	2.25%	9,172		5	1.31%
Giant Eagle, Inc.	9,800		4	1.49%	-		-	-
Group Management Services, Inc.	8,113		5	1.24%	-		-	-
State of Ohio	8,074		6	1.23%	-		-	-
Progressive Corp.	7,895		7	1.20%	8,796		6	1.25%
Cuyahoga County	7,544		8	1.15%	9,295		4	1.32%
United State Postal Service	7,258		9	1.10%	9,455		3	1.35%
Cleveland Municipal School District	6,875		10	1.05%	7,442		8	1.06%
City of Cleveland	-		-	-	8,327		7	1.19%
Key Corp.	-		-	-	6,615		9	0.94%
National City Corp.	-		-	-	6,563		10	0.94%
Metro Health System	-		-	-	5,627		11	0.80%
Total	119,551			18.19%	111,792			15.93%
Total Cuyahoga County Employment (2)				657,258				701,563

* Full-Time Equivalent.

(1) Sources are *Crain's Cleveland Business*, December 2013 and March, 2004.

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

(2) Sources of total employment for Cuyahoga County, Ohio are District administrative records,

Cuyahoga County, Ohio Comprehensive Annual Financial Report for 2004, and U.S.

Department of Labor, Bureau of Labor Statistics.

(3) Employment outside of top ten reporting year.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>TREATMENT PLANT FLOW</u>			
Billions of gallons of sewage treated per plant:			
Easterly	31.7	32.9	41.9
Southerly	44.0	39.1	51.5
Westerly	9.9	9.9	12.6
Total	<u>85.6</u>	<u>81.9</u>	<u>106.0</u>
Total sewage treated, in MCFs (1)	<u>11,443,850</u>	<u>10,949,198</u>	<u>14,171,123</u>
MCFs billed, total District (5)	<u>3,709,188</u>	<u>3,895,816</u>	<u>4,096,885</u>
<u>STAFFING LEVELS</u>			
Number of employees:			
Plant Operations & Maintenance (4)	344	339	352
Engineering	61	61	52
Finance (6) (7)	43	39	41
Human Resources (3)	16	15	17
Information Technology	18	19	19
District Administration (3) (6) (8)	69	66	54
Legal (8)	12	11	10
Administration & External Affairs (7)	32	28	25
Watershed Programs (4)	78	70	72
Total	<u>673</u>	<u>648</u>	<u>642</u>
Budgeted employees, total District	<u>719</u>	<u>693</u>	<u>680</u>

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

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

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

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

(5) Restated 2010 MCF's billed.

