



 **Northeast Ohio  
Regional Sewer District**

# 2012 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2012  
A POLITICAL SUBDIVISION OF  
THE STATE OF OHIO

KEEPING OUR GREAT LAKE GREAT.





# Northeast Ohio Regional Sewer District

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

- Combined Sewer Area
- Separate Sewer Area

## EASTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

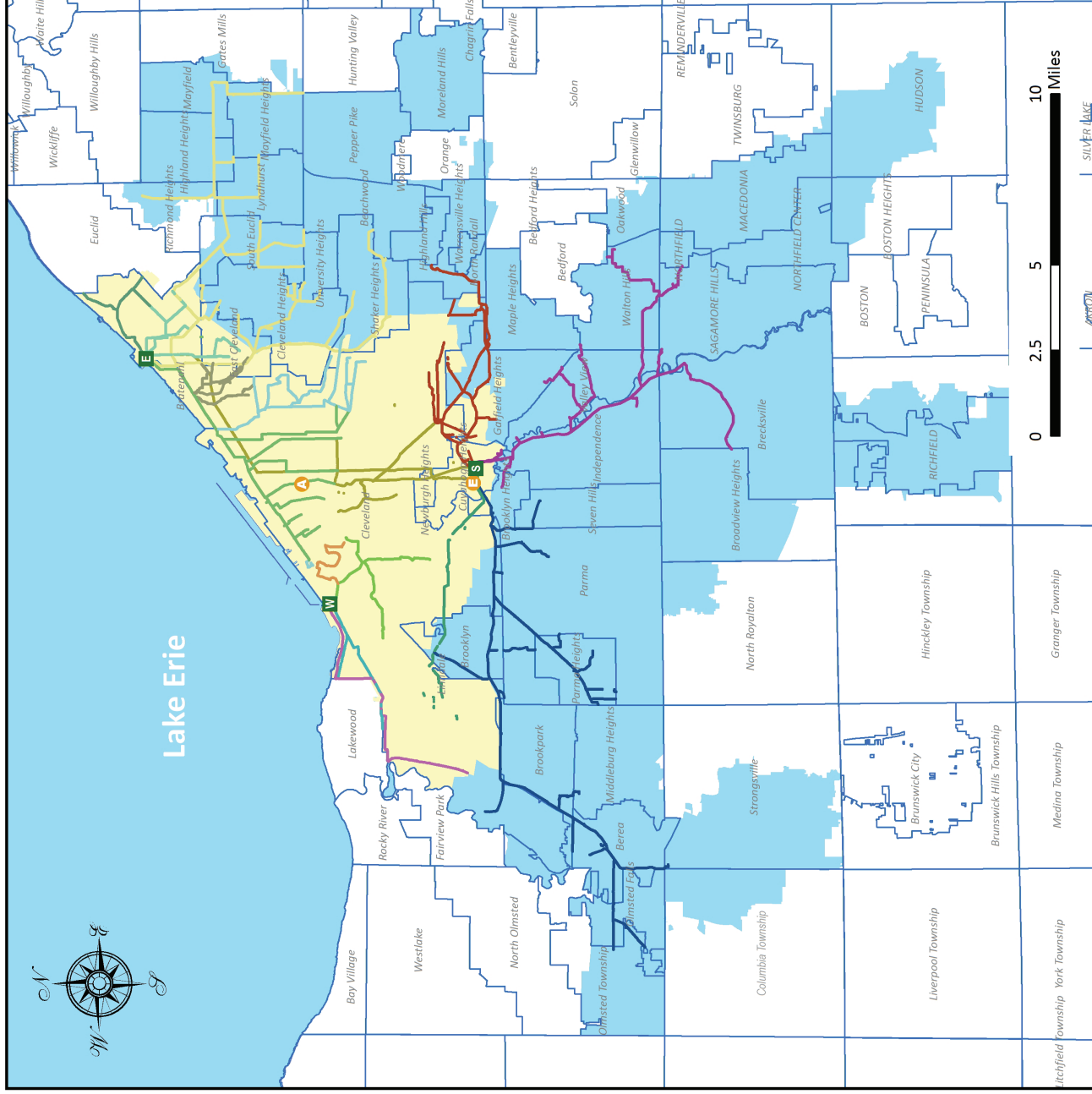
- E. 140th/E. 152nd-Ivanhoe Interceptors
- Easterly Interceptor
- Doan Valley Interceptor
- Dugway Interceptor
- Heights-Hilltop Interceptors & ICRS
- Lakeshore-Nottingham interceptors

## SOUTHERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

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

## WESTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

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



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

# **Northeast Ohio Regional Sewer District**

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

2012 Comprehensive Annual Financial Report  
For the Year Ended December 31, 2012

Prepared by the Department of Finance

Jennifer L. Demmerle, CPA  
Director of Finance





# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2012**

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

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# INTRODUCTORY *section*







June 27, 2013

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, 2012.

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, 2012, 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, 2012 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% of the City of Cleveland and all or portions of 61 suburban communities in Cuyahoga, Lake, Lorain and Summit Counties. The area contains a residential service population in excess of one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District treats more wastewater than any other wastewater treatment system in the State of Ohio.

### **Governance**

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

### **Budgets**

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of the year to which they apply. Readers should refer to the Schedule of Revenues, Expenses and Changes in Net Position – Budget to Actual on page 52 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 unemployment rate in December 2012 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, was 6.6%. Cuyahoga County's unemployment rate was 0.1% lower than the seasonally adjusted rate of 6.7% for the State of Ohio and 1.2% lower than the national rate of 7.8%. 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 billion in capital project expenditures from 2013 to 2017, primarily for improvements to our Southerly wastewater treatment plant and our CSO long-term control plan. This includes approximately \$273 million for the plants, \$702 million for the CSO projects, \$73 million for the collection system improvements, and \$36 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 \$484,385,000. The debt, net of applicable unamortized discounts and refunding costs, is \$486,276,962. The District has also obtained loans through the State of Ohio Water Pollution Control Loan Fund (WPCLF). As of December 31, 2012, the outstanding loan balance was \$470,470,958 for the WPCLF. Outstanding revenue bonds of the District are rated AA+ by Standard & Poor's and Aa1 by Moody's rating agencies. Note 6 to the financial statements include schedules of debt outstanding and future debt service requirements.

In 2005, the District refinanced bonded debt that was outstanding at the time. These legal defeasance transactions resulted in funds being deposited with escrow agents who invested them in U.S. Treasury obligations which, together with the income earned on such investments, will be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, are excluded from the District's statement of net 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 Bonds, for the purpose of providing funds for the acquisition, construction, and improvement of water resource projects, funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and paying certain costs of issuance of the Series 2007 Bonds. This information should be read in conjunction with Note 6 to the financial statements.

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

## **MAJOR INITIATIVES**

### **For the Year**

#### **2012 Awards**

During 2012, the District received awards for 2011 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 2011.

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 2012 performance have not been announced as of the date of this report.

During 2012, the Government Finance Officers Association (GFOA) presented the Distinguished Budget Presentation Award to the District for the sixth time for its 2012 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.

#### **Vendor Registration**

The BOP, in conjunction with the Purchasing Department, developed and implemented an online vendor registration system that tracks the number of registered vendors conducting business with the District. Also, the system tracks vendor payments and assists in the identification of potential vendors for the BOP. This real-time, online vendor registration system enables vendors to upload their vendor profile information as well as enter BOP certification data. The District currently has over 3,000 registered vendors.



## Employee Relations

Employees are the most valuable asset and are vital to accomplishing the District's mission and its strategic goals. The District continues to invest in its employees by funding training and development efforts. Those efforts provide skills in the areas of safety, technology, government relations and professional and career development. The goal is to maintain a skilled, safe and competent workforce that is fully capable of supporting our customers' needs. Other major highlights of the District's employee relations are:

- *Health and Wellness Program*

The District's Wellness Program continues to grow and has encouraged lifestyle changes for many employees. With active Wellness Committees at each of the five District locations, events are tailored to meet the needs and interests of the employees of each site within a well-managed framework. Bi-monthly events continue to be scheduled for each facility based on a calendar of monthly topics created by the aggregate reports from the District's healthcare providers and surveys of employee needs for better health, financial awareness and mental wellness. The Annual Health & Wellness Fair was once again the largest event of the year. Employees participated in health screenings, exercise/fitness demos and had the opportunity to converse one-on-one with a variety of vendors representing ways to improve employees' lifestyle choices for better health. Within the Wellness initiative, employees lost a "ton" of weight through the District sponsored Weight Watcher's at Work® program, approximately 2,200 pounds. The reward for the District as a whole was a reduction in the cost of healthcare premiums for 2012 with a 10% discounted renewal cost from our health care vendors and the improved fitness of the employees.

- *Performance Management System*

The District is approaching its fourth year since the introduction and implementation of the performance management tracking system for non-union employees. The Department of Human Resources provided training modules for employees and supervisors which focused on revised organizational core competencies, updated Performance Review Forms, the District's performance review processes, and a refresher on performance reviews and goal setting practices. Annually the processes and forms are reviewed and improvements are made, as necessary, to ensure that the system focuses on creating an environment that allows for aligning with both strategic and organization goals, skills and competency development, true performance tracking and the enhancement of manager's supervisory skills. In 2012, 333 employees were evaluated during the performance management cycle.

- *Diversity and Inclusion*

In 2012, the District implemented year three of the three-year Diversity & Inclusion strategic plan. The District's commitment to diversity and inclusion is a long-term strategy that maximizes the development of cultural competence. We strive to achieve greater productivity, and to respond proactively to America's evolving cultural demographics. To show our dedication for communication, education, accountability, measurement and accomplishments, here are some of the District's 2012 accomplishments: continued rollout of connecting with respect workshops in three departments; conducted 10 Diversity and Inclusion Workshops training 118 employees (building upon the 494 employees that completed the workshop in 2011); established the District's second Employee Resource Group, the Administrative Professionals Network in March, 2012; strengthened the BOP with MBE, WBE, and SBE goals placed on

projects; hosted three Diversity Dialogues on topics such as: Tuskegee Airmen, Mental Illness, and Kwanza. Most notably the District was honored by The Greater Cleveland Partnership as a member of its Commission 50. The Commission 50 designation recognizes the 50 organizations (25 for profit, 25 nonprofit-governments) with the highest combined scores on board, senior management, workforce and supplier diversity on the Commission's most recent Employers Survey on Diversity.

- *Employee Recognition Program*

The Employee Recognition program which was implemented in late 2009 gained great acceptance during 2010 with all locations submitting monthly recommendations and hosting award presentations regularly. The program was created to foster a culture of appreciation, making recognition a part of our daily activities by highlighting demonstration of one of the Core Values. The goal is to motivate employees by reminding them of the value they add to furthering the mission, vision and core values of the District. In 2010, a permanent work group was formed to review the Employee Recognition program and suggest enhancements to it. Based on the team's recommendations, a Quarterly Team Award and an Annual Spirit Award have been added to the monthly Employee of the Month Award. In 2012, 37 employees were given the Employee of the Month award; 17 teams with 147 employees were recognized; and five individuals were presented with Annual Spirit Awards.

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

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

The District has already invested an estimated \$850 million and reduced CSO volumes by half – from 4.5 billion gallons since 1972 to present. The District's proposed CSO LTCP, the last of which was submitted in 2002, would further reduce the number of overflows to four or less per year and capture 97 % of the total volume of wet weather flow in the combined sewer system, which is above the 85% specified in U.S. EPA's CSO Control Policy, at an estimated cost of \$2.7 billion (in 2009 dollars). In its subsequent negotiations with Ohio EPA and U.S. EPA the District agreed to additional, cost-effective enhancements to its program that would result in 98.2% capture of all wet weather flow in the combined sewer area – with 97% capture achieved in year 20 of the District's proposed 25-year implementation period – and reduce CSO volumes to less than 500 million gallons in a typical year.

