

SINGLE AUDIT REPORTING PACKAGE

**NORTHEAST OHIO
REGIONAL SEWER DISTRICT**

December 31, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Trustees
Northeast Ohio Regional Sewer District

We have reviewed the independent auditor's report of the Northeast Ohio Regional Sewer District, Cuyahoga County, prepared by Grant Thornton LLP, for the audit period January 1, 2000 through December 31, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Northeast Ohio Regional Sewer District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

July 19, 2001

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NORTHEAST OHIO
REGIONAL SEWER DISTRICT

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the accompanying balance sheets of the Northeast Ohio Regional Sewer District (the "District") as of December 31, 2000 and 1999, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Ohio Regional Sewer District as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Grant Thornton LLP

Cleveland, Ohio
April 23, 2001

Northeast Ohio Regional Sewer District

BALANCE SHEETS

December 31,

ASSETS

	<u>2000</u>	<u>1999</u>
PROPERTY, PLANT AND EQUIPMENT		
Interceptor sewer lines	\$ 548,742,386	\$ 539,779,494
Buildings, structures and improvements	553,959,407	523,873,026
Sewage treatment and other equipment	219,576,275	206,124,655
	<u>1,322,278,068</u>	<u>1,269,777,175</u>
Less accumulated depreciation	392,673,618	364,937,904
	<u>929,604,450</u>	<u>904,839,271</u>
Land	3,805,718	3,487,018
Construction in progress	154,960,206	140,551,779
	<u>1,088,370,374</u>	<u>1,048,878,068</u>
UNAMORTIZED DEFERRED DEBT EXPENSE	5,032,831	5,736,732
CONSTRUCTION FUNDS (note C)	243,563,716	217,815,963
REVENUE BOND DEBT SERVICE DEPOSIT (note C)	1,997,788	1,990,693
CURRENT ASSETS		
Cash	346,238	394,655
Short-term investments	66,068,942	61,455,520
Sewage service fees receivable, less allowance for doubtful accounts of \$5,567,000 in 2000 and \$4,967,000 in 1999 (note B)	49,701,487	50,656,442
Receivables from Federal and state agencies	3,189,849	4,918,008
Inventory, prepaid expenses and other	7,990,878	9,411,064
	<u>127,297,394</u>	<u>126,835,689</u>
TOTAL ASSETS	<u><u>\$ 1,466,262,103</u></u>	<u><u>\$ 1,401,257,145</u></u>

The accompanying notes are an integral part of these statements.

Northeast Ohio Regional Sewer District

BALANCE SHEETS - CONTINUED

December 31,

EQUITY AND LIABILITIES

	<u>2000</u>	<u>1999</u>
EQUITY		
Retained earnings	\$ 724,602,954	\$ 666,638,337
Contributions in aid of construction - net	<u>363,621,143</u>	<u>364,323,444</u>
Total equity	1,088,224,097	1,030,961,781
LONG-TERM DEBT, net of current maturities (note D)	338,678,329	328,327,617
CURRENT LIABILITIES		
Accounts payable	4,286,766	4,514,973
Construction contracts payable	4,645,659	9,650,246
Accrued interest	6,068,643	6,014,358
Other accrued liabilities	3,387,279	2,721,643
Retainages on construction contracts	1,009,807	895,551
Current maturities of long-term debt (note D)	<u>19,961,523</u>	<u>18,170,976</u>
Total current liabilities	<u>39,359,677</u>	<u>41,967,747</u>
TOTAL EQUITY AND LIABILITIES	<u><u>\$ 1,466,262,103</u></u>	<u><u>\$ 1,401,257,145</u></u>

Northeast Ohio Regional Sewer District

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS**

For the years ended December 31,

	<u>2000</u>	<u>1999</u>
Operating revenue	\$ 131,933,724	\$ 133,430,629
Operating expenses		
Operations	44,787,096	42,078,339
Maintenance	15,709,685	15,680,024
Depreciation	30,320,517	29,028,480
	<u>90,817,298</u>	<u>86,786,843</u>
Operating income	41,116,426	46,643,786
Nonoperating revenues (expenses)		
Interest income	15,980,457	14,996,659
Increase (decrease) in fair value of investments - net	7,125,918	(4,806,082)
Loss on disposals of equipment	(74,682)	(219,656)
Interest on long-term debt	(16,486,676)	(17,166,184)
	<u>6,545,017</u>	<u>(7,195,263)</u>
NET INCOME	47,661,443	39,448,523
Add depreciation related to assets purchased from contributions in aid of construction	<u>10,303,174</u>	<u>11,177,000</u>
	57,964,617	50,625,523
Retained earnings at beginning of year	<u>666,638,337</u>	<u>616,012,814</u>
Retained earnings at end of year	<u>\$ 724,602,954</u>	<u>\$ 666,638,337</u>

The accompanying notes are an integral part of these statements.

Northeast Ohio Regional Sewer District

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 132,851,879	\$ 130,158,198
Cash payments to suppliers for goods and services	(28,270,054)	(29,090,062)
Cash payments to employees for services	(30,317,673)	(29,043,470)
Net cash provided by operating activities	74,264,152	72,024,666
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(358,873,887)	(336,138,196)
Proceeds from maturities of investments	335,946,200	327,221,357
Interest on investments	15,517,327	14,264,441
Net cash (used in) provided by investing activities	(7,410,360)	5,347,602
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(18,693,089)	(14,617,155)
Interest payments on long-term debt	(15,810,607)	(13,813,177)
Proceeds from water pollution control loans	31,987,323	28,493,541
Acquisition and construction of property, plant and equipment	(74,777,836)	(81,536,421)
Grants received	10,323,864	3,970,355
Proceeds from note receivable	68,136	357,850
Net cash used in capital and related financing activities	(66,902,209)	(77,145,007)
NET (DECREASE) INCREASE IN CASH	(48,417)	227,261
Cash at beginning of year	394,655	167,394
Cash at end of year	<u><u>\$ 346,238</u></u>	<u><u>\$ 394,655</u></u>

(Continued)

The accompanying notes are an integral part of these statements.