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

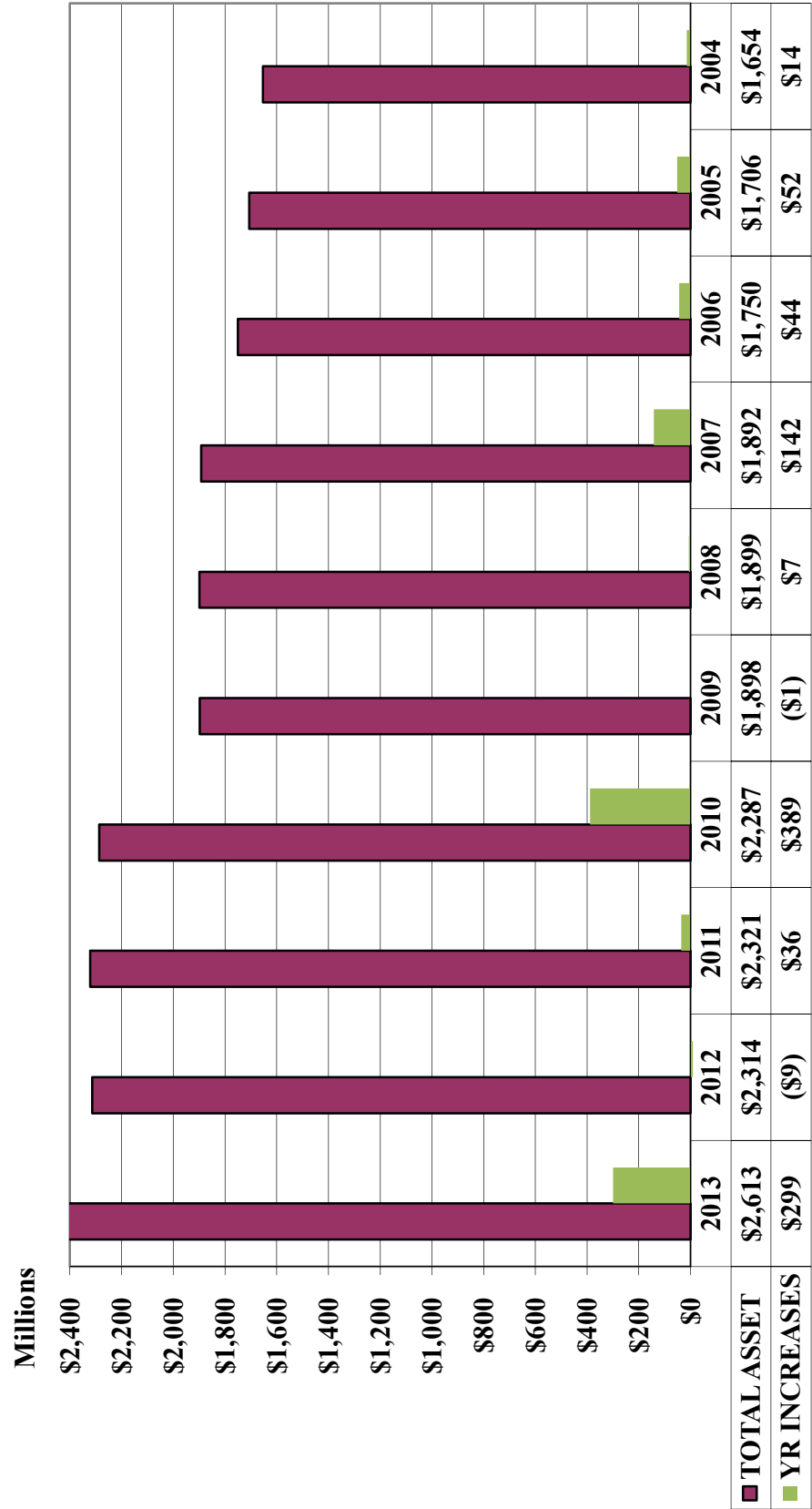
(7) Reclassified Customer Service from Finance to Administration & External Affairs in 2011.

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

Source: Various District records.

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
30.9	31.2	36.1	35.3	34.4	38.4	40.6
39.2	39.1	43.8	45.3	45.8	46.6	44.2
<u>9.0</u>	<u>10.1</u>	<u>10.8</u>	<u>10.0</u>	<u>9.6</u>	<u>10.4</u>	<u>10.5</u>
<u>79.1</u>	<u>80.4</u>	<u>90.7</u>	<u>90.6</u>	<u>89.8</u>	<u>95.4</u>	<u>95.3</u>
<u>10,574,866</u>	<u>10,748,663</u>	<u>12,125,668</u>	<u>12,112,299</u>	<u>12,005,348</u>	<u>12,754,011</u>	<u>12,740,642</u>
<u>4,195,507</u>	<u>4,267,959</u>	<u>4,507,357</u>	<u>4,756,809</u>	<u>4,745,269</u>	<u>4,969,948 (2)</u>	<u>4,930,817</u>
357	353	363	396	404	412	404
54	56	57	65	70	66	66
47	47	47	42	50	49	50
17	19	14	15	17	21	47
20	21	19	21	20	19	18
50	47	46	56	44	43	17
14	13	14	8	8	9	8
18	16	16	8	7	4	-
<u>63</u>	<u>62</u>	<u>58</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>640</u>	<u>634</u>	<u>634</u>	<u>611</u>	<u>620</u>	<u>623</u>	<u>610</u>
<u>679</u>	<u>668</u>	<u>660</u>	<u>662</u>	<u>676</u>	<u>672</u>	<u>677</u>