In 2011, the District began construction on its second large-scale tunnel – the Euclid Creek Tunnel. 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 nearly complete Mill Creek Tunnel, a structure that will have the capacity to store 75 million gallons of combined sewage until it can be treated at the District's Southerly Wastewater Treatment Plant.

Some of the major proposed CSO projects outside of the storage tunnels include the expansion of the Easterly WWTP secondary treatment capacity, with an additional Chemically Enhanced High Rate Treatment (CE HRT) facility for treatment and disinfection of CSO 001 during wet weather events. At the Southerly WWTP the District will expand secondary treatment capacity and include CE HRT and disinfection for treatment of additional wet weather flows. The District will upgrade the existing Westerly CSO Treatment Facility (CSOTF) with CE HRT and disinfection for further treatment of CSO 002, thereby increasing wet weather treatment capacity at this facility.

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

### **Asset Management**

Asset Management 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. The District has been utilizing a risk-based, consistent method for validating and prioritizing its Engineering Capital Improvement Program for the last two 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, maintenance costs and estimated year of renewal. All this data is available in the State of the Infrastructure Report. The District has used this data to forecast long-term asset-related expenditures by year for incorporation into the Capital Improvement Program planning process.

The District has developed and implemented metrics to measure operations and maintenance performance, improve cost accounting to the asset level, and has established standardized processes to improve maintenance and equipment effectiveness.

### **Biosolids Management**

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

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



## **For the Future**

### **Regional Stormwater Management Program**

The District's Court Order required the District to "develop a detailed integrated capital improvement plan for regional management of wastewater collection and storm drainage to identify a capital improvement program for the solution of all intercommunity drainage problems (both storm and sanitary) in the District". The District initially focused on the sanitary sewage portion of this mandate, investing approximately \$3 billion since its inception on sanitary sewage-related projects. To address the regional stormwater portion of this mandate, the District procured services in 2007 to assist with the development and implementation of a Regional Stormwater Management Program (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 (TitleV), which the District's Board of Trustees approved in January 2010.

Beginning in January 2013, the District will formally implement the Regional Stormwater Management Program. The Stormwater Program will address long-standing regional stormwater flooding, erosion, water quality issues and problems related to stormwater runoff from hard surfaces that make their way into the collection system and ultimately end up at treatment facilities. The fees collected from the Stormwater Program will be used to offset costs associated with treatment of stormwater runoff and are based on impervious surface. The fees from the Stormwater Program will also fund projects to address regional stream flooding and erosion problems as well as maintenance and master planning. Twenty-five percent (25%) 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.

## Strategic Plan

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

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

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

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

The Strategic Plan provides a navigational guide for the District over the next five years. The continually changing environment in which the District operates will require annual review in order for the plan to remain most timely and useful. The inclusive strategic planning process which led to this plan broadened and deepened the understanding and appreciation of the challenges and opportunities that lie ahead for the District. With the implementation of the strategies in this plan there is every reason to believe that the District will understand and meet consumer needs, enhance water quality, provide for cost effective and efficient capital improvements, and continue to build on its already strong reputation as a preeminent leader among water agencies.

## **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Northeast Ohio Regional Sewer District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2011. This was the 17th 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.

## ACKNOWLEDGMENTS

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,



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Julius Ciaccia  
Executive Director



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







*2011 Comprehensive Annual Financial Reporting Award*



*2012 Government Finance Officers Association  
Distinguished Budget Award*



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
TABLE OF ORGANIZATIONS  
DECEMBER 31, 2012**

**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:  
66 Employees



Jennifer L. Demmerle  
Director of Finance  
Finance: 39 Employees



Marlene Sundheimer  
Director of Law  
Legal: 11 Employees



Constance T. Haqq  
Director of Administration  
& External Affairs (AEA)  
AEA: 28 Employees



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



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



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



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



Humberto J. Sanchez  
Director of Information Technology  
Information Technology:  
19 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 year ended December 31, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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, 2012, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 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.

#### ***December 31, 2011 Basic Financial Statements***

The basic financial statements of the District as of and for the year ended December 31, 2011 were audited by predecessor auditors whose report dated June 22, 2012, expressed an unqualified opinion.

#### ***Other Information***

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

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

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

Board of Trustees  
Northeast Ohio Regional Sewer District

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, 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 27, 2013

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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, 2012. This information should be read in conjunction with the letter of transmittal and basic financial statements included in this report.

### **Financial Highlights**

- Assets exceeded liabilities by \$1,304,149,604.
- Net position increased by \$7,020,717.
- Net Investment in capital assets increased by \$9,980,042.
- Unrestricted net position decreased by \$2,959,325.
- Retirements of debt principal were \$42,219,347.
- Operating revenue increased by \$14,519,009.
- Operating expenses increased by \$7,708,083.

### **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), obligations owed by the District (liabilities) and District net position (the difference between assets 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 2012, 2011 and 2010, 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)

	2012	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	175,508	333,176	(157,668)	(47.3%)
<b>Total Assets</b>	<u>2,316,426</u>	<u>2,323,265</u>	<u>(6,839)</u>	<u>(0.3%)</u>
<u>Liabilities</u>				
Current Liabilities	98,022	91,710	6,312	6.9%
Long-Term Debt	913,204	930,652	(17,448)	(1.9%)
Other Long-Term Liabilities	1,050	3,775	(2,725)	(72.2%)
<b>Total Liabilities</b>	<u>1,012,276</u>	<u>1,026,137</u>	<u>(13,861)</u>	<u>(1.4%)</u>
<u>Net Position</u>				
Net Investment in Capital Assets	1,068,498	1,058,517	9,981	0.9%
Unrestricted	235,652	238,611	(2,959)	(1.2%)
<b>Total Net Position</b>	<u>\$ 1,304,150</u>	<u>\$ 1,297,128</u>	<u>\$ 7,022</u>	<u>0.5%</u>

Net position may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,304,149,604 as of December 31, 2012, of which \$1,068,497,379 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 \$7,020,717. 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 Net Position December 31, (In Thousands)

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

Net position may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,297,128,887 as of December 31, 2011, of which \$1,058,517,337 is for net investment in capital assets.

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

During 2011, net position increased by \$7,088,304. The majority of this increase was due to the following:

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2012	2011	Change	
			Amount	%
<b><u>Operating Revenue</u></b>				
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%
<b>Total Operating Revenue</b>	187,241	172,722	14,519	8.4%
<b><u>Non-Operating Revenue</u></b>				
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%)
<b>Total Non-Operating Revenue</b>	10,432	11,885	(1,453)	(12.2%)
<b>Total Revenue</b>	197,673	184,607	13,066	7.1%
<b><u>Operating Expenses</u></b>				
Salaries and Wages	41,255	39,190	2,065	5.3%
Benefits	13,657	12,939	718	5.5%
Utilities	13,980	15,512	(1,532)	(9.9%)
Professional and Contractual	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%
<b>Total Operating Expenses</b>	145,294	137,586	7,708	5.6%
<b><u>Non-Operating Expenses</u></b>				
Interest Expense on Long-Term Debt	44,896	43,209	1,687	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%)
<b>Total Non-Operating Expenses</b>	46,277	46,095	182	0.4%
<b>Total Expenses</b>	\$ 191,571	\$ 183,681	\$ 7,890	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)

	2012	2011	Change	
			Amount	%
<b>Income Before Contributions</b>	\$ 6,102	\$ 926	\$ 5,176	559.0%
Capital Contributions	920	6,162	(5,242)	(85.1%)
<b>Change in Net Position</b>	7,022	7,088	(66)	(0.9%)
Net Position at Beginning of Year	1,297,128	1,290,040	7,088	0.5%
<b>Net Position at End of Year</b>	<u>\$ 1,304,150</u>	<u>\$ 1,297,128</u>	<u>\$ 7,022</u>	<u>0.5%</u>

Operating revenue consists mainly of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2012:

- Operating revenue 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 revenue decreased by \$1,454,049 (12.2%). The decrease in fair value of investments for 2012 was \$738,260 (490%) 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 revenue consists of interest income, grant revenue, Federal subsidy revenue, proceeds on insurance claims and the change in fair value of investments. Interest incomes 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 \$182,709 (0.4%). Interest expense increased by \$1,687,290 (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%) for loss on extraordinary events that occurred during in 2011. No extraordinary events occurred during 2012.

The following table on the next page summarizes the changes in revenues and expenses for the District between 2011 and 2010.



# 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)

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

# 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)

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

Operating revenue consists mainly of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2011:

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

# 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	330,496	338,655	(8,159)	(2.4%)
Sewage Treatment and Other Equipment	150,926	151,174	(248)	(0.2%)
Right of Use-Intangible	5,490	-	5,490	100.0%
<b>Total</b>	<b>\$ 1,924,494</b>	<b>\$ 1,763,120</b>	<b>\$ 161,374</b>	<b>9.2%</b>

### 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

### Capital Assets

At the end of 2011, the District had \$1,763,119,697 invested in capital assets. This amount represents a net increase of approximately \$153 million, or 9.5% over 2010. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

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

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

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Debt Administration

At December 31, 2012, the District had total debt outstanding net of premiums and refunding loss, of \$954,855,958 compared to \$970,721,659 at December 31, 2011. This represents an decrease of \$15,865,701 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 \$913,203,980 and the fair value of the long-term debt was \$1,087,062,966.

At December 31, 2011, the District had total debt outstanding net of premiums and refunding loss, of \$970,721,659 compared to \$935,591,845 at December 31, 2010. This represents an increase of \$35,129,815 for total debt. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$42,914,814; total debt retirements were \$36,595,809. The carrying value of the long-term portion of debt at December 31, 2011 was \$930,651,925 and the fair value of the long-term debt was \$1,044,439,747.

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)

	2012	2011	2010
Revenue Bonds	\$ 484,385	\$ 492,450	\$ 500,235
Water Pollution Loans Payable	470,471	478,272	435,357
Total Debt	<u>\$ 954,856</u>	<u>\$ 970,722</u>	<u>\$ 935,592</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, 2011, rates charged to District customers increased 9.8% to \$44.75 per mcf for City of Cleveland customers, and 8.5% to \$48.00 per mcf for the suburban 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](http://www.neorsd.org).





# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Position

**December 31, 2012 and 2011**

	Assets	
	2012	2011
Current Assets:		
Cash	\$ 23,858,459	\$ 48,763,945
Short-Term Investments	86,267,539	67,508,630
Sewage Service Fees Receivable, Less Allowance for Doubtful Accounts of \$22,000,000 in 2012 and \$31,000,000 in 2011	90,032,311	97,228,933
Receivables from Federal, State and Other Agencies	9,759,283	7,005,857
Inventory, Prepaid Expenses and Other	6,505,914	6,461,972
Total Current Assets	<u>216,423,506</u>	<u>226,969,337</u>
Noncurrent Assets:		
Capital Assets:		
Interceptor Sewer Lines	1,176,329,092	1,080,505,056
Buildings, Structures and Improvements and Equipment	721,709,619	711,825,768
Sewage Treatment and Other Equipment	388,419,087	374,038,147
Right to Use-Intangible	5,490,089	-
	<u>2,291,947,887</u>	<u>2,166,368,971</u>
Less Accumulated Depreciation	<u>(829,962,027)</u>	<u>(782,107,715)</u>
	1,461,985,860	1,384,261,256
Land	13,900,789	13,900,789
Construction in Progress	448,607,422	364,957,652
Net Capital Assets	<u>1,924,494,071</u>	<u>1,763,119,697</u>
Unamortized Deferred Debt Expense	3,091,440	3,270,056
Construction Funds	148,645,343	306,871,017
Revenue Bond Debt Service Deposit	23,771,144	23,035,364
Total Noncurrent Assets	<u>2,100,001,998</u>	<u>2,096,296,134</u>
Total Assets	<u>\$ 2,316,425,504</u>	<u>\$ 2,323,265,471</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, 2012 and 2011**