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





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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Number of Buildings			
<u>Operations</u>			
Southerly Plant	42	40	39
Easterly Plant	19	18	18
Westerly Plant	16	16	16
Outlying Pump Buildings	7	7	7
Total Operations	<u>84</u>	<u>81</u>	<u>80</u>
<u>Administration</u>			
District Administration	1	1	1
Environmental Maintenance and Services Center	4	4	4
Total Offices	<u>5</u>	<u>5</u>	<u>5</u>
Total Buildings	<u>89</u>	<u>86</u>	<u>85</u>
 Miles of Interceptor Sewers Installed Annually*	 <u>0.25</u>	 <u>2.87</u>	 <u>5.55</u>
Number of Outlying Systems			
<u>Sewage Collection System</u>			
Interceptor Sewers & Tunnels	21	21	21
Inter-Community Relief Sewers	29	29	27
Automated Regulators	25	25	25
Pumping Stations	7	7	7
Force Mains	4	4	4
Total Sewage Collection System	<u>86</u>	<u>86</u>	<u>84</u>
<u>Support Facilities</u>			
Floatables Control Sites	10	10	10
Biofilter Odor Control Sites	8	8	8
Rain Gauge Sites	25	25	25
Lakeview Dam	1	1	1
Total Support Facilities	<u>44</u>	<u>44</u>	<u>44</u>
Total Outlying Systems	<u>130</u>	<u>130</u>	<u>128</u>
 Acres of Land			
<u>Operations</u>			
Southerly Plant	311.2	311.2	311.2
Easterly Plant	92.6	92.6	92.6
Westerly Plant	13.4	13.4	13.4
<u>Administration</u>			
District Administration	2.6	2.6	2.6
Environmental Maintenance and Services Center	14.7	14.7	14.7
Total Acres, Operations and Administration	<u>434.5</u>	<u>434.5</u>	<u>434.5</u>

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

<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
39	39	38	36	36	36	35
18	18	18	18	18	18	18
16	16	16	16	16	17	17
<u>7</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
<u>80</u>	<u>78</u>	<u>77</u>	<u>75</u>	<u>75</u>	<u>76</u>	<u>75</u>
1	1	1	1	1	1	1
<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
<u>85</u>	<u>83</u>	<u>82</u>	<u>80</u>	<u>80</u>	<u>81</u>	<u>80</u>
<u>3.95</u>	<u>0.40</u>	<u>0.99</u>	<u>0.89</u>	<u>3.52</u>	<u>5.04</u>	<u>0.53</u>
21	21	21	21	21	21	21
26	25	24	24	24	21	18
25	25	25	25	25	25	25
7	6	6	6	6	6	6
<u>4</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
<u>83</u>	<u>80</u>	<u>79</u>	<u>79</u>	<u>79</u>	<u>76</u>	<u>73</u>
10	10	10	10	10	10	5
8	8	8	8	8	8	7
25	25	25	25	25	25	25
<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>38</u>
<u>127</u>	<u>124</u>	<u>123</u>	<u>123</u>	<u>123</u>	<u>120</u>	<u>111</u>
311.2	311.2	311.2	311.2	311.2	311.2	311.2
92.6	77.7	77.7	77.7	77.7	77.7	77.7
13.4	14.5	14.5	14.5	14.5	14.5	14.5
2.6	2.6	2.6	2.6	2.6	2.6	2.6
<u>14.7</u>	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>
<u>434.5</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>



Protecting Your Health and Environment

CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Subdistrict 1</u>				
Cleveland (1)	125,422	126,357	125,832	121,009
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	3	3	3	3
Direct Service - Suburbs (1)	<u>187,859</u>	<u>186,934</u>	<u>183,985</u>	<u>181,826</u>
Subtotal	<u>187,862</u>	<u>186,937</u>	<u>183,988</u>	<u>181,829</u>
Total Customers	<u><u>313,284</u></u>	<u><u>313,294</u></u>	<u><u>309,820</u></u>	<u><u>302,838</u></u>

(1) 2004 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. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in Subdistrict 2.

Source: District accounting records.

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

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Subdistrict 1</u>				
Cleveland	1,706,438	1,781,276	1,881,996	1,946,380
<u>Subdistrict 2</u>				
Direct Service - Suburbs (3)	1,859,247	1,977,996	2,005,569	2,078,834
Master Meter - Suburbs (1)	<u>143,503</u>	<u>136,544</u>	<u>209,320</u>	<u>170,293</u>
Subtotal	<u>2,002,750</u>	<u>2,114,540</u>	<u>2,214,889</u>	<u>2,249,127</u>
Total Service Area	<u><u>3,709,188</u></u>	<u><u>3,895,816</u></u>	<u><u>4,096,885</u></u>	<u><u>4,195,507</u></u>

- (1) Consumption of Master Meter Suburbs is presented at 80% of total consumption which is the billing basis. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in Subdistrict 2.
- (2) Restated 2005 for consumption adjustment.
- (3) For 2004-2005, NASA was categorized as a Direct Bill customer in Subdistrict 1. Beginning in 2006, NASA has been categorized as a Subdistrict 2 customer to properly reflect consumption totals.
- (4) Restated 2010 for consumption adjustment.

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
(4)	1,915,736	2,127,084	2,217,887	2,209,563	2,370,567	2,379,632
(4)	2,189,464	2,184,458	2,250,184	2,215,147	2,288,026	(2) 2,241,819
	<u>162,759</u>	<u>195,815</u>	<u>288,738</u>	<u>320,559</u>	<u>311,109</u>	<u>309,366</u>
	<u>2,352,223</u>	<u>2,380,273</u>	<u>2,538,922</u>	<u>2,535,706</u>	<u>2,599,135</u>	<u>2,551,185</u>
	<u><u>4,267,959</u></u>	<u><u>4,507,357</u></u>	<u><u>4,756,809</u></u>	<u><u>4,745,269</u></u>	<u><u>4,969,702</u></u>	<u><u>4,930,817</u></u>

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

	2013	2012	2011
Operating Revenues, Net	\$ 209,790	\$ 187,241	\$ 172,722
Non-Operating Revenues	1,462	1,939	3,674
Total Revenues	211,252	189,180	176,396
Operating Expenses (Exclusive of depreciation)	99,895	94,107	90,314
Transfer to Rate Stabilization Account	-	-	3,000
Total Expenses	99,895	94,107	93,314
Net Revenues Available for Debt Service	\$ 111,357	\$ 95,073	\$ 83,082
Total Revenue Bond Debt Service (1),(2)	\$ 28,265	\$ 15,372	\$ 15,370
Coverage on Revenue Bond Debt Service	3.94	6.18	5.41
Total All Debt Service (1)	\$ 78,504	\$ 64,473	\$ 59,974
Coverage on Total Debt Service	1.42	1.47	1.39

(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, 2013 were:

	2013	2012	2011
Revenue Bond Issues and Debt Service			
\$97,830 Series 1995	\$ -	\$ -	\$ -
\$68,280 Series 2005 (A)	7,516	7,518	7,514
\$126,055 Series 2007 (B)	7,858	7,854	7,856
\$336,930 Series 2010 (C)	12,891	-	-
\$249,535 Series 2013 (D)	-	-	-
Total Revenue Bond Issues and Debt Service	28,265	15,372	15,370
OWDA Debt Service	-	-	-
WPCLF Debt Service	50,239	49,101	44,604
Total All Debt Service	\$ 78,504	\$ 64,473	\$ 59,974

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

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

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

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

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

Source: District accounting records.

2010	2009	2008	2007	2006	2005	2004
\$ 166,851	\$ 164,776	\$ 162,271	\$ 159,055	\$ 150,154	\$ 145,297	\$ 134,283
4,131	3,366	14,047	15,575	10,421	4,850	3,577
170,982	168,142	176,318	174,630	160,575	150,147	137,860
97,278	93,554	91,713	85,205	83,056	78,780	70,808
-	-	-	-	-	-	-
97,278	93,554	91,713	85,205	83,056	78,780	70,808
\$ 73,704	\$ 74,588	\$ 84,605	\$ 89,425	\$ 77,519	\$ 71,367	\$ 67,052
\$ 15,375	\$ 15,373	\$ 15,375	\$ 10,174	\$ 7,490	\$ 7,935	\$ 7,935
4.79	4.85	5.61	8.79	10.35	8.99	8.45
\$ 60,821	\$ 59,430	\$ 58,140	\$ 54,905	\$ 44,257	\$ 42,552	\$ 42,029
1.21	1.26	1.46	1.63	1.75	1.68	1.60

2010	2009	2008	2007	2006	2005	2004
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,935	\$ 7,935
7,520	7,517	7,517	7,514	7,490	-	-
7,855	7,856	7,858	2,660	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
15,375	15,373	15,375	10,174	7,490	7,935	7,935
-	-	204	409	409	409	409
45,446	44,057	42,561	44,322	36,358	34,208	33,685
\$ 60,821	\$ 59,430	\$ 58,140	\$ 54,905	\$ 44,257	\$ 42,552	\$ 42,029

**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
2004	24.40	7.5	16.45	7.5	29.40	5.2	19.70	5.3
2005	26.20	7.4	17.70	7.6	30.95	5.3	20.80	5.6
2006	28.10	7.3	18.95	7.1	32.60	5.3	21.90	5.3
2007	30.85	9.8	20.75	9.5	35.10	7.7	23.55	7.5
2008	33.85	9.7	22.75	9.6	37.85	7.8	25.40	7.9
2009	37.15	9.7	24.95	9.7	40.90	8.1	27.45	8.1
2010	40.75	9.7	27.35	9.6	44.25	8.2	29.70	8.2
2011	44.75	9.8	30.05	9.9	48.00	8.5	32.25	8.6
2012 (3)	49.55	10.7	29.75	-1.0	52.55	9.5	31.75	-1.6
2013 (4)	55.45	11.9	33.35	12.1	58.15	10.7	33.15	4.4

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

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

(3) A Fixed Fee per quarterly bill of \$5.85 was established in the 2012 fiscal year.