### Liabilities and Net Position

	<u>2012</u>	<u>2011</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 6,059,304	\$ 4,786,455
Construction Contracts and Retainages Payable	29,071,540	28,724,245
Accrued Interest	10,857,730	10,826,315
Other Accrued Liabilities	8,489,406	5,251,265
Current Maturities of Long-Term Debt	43,543,940	42,121,379
Total Current Liabilities	<u>98,021,920</u>	<u>91,709,659</u>
Noncurrent Liabilities:		
Long-Term Debt	913,203,980	930,651,925
Other Accrued Long Term Liabilities	<u>1,050,000</u>	<u>3,775,000</u>
Total Liabilities	<u>1,012,275,900</u>	<u>1,026,136,584</u>
Net Position:		
Net Investment in Capital Assets	1,068,497,379	1,058,517,337
Unrestricted	<u>235,652,225</u>	<u>238,611,550</u>
Total Net Position	<u>\$ 1,304,149,604</u>	<u>\$ 1,297,128,887</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, 2012 and 2011

	2012	2011
Operating Revenues:		
Billing Agents	\$ 171,056,663	\$ 155,342,800
Direct Billed	14,832,256	16,275,002
Other	1,352,457	1,104,565
Total Operating Revenues, Net	<u>187,241,376</u>	<u>172,722,367</u>
Operating Expenses:		
Salaries and Wages	41,255,137	39,190,544
Fringe Benefits	13,657,026	12,939,019
Utilities	13,979,812	15,511,558
Professional & Contractual Services	21,827,170	18,766,341
Other	3,387,828	3,907,002
Depreciation	51,187,381	47,271,807
Total Operating Expenses	<u>145,294,354</u>	<u>137,586,271</u>
Operating Income	<u>41,947,022</u>	<u>35,136,096</u>
Non-Operating Revenues (Expenses):		
Interest Income	2,827,947	3,825,074
Decrease in Fair Value of Investments, Net	(888,925)	(150,665)
Non-Operating Grant Revenue	758,941	676,833
Non-Operating Grant Expenses	(758,941)	(676,833)
Proceeds on Insurance Claims	792,245	621,938
Loss on Disposals of Equipment	(622,504)	(1,020,704)
Loss on Extraordinary Event	-	(1,188,489)
Interest on Long-Term Debt	(44,896,536)	(43,209,246)
Federal Subsidy Revenue	6,941,401	6,912,478
Total Non-Operating Expenses	<u>(35,846,372)</u>	<u>(34,209,614)</u>
Income before Contributions	6,100,650	926,482
Capital Contributions	<u>920,067</u>	<u>6,161,822</u>
Change in Net Position	7,020,717	7,088,304
Net Position at Beginning of Year	<u>1,297,128,887</u>	<u>1,290,040,583</u>
Net Position at End of Year	<u><u>\$ 1,304,149,604</u></u>	<u><u>\$ 1,297,128,887</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, 2012 and 2011**

	2012	2011
Cash Flows from Operating Activities:		
Cash Received From Customers	\$ 194,437,998	\$ 170,776,220
Cash Payments to Suppliers for Goods and Services	(37,886,036)	(43,403,692)
Cash Payments to Employees for Services	(51,808,049)	(54,477,867)
Net Cash Provided by Operating Activities	<u>104,743,913</u>	<u>72,894,661</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(358,382,448)	(1,902,907,746)
Issuance of Note Receivable to Other Governmental Agency	(349,806)	(745,221)
Proceeds from Maturities of Investments	495,992,646	2,015,417,227
Interest on Investments	3,059,808	3,659,442
Net Cash Provided by Investing Activities	<u>140,320,200</u>	<u>115,423,702</u>
Cash Flows from Non-Capital Financing Activities		
Grant Payments	(117,506)	(676,833)
Grants Received	126,013	668,326
Net Cash Provided by (Used In) Non-Capital Financing Activities	<u>8,507</u>	<u>(8,507)</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(42,219,347)	(36,595,808)
Interest Payments on Long-Term Debt	(37,391,510)	(33,497,401)
Proceeds from Water Pollution Control Loans	22,135,319	84,951,998
Acquisition and Construction of Capital Assets	(213,534,252)	(202,786,663)
Proceeds from Capital Grants	1,031,684	9,467,795
Net Cash Used in Capital and Related Financing Activities	<u>(269,978,106)</u>	<u>(178,460,079)</u>
Net (Decrease) Increase in Cash	(24,905,486)	9,849,777
Cash at Beginning of Year	48,763,945	38,914,168
Cash at End of Year	<u>\$ 23,858,459</u>	<u>\$ 48,763,945</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating Income	\$ 41,947,022	\$ 35,136,096
Adjustments to Reconcile Operating Income to Net Cash		
Provided by Operating Activities:		
Depreciation	51,187,381	47,271,807
Changes in Operating Assets and Liabilities:		
Accounts Receivable	7,196,622	(1,946,147)
Inventory and Prepaid Expenses	(43,942)	(132,199)
Accounts Payable and Other Accrued Liabilities	4,456,830	(7,434,896)
Total Adjustments	<u>62,796,891</u>	<u>37,758,565</u>
Net Cash Provided by Operating Activities	<u>\$ 104,743,913</u>	<u>\$ 72,894,661</u>
<b>Supplemental Schedule of Non-Cash Investing, Capital and</b>		
<b>Related Financing Activities:</b>		
Long-Term Debt Recorded for Receivables from State		
Agencies in Connection with Water Pollution Control Loans	<u>\$ 5,549,635</u>	<u>\$ 3,630,284</u>
Long-Term Debt Increased (Decreased) due to Accrued		
Construction Interest and Recorded Receivables and		
Principal Adjustment	<u>\$ 4,058,644</u>	<u>\$ (13,396,780)</u>
Capital Contributions Recorded in Accounts Receivables	<u>\$ 230,148</u>	<u>\$ 341,764</u>
Capital Assets (Decreased) Increased due to Capitalized Costs,		
Recorded Accounts Payable, and Asset Reclassifications	<u>\$ (343,297)</u>	<u>\$ 1,093,993</u>
Decrease in Fair Value of Investments, net	<u>\$ (888,925)</u>	<u>\$ (150,665)</u>

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

### 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, 2012 and 2011**

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

On September 30, 2009, 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. The District has modified its disclosures in this report to comply with the requirements. Accordingly, references to authoritative accounting principles after the effective date will reference the codification and not the previous accounting guidance. The adoption of the guidance did not have a material effect on the District's financial position, changes in net position, or cash flows.

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

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

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

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

Enterprise fund reporting focuses on the determination of the change in net 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.

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

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

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

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

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

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

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

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

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

The District invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2012 and 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on the respective statement of net position date.

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

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

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

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

##### **Cash**

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

##### **Investments**

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

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

#### **F. 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, 2012 were \$913,203,980 and \$1,087,062,966, respectively. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2011 were \$930,651,925 and \$1,044,439,747, respectively.

#### **G. Construction and Restricted Accounts**

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

##### **Construction Funds**

At December 31, 2012 and 2011, these funds consisted of cash, non-negotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAR Ohio. They are used to finance construction expenditures approved by the Board of Trustees. Under certain circumstances, the funds may be used for repayment of principal and interest costs on the Series 2005 Wastewater Improvement Revenue Refunding Bonds, 2007 Series Wastewater Improvement Revenue Bonds, and the 2010 Series Wastewater Improvement Revenue Bonds.

##### **Revenue Bond Debt Service Deposit**

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2012 and 2011 consisted of direct obligations of the United States Government, plus accrued interest.

#### **H. Sewage Service Fees Receivable**

Sewage service fees receivable are shown net of an allowance for uncollectibles. The allowance is based on aged accounts receivable, historical collection rates, economical trends, and current year operating revenues. The allowance amounts are \$22,000,000 at December 31, 2012 and \$31,000,000 at December 31, 2011.

#### **I. Inventory**

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

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

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

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. sewer lines and similar items) are reported on the statement of net 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 & Improvements & Equipment	Primarily 40 years
Sewage Treatment & Other Equipment	5 to 20 years
Right to Use-Intangible	Primarily 30 years

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

The unamortized financing costs include insurance, consulting, and attorney fees incurred in connection with the revenue bond obligations. These amounts are being amortized on the effective interest method over the lives of the revenue bonds. Bond premiums, discounts and deferred loss are being amortized on the interest method over the lives of the revenue bonds. Amortization amounted to \$18,933 for 2012 and \$19,734 for 2011.

#### **L. Net Position**

In the District financial statements, net position is categorized into three categories. The first is net investment in capital assets net of related debt, 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, 2012 or 2011.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

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

#### L. Net Position (continued)

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 have been designated by the Board of Trustees at December 31, 2012 and 2011 follows:

	2012	2011
General Operating Reserve	\$ 23,486,937	\$ 23,943,415
Debt Service Reserve	23,771,144	23,035,365
Equipment Repair and Replacement Reserve	55,518,234	55,201,391
Insurance Reserve	22,537,391	21,804,993
Rate Stabilization Account	6,000,000	6,000,000

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 income. The Equipment Repair and Replacement Reserve increased \$316,843 due to interest income. The Insurance Reserve had a net increase of \$732,398 due to the flood at the Southerly Wastewater Treatment Plant (WWTP) and interest income.

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

#### M. Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment services. Operating revenues consist of user charges for sewage services based on water consumption. Operating revenues are shown net of bad debt expense of \$7,755,544 in 2012 and \$4,979,165 in 2011. Operating expenses include the cost of these sewer services, including administrative expenses and depreciation on capital assets.

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

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

#### **M. Revenues and Expenses (continued)**

Sewage service fees are billed to users of the system on a cycle basis based primarily upon water usage. Estimates for services provided between the ends of various cycles and the end of the year are recorded as unbilled revenue. Included in sewage service fees receivable at December 31, 2012 and 2011 are unbilled sewage service fees of \$23,904,595 and \$23,856,579, 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% for customers in the City of Cleveland, and 12% for the suburban customers. In addition to the current rate reduction Homestead Program, the District has added two new affordability programs - the Crisis Voucher Program and a Wastewater Affordability Program for those households with income level at or below 200% poverty level.

#### **N. Interest Expense**

It is the District's intention that all expenses, including interest incurred in connection with financing the constructions of new facilities, be recovered on a current basis. The annual budget process is governed by a number of factors, including a covenant in the 2005 Wastewater Improvement Revenue Refunding Bond Resolution, 2007 Wastewater Improvement Revenue Bond Resolution and the 2010 Wastewater Improvement Revenue Bond Resolution which requires that the current year "net revenues" be at least 115% of its debt service requirements. As the District does not intend that interest costs be recovered from subsequent years' revenue, it has excluded interest as an allowable cost for future rate-making purposes. Therefore, in accordance with FASB ASC topic "Regulated Operations", all interest is expensed but is included as non-operating on the statement of revenues, expenses, and changes in net position as incurred.

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

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

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

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

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

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June 27, 2013, the date the financial statements were available to be issued.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

### **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, 2012, the carrying amount of the District's deposits, including certificates of deposit of \$2,717,098, was \$64,248,243 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. At December 31, 2011, the carrying amount of the District's deposits, including certificates of deposit of \$3,207,875, was \$157,507,915 and the bank balance was \$159,891,777. Of the bank balance, \$500,000 was covered by Federal depository insurance and \$159,391,777 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. 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, 2012 and 2011

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

#### Investments

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

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

At December 31, 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>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2012 and 2011**

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

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

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

**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, 2012 and 2011

### 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, 2012, the District's investment in U.S. instrumentalities (Federal Farm Credit Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank) were all rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. Investments backed by the Federal Deposit Insurance Corporation were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. Investments in General Electric were rated AA+ by Standard & Poor's and Aa2 by Moody's. Investments in Proctor & Gamble Bonds were rated 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 \$197,794,355 has maturities of \$116,255,806 in less than one year and \$81,538,549 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 \$23,771,144 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, 2012 and 2011

### Note 4: Transactions with the City of Cleveland

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

A summary of the billing and collection transactions between the City and the District for 2012 and 2011 are as follows:

	2012	2011
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 92,943,429	\$ 90,110,577
Amounts billed to District customers by the City during the year	170,935,986	147,845,456
Cash collected from District customers by the City and remitted to the District during the year	(164,701,737)	(145,143,546)
Write off of inactive accounts	(16,733,446)	(1,813,537)
Cash collected directly by the District on invoices rendered by the City and other adjustments	(2,793,190)	1,944,479
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	<u>\$ 79,651,042</u>	<u>\$ 92,943,429</u>

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

Fees paid to the City for billing and collection services in 2012 and 2011 were \$6,295,723 and \$5,553,336 respectively.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2012 and 2011**

### **Note 5: Capital Assets and Depreciation**

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 & Improvements & Equip.	711,825,768	104,700	(1,656,619)	11,435,770	721,709,619
Sewage Treatment & 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 & Improvements & Equip.	(373,170,612)	(19,368,365)	1,339,628	(14,687)	(391,214,036)
Sewage Treatment & 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, 2012 and 2011

### 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
2013	\$ 183,003
2014	183,003
2015	183,003
2016	183,003
2017	183,003
2018-2022	915,015
2023-2027	915,015
2028-2032	915,015
2033-2037	915,015
2038-2042	915,014
	<u>\$ 5,490,089</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2012 and 2011**

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

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

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



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2012 and 2011**

**Note 6: Long-Term Obligations**

A summary of long-term debt outstanding at December 31, 2012 and 2011 follows:

	<u>Interest Rate</u>	<u>2012</u>	<u>2011</u>
Wastewater Improvement Revenue Refunding Bonds, 2005 Serial Bonds Maturing 2012 through 2016	5.00%	\$ 32,525,000	\$ 38,190,000
Wastewater Improvement Revenue Bonds, 2007 Serial Bonds Maturing 2012 through 2037	4.25%-5.00%	114,930,000	117,330,000
Wastewater Improvement Revenue Bonds, 2010 Serial Bonds Maturing 2012 through 2040	5.44% - 6.04%	336,930,000	336,930,000
Water Pollution Control Loans Payable Through 2035	2.44% - 5.20%	<u>470,470,958</u>	<u>478,271,659</u>
Total Debt		954,855,958	970,721,659
Less Current Maturities		43,543,940	42,121,379
Bond Premium, Net		<u>1,891,962</u>	<u>2,051,645</u>
Total Long-Term Debt		<u>\$ 913,203,980</u>	<u>\$ 930,651,925</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. 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, 2012 and 2011**

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

Wastewater Improvement Revenue Bonds, Series 2007

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

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

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

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

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

#### Build America Bonds Subsidy

Under the Build America Bonds agreement, the District is to receive 35% of the Bond interest as the Build America Bonds Subsidy. The amount received in 2012 was \$6,941,400. Below is a schedule of the amounts to be received in future years:

<u>Year Ending December 31,</u>	<u>Subsidy Amount</u>
2013	\$ 6,941,400
2014	6,941,400
2015	6,941,401
2016	6,941,401
2017	6,941,401
2018 - 2022	34,707,004
2023 - 2027	34,677,693
2028 - 2032	31,164,391
2033 - 2037	21,458,871
2038 - 2040	4,963,296
	<u>\$ 161,678,258</u>

#### Water Pollution Control Loans

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

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

#### Water Pollution Control Loans (continued)

The repayment period for each loan commences no later than the first January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. The District is required to submit final eligible project costs within one year of the project completion date at which time the final loan amount is determined and semi-annual payment amounts are adjusted to reflect such costs. The District had a SRF loan award related to a project which was not complete as of December 31, 2012. 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, 2012 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	\$ 308,569,112	\$ 5,861,356
2011	5	72,649,900	7,828,478
2012-2015	1	89,251,946	69,500,469
		\$ 470,470,958	\$ 83,190,303

#### Defeasance Transactions

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

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

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

Defeasance Transactions (continued)

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, 2012, \$27,750,000 of the defeased debt remained outstanding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$3,413,626. This difference, reported in the accompanying statement of net 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 deferral totaled \$406,764 at December 31, 2012 and \$594,484 at December 31, 2011. 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, 2012 and 2011

### 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, 2012 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
2013	\$ 5,890,000	\$ 1,626,250	\$ 2,500,000	\$ 5,358,113	\$ -	\$ 12,891,173
2014	6,190,000	1,331,750	2,625,000	5,233,113	-	12,891,173
2015	6,495,000	1,022,250	2,755,000	5,101,863	-	12,891,173
2016	13,950,000	697,500	2,890,000	4,964,112	-	12,891,173
2017	-	-	3,035,000	4,819,613	-	12,891,173
2018 - 2022	-	-	17,465,000	21,814,376	-	64,455,865
2023 - 2027	-	-	21,770,000	17,511,437	11,360,000	64,401,430
2028 - 2032	-	-	27,415,000	11,863,025	73,850,000	57,876,727
2033 - 2040	-	-	34,475,000	4,808,000	251,720,000	49,069,736
	<u>\$ 32,525,000</u>	<u>\$ 4,677,750</u>	<u>\$ 114,930,000</u>	<u>\$ 81,473,652</u>	<u>\$ 336,930,000</u>	<u>\$ 300,259,623</u>

	Water Pollution Control Loans		Total Future Debt Service Requirements	
	Principal	Interest	Principal	Interest
2013	\$ 35,153,940	\$ 15,084,914	\$ 43,543,940	\$ 34,960,450
2014	36,774,736	14,360,059	45,589,736	33,816,095
2015	36,040,536	13,479,448	45,290,536	32,494,734
2016	34,653,671	13,079,110	51,493,671	31,631,895
2017	31,612,159	11,831,251	34,647,159	29,542,037
2018 - 2022	141,428,948	42,690,165	158,893,948	128,960,406
2023 - 2027	100,835,613	18,960,017	133,965,613	100,872,884
2028 - 2032	44,628,095	5,243,591	145,893,095	74,983,343
2033 - 2040	9,343,260	430,213	295,538,260	54,307,949
	<u>\$470,470,958</u>	<u>\$135,158,768</u>	<u>\$ 954,855,958</u>	<u>\$ 521,569,793</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2012 and 2011**

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

Bond premium, loss on defeasance activity for the year:

<u>December 31, 2012</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2005	\$ 564,837	\$ (179,058)	\$ -	\$ -	\$ 385,779
Bond Premium, Series 2007	2,081,292	(168,342)	-	-	1,912,950
Loss on Refunding, Series 2005	(594,484)	187,717	-	-	(406,767)
Total	<u>\$ 2,051,645</u>	<u>\$ (159,683)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,891,962</u>

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

Long-term debt activity for the year:

<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	478,271,659	26,353,646	(34,154,347)	470,470,958	35,153,940
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>

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



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 7: Pension Plans

#### Ohio Public Employees Retirement System

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

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, 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 2012. The 2012 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, 2012, 2011 and 2010 were \$5,901,080, \$5,562,696, and \$5,445,060, respectively, which are the required contributions for each year. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer’s records.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 8: Post-Employment Benefits

#### Ohio Public Employees Retirement System

##### A. Plan Description

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

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

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

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

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

##### B. Funding Policy

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. For the District's employer units, the 2012 contribution rate was 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for District employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during the calendar year 2012.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

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

The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during the calendar year 2012. The portion of the employer contributions allocated to the health care for the calendar year beginning January 1, 2013 was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. Employers will be notified if the portion allocated to health care changes during calendar year 2013. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

#### C. District Contributions

The rates stated in Section B, above, are the contractually required contribution rates for OPERS. As part of this disclosure, it will be necessary for the employer to disclose the employer contributions actually made to fund post-employment benefits. The portion of your employer contributions that were used to fund post-employment benefits can be approximated by multiplying actual employer contributions for calendar year 2012 by 0.2857 for state and local employers.

#### D. 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 percent of the employer contributions toward the health care fund after the end of the transition period. For 2012, 99.91% has been contributed with the balance being reported as a payable. The full amount has been contributed for 2011 and 2010.

	Contribution Rate as a % of covered salaries	2012	Contribution Rate as a % of covered salaries	2011	Contribution Rate as a % of covered salaries	2010
By Statutory Authority	14.00%	\$5,901,080	14.00%	\$5,562,696	14.00%	\$5,445,060
Less Healthcare Portion	4.00%	<u>(1,686,023)</u>	4.00%	<u>(1,589,342)</u>	5.0-5.5%	<u>(1,976,920)</u>
Required-Employer Contribution		<u>\$4,215,057</u>		<u>\$3,973,354</u>		<u>\$3,468,140</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2012 and 2011

### 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, 2012 and 2011, 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
2011	\$ 54,355	\$ -	\$ 36,348	\$ 90,703
2012	90,703	-	704	91,407

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 is estimated to be paid during the year ending December 31, 2013. The District's insurance reserve as of December 31, 2012 and 2011 was \$22,537,391 and \$21,804,993, respectively, and is included in short-term investments on the District's statement of net position.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

### **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, 2012 and 2011, \$1,408,567 and \$1,058,762, respectively, was due from the City of Pepper Pike. A repayment schedule will be agreed upon by both parties at the completion of the project.

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

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

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

Upon approval of the Consent Decree, the District paid civil penalties to the United States and State of Ohio in cash in the amount of \$1.2 million. To mitigate additional civil penalties, the District implemented a federal Supplemental Environmental Project (SEP) in the amount of \$1 million to provide for the collection and disposal of household hazardous waste. In 2010, the District entered into an agreement with the Cuyahoga County Solid Waste Management District to satisfy the federal SEP obligation. The District was obligated to implement a State SEP known as the Canal Pump Station Operation and Maintenance Project, estimated at \$800,000, or implement an Alternate SEP by making a cash payment of \$800,000 to Ohio EPA. The District implemented an Alternative SEP and made a cash payment of \$800,000 to Ohio EPA. As such, the District has recorded \$786,933 and \$906,672 as other accrued liabilities on the accompanying statement of net position as of December 31, 2012 and 2011 respectively.

#### **3320 Woodland Avenue, Ltd. Litigation**

In December 2007, the District filed an action against 3320 Woodland Avenue, Ltd. for damages arising out of the shifting of improperly dumped and compacted fill material resulting in damage to the District's Mill Creek Interceptor located on 3320 Woodland Avenue's property. In its Counterclaim, 3320 Woodland Avenue asserted two claims against the District. The litigation was settled in May 2013, and the District received a total of \$3,550,000 in damages.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

#### **Mill Creek Tunnel-3 Project**

On or about July 18, 2002, the District entered into an approximate \$58,281,408 construction contract with KMM&K Joint Venture ("KMM&K") for the Mill Creek Tunnel-3 ("MCT-3") project. During 2004, the MCT-3 project was shut down due to unsafe tunneling conditions. On October 8, 2007, KMM&K filed for breach of contract claiming damages of approximately \$15 million against the District. On March 24, 2009, the District filed a counterclaim against KMM&K and its surety, Travelers Casualty and Surety Company of America (Travelers) for \$25 million, which is primarily related to claims of overstated costs incurred during the shutdown and failure to complete the project. Subsequently, on June 29, 2010, the District filed amended pleadings, stating civil fraud and conspiracy charges against KMM&K. The District sought to recover an additional \$7.5 million by asking the Court to set aside four legal settlements paid to KMM&K which are alleged to have been procured by fraud and conspiracy.

On June 25, 2012, the parties entered into a settlement agreement resolving the lawsuit. Pursuant to the settlement, KMM&K Joint Venture members paid the District the sum of \$12 million. The parties agreed to a mutual release of all contractual claims raised in the lawsuit arising out of the Mill Creek Tunnel-2 (MCT-2) and MCT-3 projects. The release specifically excluded any claims and rights the District has or may have against Travelers under fidelity insurance policies issued by Travelers regarding the four legal settlements. The District filed a proof of loss with Travelers and is pursuing its insurance claims under a separate litigation action.