(4) For 2013 fiscal year, the fixed rate per quarterly bill increased to \$6.30.

Industrial Waste Surcharge

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

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

Minimum Quarterly Billing

Each customer of the District is charged a minimum quarterly amount for sewage service equal to the class of service rate applicable to the metered water usage of 1,000 cubic feet (7,480 gallons). Minimum Quarterly Billing was discontinued starting in 2012.

Source: District accounting records.



Protecting Your Health and Environment

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
CAPITAL IMPROVEMENT PROGRAM
USES AND SOURCES OF FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2014 THROUGH 2023
(In Thousands of Dollars)**

	2014	2015	2016	2017	2018
<u>USES OF FUNDS</u>					
Sewage Treatment Plant Improvements					
Westerly	\$ 10,190,742	\$ 5,692,157	\$ 70,632	\$ 3,434,549	\$ 4,419,299
Southerly	49,320,889	67,125,538	59,102,426	35,157,825	21,686,147
Easterly	31,906,934	8,761,350	180,731	4,633,684	4,659,214
Sub-Total	91,418,565	81,579,045	59,353,789	43,226,058	30,764,660
Interceptors/Rehabilitation	14,916,108	16,064,177	20,875,669	26,703,437	12,190,641
Combined Sewer Overflow Control Program	90,365,033	153,115,511	174,683,804	195,653,497	231,380,480
Information Technology & Other					
Minor Equipment	16,849,687	12,459,634	9,988,448	7,328,467	7,000,000
Total	<u>\$ 213,549,393</u>	<u>\$ 263,218,367</u>	<u>\$ 264,901,710</u>	<u>\$ 272,911,459</u>	<u>\$ 281,335,781</u>
<u>SOURCES OF FUNDS</u>					
WPCLF Loans (1)	\$ 60,564,059	\$ 45,770,975	\$ 45,770,975	\$ 35,000,000	\$ 35,000,000
Net Bond Proceeds	134,607,124	196,612,521	187,436,781	201,911,459	211,235,781
Internally Generated Funds	18,378,210	20,834,871	31,693,954	36,000,000	35,100,000
Total	<u>\$ 213,549,393</u>	<u>\$ 263,218,367</u>	<u>\$ 264,901,710</u>	<u>\$ 272,911,459</u>	<u>\$ 281,335,781</u>

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

<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>TOTAL</u>
\$ 8,075,065	\$ 13,033,828	\$ 9,536,332	\$ 3,668,028	\$ 3,295,680	\$ 61,416,312
61,585,524	35,633,714	18,545,135	36,855,052	23,485,521	408,497,771
<u>4,659,215</u>	<u>5,910,855</u>	<u>17,365,549</u>	<u>5,551,553</u>	<u>4,559,128</u>	<u>88,188,213</u>
74,319,804	54,578,397	45,447,016	46,074,633	31,340,329	558,102,296
12,433,864	7,081,727	7,397,896	9,062,297	24,501,402	151,227,218
225,841,848	120,844,228	123,498,605	95,110,616	103,027,754	1,513,521,376
<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>	<u>7,000,000</u>	<u>88,626,236</u>
<u>\$ 319,595,516</u>	<u>\$ 189,504,352</u>	<u>\$ 183,343,517</u>	<u>\$ 157,247,546</u>	<u>\$ 165,869,485</u>	<u>\$ 2,311,477,126</u>
\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 397,106,009
262,395,516	128,504,352	123,243,517	83,547,546	82,469,485	1,611,964,082
<u>22,200,000</u>	<u>26,000,000</u>	<u>25,100,000</u>	<u>38,700,000</u>	<u>48,400,000</u>	<u>302,407,035</u>
<u>\$ 319,595,516</u>	<u>\$ 189,504,352</u>	<u>\$ 183,343,517</u>	<u>\$ 157,247,546</u>	<u>\$ 165,869,485</u>	<u>\$ 2,311,477,126</u>

Prepared by the Department of Finance

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**Keeping our
Great Lake
great.** 



**Northeast Ohio
Regional Sewer District**

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