#### **Former General Counsel Litigation**

On April 21, 2010, William B. Schatz, former General Counsel for the District, was charged in the United States District Court with bribery, theft, embezzlement and tax fraud in connection with the District's Mill Creek Tunnel-2 and -3 contracts. Mr. Schatz entered a plea agreement on May 18, 2010, and he pleaded guilty to all charges on October 19, 2010. He was sentenced to 70 months in federal prison. The District filed a victim impact statement with the District Court asking the Court to award any restitution ordered to be paid to the District. Mr. Schatz was ordered to make restitution to the District in the amount of \$849,070; however, as of December 31, 2012, the District has received no funds from Mr. Schatz pursuant to the restitution order.

In August 2011, the District received payment of restitution in the amount of \$682,130 from Robert J. Kassouf, who was convicted of paying bribes to Mr. Schatz in connection with the District's Mill Creek Tunnel-2 and -3 contracts.

#### **Travelers Casualty and Surety Company of America Litigation**

Based upon the criminal information and plea agreement documents filed with the court in the matter regarding former General Counsel William B. Schatz, 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 \$7,265,279.80. The litigation is currently in the discovery phase.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

#### **Regional Stormwater Management Program Litigation**

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

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

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.

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. Oral arguments were heard in April 2013. The District anticipates a decision from the appellate court by the end of 2013. The District issued the first stormwater bills in January 2013, and it is continuing to implement the Regional Stormwater Management Program pending appeals.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

#### **Other Litigation**

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

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

In December 2009, the GASB issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." The requirements of this statement are effective for financial statements for periods beginning after June 15, 2011. The implementation of this Statement did not affect the presentation of the financial statements of the District.

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

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

In December 2010, the GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The implementation of this Statement did not affect the presentation of the financial statements of the District.

In June 2011, the GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The required disclosures are included in the basic financial statements and notes to the financial statements.

In June 2011, the GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an Amendment of GASB Statement No. 53." The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2011. The implementation of this Statement did not affect the presentation of the financial statements of the District.



# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

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

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. The District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

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 District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

In June 2012, the GASB issued Statement No. 67, “Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25.” 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.

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.

### **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, 2012 and 2011**

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

Financial assets consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/12</u>
<u>Cash &amp; 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
US Gov't Obligations	-	80,194,858	-	80,194,858
<u>Long-Term Construction Fund</u>				
Money Market Funds	33,580,186	-	-	33,580,186
US Gov't Obligations	-	115,065,157	-	115,065,157
<u>Revenue Debt Service Fund</u>				
Fixed Income Security	-	7,176,891	-	7,176,891
US Gov't Obligations	-	15,167,987	-	15,167,987
Money Market Funds	-	1,426,266	-	1,426,266
	<u>\$ 60,976,987</u>	<u>\$ 221,565,498</u>	<u>\$ -</u>	<u>\$ 282,542,485</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/11</u>
<u>Cash &amp; Cash Equivalents</u>				
Money Market & Savings	\$ 48,763,945	\$ -	\$ -	\$ 48,763,945
<u>Short -Term Investments</u>				
Money Market Funds	17,940,492	-	-	17,940,492
CDs	3,207,768	-	-	3,207,768
US Gov't Obligations	-	46,360,370	-	46,360,370
<u>Long-Term Construction Fund</u>				
Money Market Funds	105,536,201	-	-	105,536,201
US Gov't Obligations	-	201,334,816	-	201,334,816
<u>Revenue Debt Service Fund</u>				
Fixed Income Security	-	7,175,938	-	7,175,938
US Gov't Obligations	-	15,166,726	-	15,166,726
Money Market Funds	-	692,700	-	692,700
	<u>\$ 175,448,406</u>	<u>\$ 270,730,550</u>	<u>\$ -</u>	<u>\$ 446,178,956</u>

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2012 and 2011**

**Note 14: Subsequent Events:**

In April, 2013 the District issued Wastewater Improvement Revenue Bonds with face value totaling \$249,535,000. Repayment terms and covenants conform to the existing Wastewater Improvement Revenue Bonds, Series 2005 (refunding), 2007 and 2010.

Beginning January 2013, the District formally implemented the Regional Stormwater Management Program (the "Stormwater Program"). The Stormwater Program will address problems related to stormwater runoff from hard surfaces that make their way into the collection system and ultimately end up at treatment facilities. The fees collected from the Stormwater Program will be used to offset costs associated with treatment of stormwater runoff and are based on impervious surface. The fees from the Stormwater Program will also fund projects to address regional stream flooding and erosion problems as well as maintenance and master planning. Twenty-five percent (25%) 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.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

**For the year ended December 31, 2012**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
User Charges:				
Billed	\$ 176,895,828	\$ 176,895,828	\$ 181,981,053	\$ 5,085,225
Unbilled	3,000,000	3,000,000	3,907,866	907,866
Other Revenue	1,053,910	1,053,910	1,352,457	298,547
 Total Revenues	 180,949,738	 180,949,738	 187,241,376	 6,291,638
 <u>Expenses:</u>				
Salary and Wages	41,565,376	41,565,376	41,255,137	310,239
Benefits	14,183,871	14,183,871	13,657,026	526,845
Power	9,520,920	9,520,920	8,068,363	1,452,557
Materials and Supplies	5,150,689	5,150,689	5,056,453	94,236
Collection Fees	6,989,800	6,989,800	6,725,143	264,657
Gas	4,228,960	4,228,960	3,825,221	403,739
Chemicals	1,716,738	1,716,738	1,641,550	75,188
Repairs and Maintenance	2,941,091	2,941,091	2,078,341	862,750
Solids Handling	2,295,415	2,295,415	1,825,201	470,214
Water	1,131,116	1,131,116	1,191,439	(60,323)
Professional Services	9,231,150	9,231,150	8,917,796	313,354
Insurance	740,000	740,000	779,453	(39,453)
Judgements and Awards	65,000	65,000	669,280	(604,280)
Other Operating Expenses	6,123,052	6,123,052	5,923,087	199,965
Capitalized Construction Costs	(5,740,271)	(5,740,271)	(7,506,517)	1,766,246
Depreciation	52,000,000	52,000,000	51,187,381	812,619
 Total Operating Expenses	 152,142,907	 152,142,907	 145,294,354	 6,848,553
 Excess of Revenues Over Operating Expenses	 \$ 28,806,831	 \$ 28,806,831	 \$ 41,947,022	 \$ 13,140,191

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2012

### Reconciliation to Change in Net Position

Excess of Operating Revenues Over Operating Expenses	\$ 41,947,022
Non-Operating Grant Revenue	758,941
Interest Income	2,827,947
Decrease in Fair Value of Investments, Net	(888,925)
Non-Operating Grant Expenses	(758,941)
Loss on Disposals of Equipment	(622,504)
Proceeds on Insurance Claims	792,245
Federal Subsidy Revenue	6,941,401
Interest on Long-Term Debt	<u>(44,896,536)</u>
Income before Contribution	6,100,650
Capital Contributions	<u>920,067</u>
Change in Net Position	7,020,717
Net Position at Beginning of Year	<u>1,297,128,887</u>
Net Position at End of Year	<u><u>\$ 1,304,149,604</u></u>

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

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

**For the year ended December 31, 2012**

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

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

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

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

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



# STATISTICAL

*section*

UNAUDITED







## STATISTICAL SECTION (UNAUDITED)

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

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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Investment in Capital Assets	\$ 1,068,497,379	\$ 1,058,517,337	\$ 1,038,270,319	\$ 1,006,102,174
Unrestricted	<u>235,652,225</u>	<u>238,611,550</u>	<u>251,770,264</u>	<u>273,486,822</u>
Total	<u>\$ 1,304,149,604</u>	<u>\$ 1,297,128,887</u>	<u>\$ 1,290,040,583</u>	<u>\$ 1,279,588,996</u>

Note:

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

Source: District accounting records.

<u>2008</u>	<u>2007 (*)</u>	<u>2006 (*)</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 995,487,741	\$ 978,861,950	\$ 980,197,219	\$ 937,597,258	\$ 899,552,635	\$ 836,065,355
<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>357,871,693</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>	<u><u>\$ 1,193,937,048</u></u>

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

	2012	2011	2010	2009
<u>Operating Revenues</u>				
Billing Agents	\$ 171,056,663	\$ 155,342,800	\$ 150,703,554	\$ 151,132,069
Direct Billed	14,832,256	16,275,002	14,663,082	12,697,756
Other (1)	1,352,457	1,104,565	1,484,110	946,537
Total Operating Revenues	<u>187,241,376</u>	<u>172,722,367</u>	<u>166,850,746</u>	<u>164,776,362</u>
<u>Operating Expenses</u>				
Salaries & Wages	41,255,137	39,190,544	38,061,309	37,024,254
Fringe Benefits	13,657,026	12,939,019	12,747,900	11,714,646
Utilities	13,979,812	15,511,558	16,042,200	18,924,173
Professional & Contractual	21,827,170	18,766,341	23,034,225	17,696,366
Other (1)	3,387,828	3,907,002	7,392,509	8,194,326
Depreciation	51,187,381	47,271,807	46,061,584	45,410,351
Total Operating Expenses	<u>145,294,354</u>	<u>137,586,271</u>	<u>143,339,727</u>	<u>138,964,116</u>
Operating Income	41,947,022	35,136,096	23,511,019	25,812,246
<u>Non-Operating Revenues (Expenses)</u>				
Interest Income	2,827,947	3,825,074	3,292,522	7,240,399
(Decrease) Increase in Fair Value of Investments	(888,925)	(150,665)	(19,034)	(3,874,343)
Non-Operating Grant Revenue (1)	758,941	676,833	1,731,894	1,430,784
Non-Operating Grant Expenses (1)	(758,941)	(676,833)	(1,731,894)	(1,430,784)
Other Non-Operating (Expenses) Revenues (2)	-	-	-	(3,000,000)
Proceeds on Insurance Claims (3)	792,245	621,938	-	-
Loss on Disposals of Equipment	(622,504)	(1,020,704)	(45,657)	(2,013,698)
Loss on Extraordinary Event	-	(1,188,489)	-	-
Interest on Long-Term Debt	(44,896,536)	(43,209,246)	(26,583,173)	(24,598,935)
Federal Subsidy Revenue (4)	6,941,401	6,912,478	858,034	-
Total Non-Operating (Expenses) Revenues	<u>(35,846,372)</u>	<u>(34,209,614)</u>	<u>(22,497,308)</u>	<u>(26,246,577)</u>
Capital Contributions	<u>920,067</u>	<u>6,161,822</u>	<u>9,437,876</u>	<u>3,963,079</u>
Change in Net Position	<u>\$ 7,020,717</u>	<u>\$ 7,088,304</u>	<u>\$ 10,451,587</u>	<u>\$ 3,528,748</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.

Source: District accounting records.

2008	2007	2006	2005	2004	2003
\$ 147,605,404	\$ 145,221,599	\$ 135,732,973	\$ 131,938,350	\$ 122,078,222	\$ 117,755,171
13,832,074	13,062,958	13,220,817	12,623,945	11,442,284	11,504,702
833,463	769,744	1,200,272	734,253	762,782	615,506
162,270,941	159,054,301	150,154,062	145,296,548	134,283,288	129,875,379
35,102,015	33,724,279	33,021,551	31,283,367	29,127,972	27,542,022
11,493,925	10,732,240	11,225,384	10,944,618	9,916,038	8,521,645
20,632,885	18,893,296	17,814,509	17,595,315	15,053,259	14,517,622
18,727,176	14,808,434	14,076,004	13,389,541	12,272,328	11,731,572
5,757,037	7,046,216	6,917,693	5,566,881	4,439,180	4,019,822
44,448,564	43,261,151	40,093,478	35,968,351	35,668,913	34,167,297
136,161,602	128,465,616	123,148,619	114,748,073	106,477,690	100,499,980
26,109,339	30,588,685	27,005,443	30,548,475	27,805,598	29,375,399
11,714,888	12,417,477	8,645,525	8,816,261	11,264,860	12,267,626
2,332,208	3,157,199	1,774,960	(3,190,247)	(6,662,611)	(5,709,818)
1,592,151	35,430	-	-	-	-
(1,204,204)	(940,016)	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(180,689)	(468,601)	(4,216,914)	(776,203)	(1,025,183)	(123,555)
-	-	-	-	-	-
(24,602,346)	(24,428,793)	(20,641,227)	(19,821,947)	(19,352,880)	(19,289,590)
-	-	-	-	-	-
(10,347,992)	(10,227,304)	(14,437,656)	(14,972,136)	(15,775,814)	(12,855,337)
-	-	6,359,637	45,133	1,703,878	9,402,297
\$ 15,761,347	\$ 20,361,381	\$ 18,927,424	\$ 15,621,472	\$ 13,733,662	\$ 25,922,359

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

	2012	2011	2010	2009
<u>Operating Revenues</u>				
Sewer Service Fees				
City of Cleveland Billing Agent	\$ 159,114,027	\$ 144,326,900	\$ 140,059,765	\$ 141,082,193
Other Billing Agents	11,942,636	11,015,900	10,643,789	10,049,876
Other Sewer Service Fees	14,832,256	16,275,002	14,663,082	12,697,756
Other Operating Revenue	<u>1,352,457</u>	<u>1,104,565</u>	<u>1,484,110</u>	<u>946,537</u>
Total Operating Revenue	187,241,376	172,722,367	166,850,746	164,776,362
<u>Non-Operating Revenues</u>				
Interest Income	2,827,947	3,825,074	3,292,522	7,240,399
(Decrease) Increase in Fair Value of Investments	(888,925)	(150,665)	(19,034)	(3,874,343)
Proceeds from Insurance Claim (1)	792,245	621,938	-	-
Federal Subsidy Revenue (2)	6,941,401	6,912,478	858,034	-
Non-Operating Grant Revenue (3)	<u>758,941</u>	<u>676,833</u>	<u>1,731,894</u>	<u>1,430,784</u>
Total Non-Operating Revenues (3)	10,431,609	11,885,658	5,863,416	4,796,840
Capital Contributions	<u>920,067</u>	<u>6,161,822</u>	<u>9,437,876</u>	<u>3,963,079</u>
Total Revenues	<u><u>\$ 198,593,052</u></u>	<u><u>\$ 190,769,847</u></u>	<u><u>\$ 182,152,038</u></u>	<u><u>\$ 173,536,281</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>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 137,760,081	\$ 135,185,688	\$ 123,897,778	\$ 120,578,807	\$ 110,815,131	\$ 107,662,424
9,845,323	10,035,911	11,835,195	11,359,543	11,263,091	10,092,747
13,832,074	13,062,958	13,220,817	12,623,945	11,442,284	11,504,702
<u>833,463</u>	<u>769,744</u>	<u>1,200,272</u>	<u>734,253</u>	<u>762,782</u>	<u>615,506</u>
162,270,941	159,054,301	150,154,062	145,296,548	134,283,288	129,875,379
11,714,888	12,417,477	8,645,525	8,816,261	11,264,860	12,267,626
2,332,208	3,157,199	1,774,960	(3,190,247)	(6,662,611)	(5,709,818)
-	-	-	-	-	-
-	-	-	-	-	-
<u>1,592,151</u>	<u>35,430</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
15,639,247	15,610,106	10,420,485	5,626,014	4,602,249	6,557,808
<u>-</u>	<u>-</u>	<u>6,359,637</u>	<u>45,133</u>	<u>1,703,878</u>	<u>9,402,297</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>	<u><u>\$ 145,835,484</u></u>

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

	2012	2011	2010	2009
Salaries and Wages	\$ 41,255,137	\$ 39,190,544	\$ 38,061,309	\$ 37,024,254
Benefits	13,657,026	12,939,019	12,747,900	11,714,646
Power	8,068,363	9,258,484	9,879,693	10,591,495
Materials and Supplies	5,056,453	4,564,897	4,729,166	4,190,172
Collection Fees	6,725,143	5,975,072	5,805,347	5,725,215
Gas	3,825,221	4,254,679	4,292,298	6,600,201
Chemicals	1,641,550	1,329,150	1,293,973	1,615,452
Repairs and Maintenance	2,078,341	2,440,310	2,901,283	2,362,155
Solids Handling	1,825,201	847,246	2,190,398	1,831,793
Water	1,191,439	1,147,687	1,054,989	1,007,356
Professional Services	8,917,796	8,407,259	11,998,519	7,886,179
Insurance	779,453	1,227,736	1,161,822	997,672
All Other Expenses (*)	6,592,367	4,506,935	5,107,521	5,466,842
Capitalized Construction Costs	(7,506,517)	(5,774,554)	(3,946,075)	(3,459,667)
Depreciation	51,187,381	47,271,807	46,061,584	45,410,351
Total Operating Expenses	<u>\$ 145,294,354</u>	<u>\$ 137,586,271</u>	<u>\$ 143,339,727</u>	<u>\$ 138,964,116</u>

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

Source : District accounting records.



2008	2007	2006	2005	2004	2003
\$ 35,102,015	\$ 33,724,279	\$ 33,021,551	\$ 31,283,367	\$ 29,127,972	\$ 27,542,022
11,493,925	10,732,240	11,225,384	10,944,618	9,916,038	8,521,645
11,101,067	10,087,278	9,698,130	9,612,943	9,230,045	9,370,436
4,261,239	4,498,829	4,467,163	4,136,824	3,981,807	3,599,091
5,435,973	5,558,472	5,577,407	5,344,377	4,977,801	5,598,772
7,801,361	7,094,373	6,411,117	6,311,146	4,085,469	3,587,102
1,268,036	1,523,535	1,419,372	1,156,059	735,715	777,478
3,036,704	4,008,618	3,109,610	2,649,356	2,287,614	2,505,875
861,768	1,462,056	1,282,171	1,665,083	989,915	782,822
1,021,701	1,070,362	1,036,930	1,101,448	1,242,143	1,128,576
8,991,475	4,469,991	4,083,289	3,228,625	3,132,075	2,488,843
1,097,763	1,120,774	1,139,139	1,138,447	1,087,302	1,005,164
3,758,449	3,624,958	4,262,270	3,432,862	3,301,927	2,857,775
(3,518,438)	(3,771,300)	(3,678,392)	(3,225,433)	(3,287,046)	(3,432,918)
44,448,564	43,261,151	40,093,478	35,968,351	35,668,913	34,167,297
<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>	<u>\$ 100,499,980</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
COMMUNITIES SERVED BY THE DISTRICT AND  
ESTIMATED POPULATION SERVED  
DECEMBER 31, 2012**

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

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

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

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



**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**LARGEST CUSTOMERS OF THE DISTRICT**  
**AS OF DECEMBER 31, 2012**  
**and NINE YEARS PRIOR**

	2012			
	CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
<b><u>SUBDISTRICT 1</u></b>				
Cuyahoga Metropolitan Housing Agency (2)	82,087.6	\$ 4,055,515	1	2.2%
Cleveland Clinic (2)	49,973.3	2,382,702	2	1.3%
City of Cleveland Water Filtration Plants	32,438.1	2,191,956	3	1.2%
University Hospitals	34,250.8	1,548,581	5	0.8%
Case Western Reserve University	29,488.3	1,410,366	6	0.7%
Arcelor Mittal Steel (ISG Cleveland)	15,828.9	958,246	7	0.5%
Cuyahoga County (2)	17,106.8	845,673	8	0.4%
Cleveland Board of Education	12,068.3	591,601	10	0.3%
Ferro Corporation (2)	10,655.1	532,468	13	0.3%
MetroHealth Medical Centers	10,049.7	491,022	14	0.3%
Cleveland Metroparks Zoo	6,613.2	386,624	16	0.2%
Veterans Administration Hospitals (2)	7,471.1	367,428	17	0.2%
Columbus Road Realty	5,729.7	286,292	18	0.2%
Cleveland State University	5,607.4	272,231	19	0.1%
Inland Waters of Ohio	2,824.2	209,841	21	0.1%
Cleveland Thermal Energy Corporation	-	-	-	-
Synthetic Products	-	-	-	-
General Electric Company	-	-	-	-
Ninth Street - Euclid Ltd	-	-	-	-
Union Carbide Corporation	-	-	-	-
Property Management Rental	-	-	-	-
Total Subdistrict 1	322,192.5	\$ 16,530,546		8.8%
<b><u>SUBDISTRICT 2</u></b>				
Aluminum Corporation of America	30,439.6	\$ 1,591,502	4	0.9%
NASA John H Glenn Research Center	15,377.6	807,957	9	0.4%
Forest City Management (2)	10,862.4	554,217	11	0.3%
Ford Motor Corporation	10,241.9	538,061	12	0.3%
Eaton Estates / Nagy Park	8,766.1	475,131	15	0.3%
Charter Steel	4,426.3	224,884	20	0.1%
Thristledown Racing Club	-	-	-	-
Fairhill Towers LLC (Zehman & Wolfe Management)	-	-	-	-
General Motors Corporation	-	-	-	-
Total Subdistrict 2	80,113.9	\$ 4,191,752		2.3%
Grand Total	402,306.4	\$ 20,722,298		11.1%

(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.

2003

CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
125,836.9	\$ 3,814,601	1	2.9%
50,688.8	1,481,749	3	1.1%
38,146.6	1,303,003	4	1.0%
27,138.9	826,428	10	0.6%
29,177.0	881,151	6	0.7%
25,562.0	832,159	9	0.6%
19,242.7	570,436	14	0.4%
28,511.0	855,532	8	0.7%
15,274.1	453,512	15	0.3%
26,089.3	765,544	11	0.6%
-	-	-	-
10,424.5	295,566	19	0.2%
-	-	-	-
13,697.2	377,808	16	0.3%
-	-	-	-
29,264.5	764,755	12	0.6%
10,240.8	310,617	18	0.2%
8,006.8	247,865	20	0.2%
7,676.6	201,579	22	0.2%
12,561.8	362,643	17	0.3%
5,994.5	184,304	23	0.1%
483,534.0	\$ 14,529,252		11.2%
27,817.0	\$ 863,183	7	0.7%
44,138.5	1,232,061	5	0.9%
21,465.2	618,175	13	0.5%
55,613.6	1,571,723	2	1.2%
-	-	-	-
-	-	-	-
7,286.1	170,628	24	0.1%
-	-	-	-
9,081.8	219,127	21	0.2%
165,402.2	\$ 4,674,897		3.6%
648,936.2	\$ 19,204,149		14.8%

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

<b>Debt by Type, In Thousands</b>	<u><b>2012</b></u>	<u><b>2011</b></u>	<u><b>2010</b></u>
Revenue Bond Issues			
\$97,830 Series 1995	\$ -	\$ -	\$ -
\$68,280 Series 2005 (A)	32,525	38,190	43,660
\$126,055 Series 2007 (B)	114,930	117,330	119,645
\$336,930 Series 2010 (C)	336,930	336,930	336,930
Total Revenue Bonds	<u>484,385</u>	<u>492,450</u>	<u>500,235</u>
Ohio Water Development Authority Loans	-	-	-
Water Pollution Control Loans	<u>470,471</u>	<u>478,272</u>	<u>435,356</u>
Total All Debt	<u><u>\$ 954,856</u></u>	<u><u>\$ 970,722</u></u>	<u><u>\$ 935,591</u></u>
<b>Number of Customer Accounts (1)</b>	326,412	323,567	315,794
<b>Outstanding Debt Per Customer Account</b>	\$ 2,925	\$ 3,000	\$ 2,963

(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)	313,294	309,820	302,838
Less Master Meter Communities	(3)	(3)	(3)
Add estimated number of customers in Master Meter Communities	<u>13,121</u>	<u>13,750</u>	<u>12,959</u>
Number of Customer Accounts	<u><u>326,412</u></u>	<u><u>323,567</u></u>	<u><u>315,794</u></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, 2011.

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

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

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

Source: District accounting records.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68,415	\$ 72,415
48,925	53,985	58,850	63,525	68,280	-	-
121,865	124,000	126,055	-	-	-	-
-	-	-	-	-	-	-
<u>170,790</u>	<u>177,985</u>	<u>184,905</u>	<u>63,525</u>	<u>68,280</u>	<u>68,415</u>	<u>72,415</u>
-	-	194	573	932	1,274	1,599
<u>411,544</u>	<u>417,080</u>	<u>418,262</u>	<u>417,777</u>	<u>387,380</u>	<u>350,908</u>	<u>346,073</u>
<u><u>\$ 582,334</u></u>	<u><u>\$ 595,065</u></u>	<u><u>\$ 603,361</u></u>	<u><u>\$ 481,875</u></u>	<u><u>\$ 456,592</u></u>	<u><u>\$ 420,597</u></u>	<u><u>\$ 420,087</u></u>
319,629	328,856	334,850	325,389	328,417	330,190	325,292
\$ 1,822	\$ 1,810	\$ 1,802	\$ 1,481	\$ 1,390	\$ 1,274	\$ 1,291
306,791	311,937	318,515	308,769	312,093	313,043	308,197
(3)	(3)	(4)	(4)	(4)	(4)	(4)
<u>12,841</u>	<u>16,922</u>	<u>16,339</u>	<u>16,624</u>	<u>16,328</u>	<u>17,151</u>	<u>17,099</u>
<u><u>319,629</u></u>	<u><u>328,856</u></u>	<u><u>334,850</u></u>	<u><u>325,389</u></u>	<u><u>328,417</u></u>	<u><u>330,190</u></u>	<u><u>325,292</u></u>

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

Year	Estimated	Cuyahoga County		
	Population Served (1)	Unemployment Rate (2)	Total Personal Income (000's) (3)	Per Capita Personal Income (3)
2003	1,085,071	6.8%	\$ 45,655,393	\$ 33,590
2004	1,085,071	6.3%	47,818,353	35,521
2005	1,041,392	6.1%	49,335,286	37,082
2006	1,032,670	5.5%	51,236,686	39,134
2007	1,027,184	6.1%	52,893,000	40,838
2008	1,026,500	6.8%	53,946,514	42,051
2009	1,015,500	9.2%	52,802,000	41,391
2010	1,280,122	9.5%	52,898,050	41,347
2011	1,025,881	9.9%	n/a	44,088
2012	1,265,111	7.0%	n/a	40,838

(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 2011 and U.S. Department of Labor/Bureau of Labor Statistics. Cuyahoga County is significantly the same as the District's service area.

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

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



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
PRINCIPLE EMPLOYERS OF CUYAHOGA COUNTY, OHIO  
AS OF DECEMBER 31, 2012  
and NINE YEARS PRIOR**

Employer Name (1)	2012			2003		
	Number of Employees (1) FTE*	Rank (1)	Percentage of Total County Employment (2)	Number of Employees (1) FTE*	Rank (1)	Percentage of Total County Employment (2)
	12-31-2012			12-31-2003		
Cleveland Clinic Health System	33,000	1	5.00%	22,250	1	3.16%
University Hospitals	15,123	2	2.29%	9,875	6	1.40%
U.S. Office of Personnel Management	14,839	3	2.25%	11,250	2	1.60%
Giant Eagle, Inc.	10,398	4	1.57%	-	-	-
Progressive Corp.	8,766	5	1.33%	-	-	-
Cuyahoga County	7,709	6	1.17%	9,789	3	1.39%
State of Ohio	7,768	7	1.18%	9,681	4	1.37%
United State Postal Service	7,565	8	1.15%	9,455	5	1.34%
Group Management Services, Inc.	7,403	9	1.12%	-	-	-
City of Cleveland	7,061	10	1.07%	-	-	-
Cleveland Municipal School District	-	-	-	7,890	7	1.13%
Metro Health System	-	-	-	6,433	8	0.91%
Ford Motor Company	-	-	-	6,415	9	0.91%
LTV Corporation	-	-	-	4,389	10	0.62%
Total	119,632		18.12%	97,427		13.83%
Total Cuyahoga County Employment (2)			660,285			704,660

\* Full-Time Equivalent.

(1) Sources are *Crain's Cleveland Business*, December 2012 and March, 2003.

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 2003, 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>2012</u>	<u>2011</u>	<u>2010</u>
<b><u>TREATMENT PLANT FLOW</u></b>			
<b>Billions of gallons of sewage treated per plant:</b>			
Easterly	32.9	41.9	30.9
Southerly	39.1	51.5	39.2
Westerly	9.9	12.6	9.0
Total	<u>81.9</u>	<u>106.0</u>	<u>79.1</u>
<b>Total sewage treated, in MCFs (1)</b>	<u>10,949,198</u>	<u>14,171,123</u>	<u>10,574,866</u>
<b>MCFs billed, total District (5)</b>	<u>3,895,816</u>	<u>4,096,885</u>	<u>4,195,507</u>
<b><u>STAFFING LEVELS</u></b>			
<b>Number of employees:</b>			
Plant Operations & Maintenance (4)	339	352	357
Engineering	61	52	54
Finance (6) (7)	39	41	47
Human Resources (3)	15	17	17
Information Technology	19	19	20
District Administration (3) (6) (8)	66	54	50
Legal (8)	11	10	14
Administration & External Affairs (7)	28	25	18
Watershed Programs (4)	70	72	63
Total	<u>648</u>	<u>642</u>	<u>640</u>
<b>Budgeted employees, total District</b>	<u>693</u>	<u>680</u>	<u>679</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.

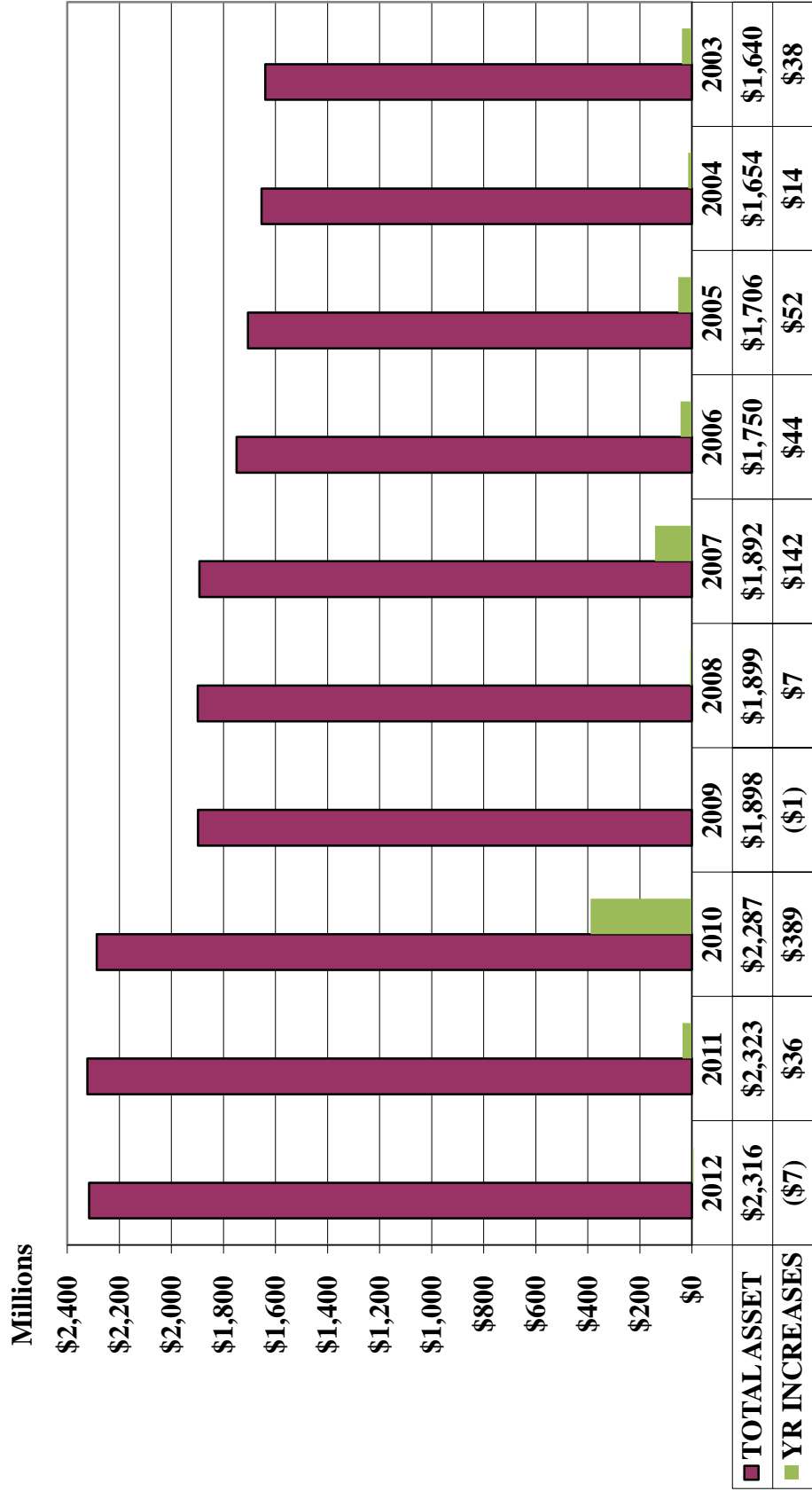
(7) Reclassified Customer Service from Finance to Administration & External Affairs in 2011.

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

Source: Various District records.

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
31.2	36.1	35.3	34.4	38.4	40.6	40.4
39.1	43.8	45.3	45.8	46.6	44.2	43.1
10.1	10.8	10.0	9.6	10.4	10.5	11.0
<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>94.5</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>12,633,690</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</u> (2)	<u>4,930,817</u>	<u>5,094,136</u>
353	363	396	404	412	404	383
56	57	65	70	66	66	61
47	47	42	50	49	50	49
19	14	15	17	21	47	44
21	19	21	20	19	18	20
47	46	56	44	43	17	18
13	14	8	8	9	8	8
16	16	8	7	4	-	-
62	58	-	-	-	-	-
<u>634</u>	<u>634</u>	<u>611</u>	<u>620</u>	<u>623</u>	<u>610</u>	<u>583</u>
<u>668</u>	<u>660</u>	<u>662</u>	<u>676</u>	<u>672</u>	<u>677</u>	<u>637</u>

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





*Protecting Your Health and Environment*

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Number of Buildings</b>			
<u>Operations</u>			
Southerly Plant	40	39	39
Easterly Plant	18	18	18
Westerly Plant	16	16	16
Outlying Pump Buildings	<u>7</u>	<u>7</u>	<u>7</u>
Total Operations	<u>81</u>	<u>80</u>	<u>80</u>
<u>Administration</u>			
District Administration	1	1	1
Environmental Maintenance and Services Center	<u>4</u>	<u>4</u>	<u>4</u>
Total Offices	<u>5</u>	<u>5</u>	<u>5</u>
<b>Total Buildings</b>	<u><u>86</u></u>	<u><u>85</u></u>	<u><u>85</u></u>
<b>Miles of Interceptor Sewers Installed Annually*</b>	<u><u>2.87</u></u>	<u><u>5.55</u></u>	<u><u>3.95</u></u>
<b>Number of Outlying Systems</b>			
<u>Sewage Collection System</u>			
Interceptor Sewers & Tunnels	21	21	21
Inter-Community Relief Sewers	29	27	26
Automated Regulators	25	25	25
Pumping Stations	7	7	7
Force Mains	<u>4</u>	<u>4</u>	<u>4</u>
Total Sewage Collection System	<u>86</u>	<u>84</u>	<u>83</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	<u>1</u>	<u>1</u>	<u>1</u>
Total Support Facilities	<u>44</u>	<u>44</u>	<u>44</u>
<b>Total Outlying Systems</b>	<u><u>130</u></u>	<u><u>128</u></u>	<u><u>127</u></u>
<b>Acres of Land</b>			
<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	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>
<b>Total Acres, Operations and Administration</b>	<u><u>434.5</u></u>	<u><u>434.5</u></u>	<u><u>434.5</u></u>

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

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
39	38	36	36	36	35	36
18	18	18	18	18	18	18
16	16	16	16	17	17	17
<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>6</u>
<u>78</u>	<u>77</u>	<u>75</u>	<u>75</u>	<u>76</u>	<u>75</u>	<u>77</u>
1	1	1	1	1	1	2
<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>6</u>
<u>83</u>	<u>82</u>	<u>80</u>	<u>80</u>	<u>81</u>	<u>80</u>	<u>83</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>	<u>3.75</u>
21	21	21	21	21	21	21
25	24	24	24	21	18	17
25	25	25	25	25	25	27
6	6	6	6	6	6	7
<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
<u>80</u>	<u>79</u>	<u>79</u>	<u>79</u>	<u>76</u>	<u>73</u>	<u>75</u>
10	10	10	10	10	5	5
8	8	8	8	8	7	5
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>38</u>	<u>36</u>
<u>124</u>	<u>123</u>	<u>123</u>	<u>123</u>	<u>120</u>	<u>111</u>	<u>111</u>
311.2	311.2	311.2	311.2	311.2	311.2	311.2
77.7	77.7	77.7	77.7	77.7	77.7	77.7
14.5	14.5	14.5	14.5	14.5	14.5	14.5
2.6	2.6	2.6	2.6	2.6	2.6	1.5
<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>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>419.6</u>





## CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Subdistrict 1</u>				
Cleveland (1)	126,357	125,832	121,009	122,201
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	3	3	3	3
Direct Service - Suburbs (1)	<u>186,934</u>	<u>183,985</u>	<u>181,826</u>	<u>184,587</u>
Subtotal	<u>186,937</u>	<u>183,988</u>	<u>181,829</u>	<u>184,590</u>
Total Customers	<u><u>313,294</u></u>	<u><u>309,820</u></u>	<u><u>302,838</u></u>	<u><u>306,791</u></u>

(1) 2003 through 2006 exclude inactive accounts.

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

Source: District accounting records.

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
128,142	130,616	129,428	133,054	137,746	132,541
3	4	4	4	4	4
<u>183,792</u>	<u>187,895</u>	<u>179,337</u>	<u>179,035</u>	<u>175,293</u>	<u>175,652</u>
<u>183,795</u>	<u>187,899</u>	<u>179,341</u>	<u>179,039</u>	<u>175,297</u>	<u>175,656</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>	<u><u>308,197</u></u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Subdistrict 1</u>				
Cleveland	1,781,276	1,881,996	1,946,380 (4)	1,915,736
<u>Subdistrict 2</u>				
Direct Service - Suburbs (3)	1,977,996	2,005,569	2,078,834 (4)	2,189,464
Master Meter - Suburbs (1)	<u>136,544</u>	<u>209,320</u>	<u>170,293</u>	<u>162,759</u>
Subtotal	<u>2,114,540</u>	<u>2,214,889</u>	<u>2,249,127</u>	<u>2,352,223</u>
Total Service Area	<u><u>3,895,816</u></u>	<u><u>4,096,885</u></u>	<u><u>4,195,507</u></u>	<u><u>4,267,959</u></u>

- (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 2003-2005, NASA was categorized as a Direct Bill customer in Subdistrict 1. Beginning in 2006, NASA has been categorized as a Subdistrict II customer to properly reflect consumption totals.
- (4) Restated 2010 for consumption adjustment.

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
2,127,084	2,217,887	2,209,563	2,370,567	2,379,632	2,495,126
2,184,458	2,250,184	2,215,147	2,288,026 (2)	2,241,819	2,287,825
<u>195,815</u>	<u>288,738</u>	<u>320,559</u>	<u>311,109</u>	<u>309,366</u>	<u>311,185</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>2,599,010</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>	<u><u>5,094,136</u></u>

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

	2012	2011	2010
Operating Revenue	\$ 187,241	\$ 172,722	\$ 166,851
Non-Operating Revenue	1,939	3,674	4,131
Total Revenues	189,180	176,396	170,982
Operating Expenses (Exclusive of depreciation)	94,107	90,314	97,278
Transfer to Rate Stabilization Account	-	3,000	-
Total Expenses	94,107	93,314	97,278
Net Revenues Available for Debt Service	\$ 95,073	\$ 83,082	\$ 73,704
Total Revenue Bond Debt Service (1),(2)	\$ 15,372	\$ 15,370	\$ 15,375
Coverage on Revenue Bond Debt Service	6.18	5.41	4.79
Total All Debt Service (1)	\$ 64,473	\$ 59,974	\$ 60,821
Coverage on Total Debt Service	1.47	1.39	1.21

(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, 2012 were:

	2012	2011	2010
Revenue Bond Issues and Debt Service			
\$97,830 Series 1995	\$ -	\$ -	\$ -
\$68,280 Series 2005 (A)	7,518	7,514	7,520
\$126,055 Series 2007 (B)	7,854	7,856	7,855
\$336,930 Series 2010 (C)	-	-	-
Total Revenue Bond Debt Service	15,372	15,370	15,375
OWDA Debt Service	-	-	-
WPCLF Debt Service	49,101	44,604	45,446
Total All Debt Service	\$ 64,473	\$ 59,974	\$ 60,821

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

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

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

(2) 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.

2009	2008	2007	2006	2005	2004	2003
\$ 164,776	\$ 162,271	\$ 159,055	\$ 150,154	\$ 145,297	\$ 134,283	\$ 129,875
3,366	14,047	15,575	10,421	4,850	3,577	6,434
168,142	176,318	174,630	160,575	150,147	137,860	136,309
93,554	91,713	85,205	82,319	78,780	70,808	66,333
-	-	-	-	-	-	-
93,554	91,713	85,205	82,319	78,780	70,808	66,333
<u>\$ 74,588</u>	<u>\$ 84,605</u>	<u>\$ 89,425</u>	<u>\$ 78,256</u>	<u>\$ 71,367</u>	<u>\$ 67,052</u>	<u>\$ 69,976</u>
\$ 15,373	\$ 15,375	\$ 10,174	\$ 7,490	\$ 7,935	\$ 7,935	\$ 7,930
4.85	5.61	8.79	10.45	8.99	8.45	8.82
\$ 59,430	\$ 58,140	\$ 54,905	\$ 44,257	\$ 42,552	\$ 42,029	\$ 35,886
1.26	1.46	1.63	1.77	1.68	1.60	1.95

2009	2008	2007	2006	2005	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ 7,935	\$ 7,935	\$ 7,930
7,517	7,517	7,514	7,490	-	-	-
7,856	7,858	2,660	-	-	-	-
-	-	-	-	-	-	-
15,373	15,375	10,174	7,490	7,935	7,935	7,930
-	204	409	409	409	409	408
44,057	42,561	44,322	36,358	34,208	33,685	27,548
<u>\$ 59,430</u>	<u>\$ 58,140</u>	<u>\$ 54,905</u>	<u>\$ 44,257</u>	<u>\$ 42,552</u>	<u>\$ 42,029</u>	<u>\$ 35,886</u>

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

Fiscal Years During Which Rates Were Effective	SUBDISTRICT 1				SUBDISTRICT 2			
	Standard		Homestead (2)		Standard		Homestead (2)	
	Rate (1)	% Change	Rate (1)	% Change	Rate (1)	% Change	Rate (1)	% Change
2003	22.70	7.6	15.30	7.4	27.95	5.1	18.70	5.1
2004	24.40	7.5	16.45	7.5	29.40	5.2	19.70	5.3
2005	26.20	7.4	17.70	7.6	30.95	5.3	20.80	5.6
2006	28.10	7.3	18.95	7.1	32.60	5.3	21.90	5.3
2007	30.85	9.8	20.75	9.5	35.10	7.7	23.55	7.5
2008	33.85	9.7	22.75	9.6	37.85	7.8	25.40	7.9
2009	37.15	9.7	24.95	9.7	40.90	8.1	27.45	8.1
2010	40.75	9.7	27.35	9.6	44.25	8.2	29.70	8.2
2011	44.75	9.8	30.05	9.9	48.00	8.5	32.25	8.6
2012 (3)	49.55	10.7	29.75	-1.0	52.55	9.5	31.75	-1.6

(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.

Industrial Waste Surcharge

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

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

Minimum Quarterly Billing

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

Source: District accounting records.





**NORTHEAST OHIO REGIONAL SEWER DISTRICT**  
**CAPITAL IMPROVEMENT PROGRAM**  
**USES AND SOURCES OF FUNDS**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 THROUGH 2022**  
**(In Thousands of Dollars)**

	2013	2014	2015	2016	2017
<b><u>USES OF FUNDS</u></b>					
Sewage Treatment Plant Improvements					
Westerly	\$ 13,195,393	\$ 8,679,821	\$ 504,969	\$ 449,809	\$ 825,034
Southerly	74,527,588	36,514,790	33,669,934	25,957,338	21,786,744
Easterly	10,004,016	30,287,646	9,479,205	784,001	6,366,040
Sub-Total	97,726,997	75,482,257	43,654,108	27,191,148	28,977,818
Interceptors/Rehabilitation	18,704,540	16,363,121	10,346,278	16,237,279	11,816,386
Combined Sewer Overflow Control Program	115,203,539	141,852,488	163,087,977	125,768,248	156,081,505
Information Technology & Other Minor Equipment	15,649,611	6,578,210	7,034,871	4,793,954	2,437,000
Total	<u>\$ 247,284,687</u>	<u>\$ 240,276,076</u>	<u>\$ 224,123,234</u>	<u>\$ 173,990,629</u>	<u>\$ 199,312,709</u>
<b><u>SOURCES OF FUNDS</u></b>					
WPCLF Loans (1)	\$ 71,754,229	\$ 37,245,861	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000
Net Bond Proceeds	159,880,847	172,452,005	167,088,363	116,196,675	138,812,709
Internally Generated Funds	15,649,611	30,578,210	22,034,871	22,793,954	25,500,000
Total	<u>\$ 247,284,687</u>	<u>\$ 240,276,076</u>	<u>\$ 224,123,234</u>	<u>\$ 173,990,629</u>	<u>\$ 199,312,709</u>

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

<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>TOTAL</u>
\$ 9,575,833	\$ 3,449,274	\$ 2,869,646	\$ 774,396	\$ 910,352	\$ 41,234,527
76,678,969	27,620,233	22,978,829	6,201,009	7,289,684	333,225,118
<u>23,042,251</u>	<u>8,299,960</u>	<u>6,905,204</u>	<u>1,863,421</u>	<u>2,190,571</u>	<u>99,222,315</u>
109,297,053	39,369,467	32,753,679	8,838,826	10,390,607	473,681,960
16,698,401	12,975,223	2,254,225	2,484,247	7,394,369	115,274,069
197,917,456	220,250,456	98,829,976	47,864,731	123,701,941	1,390,558,317
5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	61,493,646
<u>\$ 328,912,910</u>	<u>\$ 277,595,146</u>	<u>\$ 138,837,880</u>	<u>\$ 64,187,804</u>	<u>\$ 146,486,917</u>	<u>\$ 2,041,007,992</u>
\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ -	\$ -	\$ 319,000,090
258,412,910	206,595,146	67,337,880	26,687,804	106,486,917	1,419,951,256
<u>35,500,000</u>	<u>36,000,000</u>	<u>36,500,000</u>	<u>37,500,000</u>	<u>40,000,000</u>	<u>302,056,646</u>
<u>\$ 328,912,910</u>	<u>\$ 277,595,146</u>	<u>\$ 138,837,880</u>	<u>\$ 64,187,804</u>	<u>\$ 146,486,917</u>	<u>\$ 2,041,007,992</u>

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**Keeping our  
Great Lake  
great.** 



**Northeast Ohio  
Regional Sewer District**

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