Northeast Ohio Regional Sewer District

STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended December 31,

	<u>2000</u>	<u>1999</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 41,116,426	\$ 46,643,786
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,320,517	29,028,480
Changes in operating assets and liabilities:		
Accounts receivable	918,155	(3,272,431)
Inventory and prepaid expenses	1,471,625	(33,796)
Accounts payable and other accrued liabilities	437,429	(341,373)
Total adjustments	<u>33,147,726</u>	<u>25,380,880</u>
Net cash provided by operating activities	<u>\$ 74,264,152</u>	<u>\$ 72,024,666</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions in aid of construction recorded for (payables to) receivables from federal agencies in connection with reimbursable project costs	\$ (408,565)	\$ 314,425
Long-term debt recorded for receivables from state agencies in connection with water pollution control loans	\$ 3,598,414	\$ 4,603,583
Increase (decrease) in fair value of investments - net	\$ 7,125,918	\$ (4,806,082)

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District reports its operations as a single enterprise fund using proprietary fund accounting. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows. Certain reclassifications have been made to the 1999 financial statements in order to conform to the 2000 presentation.

Nature of Operations

The Northeast Ohio Regional Sewer District (the "District"), a political subdivision of the State of Ohio, was created by Order of the Cuyahoga County Court of Common Pleas and commenced operations on July 18, 1972, under statutory provisions of the Ohio Revised Code. The District serves a region comprised of the City of Cleveland and 53 suburban communities.

Proprietary Activity Accounting and Financial Reporting

In accordance with paragraph 6 and, at the District's election, paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, the District applies all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, Accounting Research Bulletins (ARB's), and the American Institute of Certified Public Accountants Accounting Standards Executive Committee's Statements of Position (SOP's) issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Reporting Entity

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

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting Entity (continued)

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

Revenues

Sewage service fees are billed quarterly 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, 2000 and 1999 are unbilled sewage service fees of \$17,901,272 and \$20,248,848, respectively.

Cash Equivalents and Investments

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

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2000 and 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on the respective balance sheet date.

Short-term Investments

Short-term investments consist of nonnegotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAROhio.

Northeast Ohio Regional Sewer District
NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, Plant and Equipment

Property, plant and equipment, including major renewals or betterments, are capitalized and stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the various classes of assets.

The estimated useful lives used in computing depreciation follow:

Interceptor sewer lines	Primarily 75 years
Buildings, structures and improvements	Primarily 40 years
Sewage treatment and other equipment	5 to 20 years

Deferred Debt Expense

Bond issuance costs, bond premiums, and the difference between the reacquisition price and the net carrying value of refunded debt were capitalized and are being amortized over the terms of the respective bonds using a method which approximates the effective interest method. Amortization amounted to \$703,902 for 2000 and \$779,200 for 1999.

Interest Expense

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

Contribution in Aid of Construction

Participation in construction projects through approved grants-in-aid is recorded when reimbursable project costs are incurred and identified by the District. Amounts received are subject to verification of compliance with the provisions of the applicable grant terms. The portion of depreciation included in the determination of net income that is attributable to plant and equipment acquired through grants is classified as a reduction of the contribution account balance and an increase to retained earnings.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contribution in Aid of Construction (continued)

Changes in contributions in aid of construction for the years ended December 31, 2000 and 1999 are as follows:

	2000	1999
Balance at beginning of year	\$364,323,444	\$372,014,005
Contributions in aid of construction	9,600,873	3,486,439
Depreciation on assets purchased from contributions in aid of construction	(10,303,174)	(11,177,000)
Balance at end of year	\$363,621,143	\$364,323,444

Inventory

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

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 any interest income for fiscal year 2000 (certain nonoperating interest income for fiscal year 1999), 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.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgetary Basis of Accounting (continued)

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 that are \$15,000 or greater in cost. All budget appropriations lapse on December 31 of each year.

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

	2000	1999
Excess of revenue and other income over operating expenses – operating budget basis	\$ 41,116,426	\$ 47,711,887
Other interest income	15,980,457	13,928,558
Loss on disposals of equipment	(74,682)	(219,656)
Increase (decrease) in fair value of investments	7,125,918	(4,806,082)
Interest on long-term debt	(16,486,676)	(17,166,184)
Net Income	\$ 47,661,443	\$ 39,448,523

Prior to fiscal year 2000, the District was exempt from its requirement to submit an annual tax budget to the County Auditor's Tax Commission. During 1999, this exemption was reversed by the Ohio Attorney General, and beginning in fiscal year 2000 the District is required to submit a tax budget even though it currently levies no taxes.

Use of Estimates

The preparation of financial statements in conformity with 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.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE B - 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 2000 and 1999 follows:

	2000	1999
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 31,494,059	\$ 31,271,764
Amounts billed to District customers by the City during the year	114,052,893	111,016,994
Cash collections from District customers by the City and remitted to the District during the year	(111,342,839)	(110,111,411)
Cash collected directly by the District on invoices rendered by the City and other adjustments	(277,560)	(683,288)
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	\$ 33,926,553	\$ 31,494,059

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 2000 and 1999 were \$4,635,151 and \$4,803,912, respectively.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE C - 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, 2000 and 1999, these funds consisted of cash, nonnegotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAROhio. They are used to finance construction expenditures approved by the Board of Trustees. Under certain circumstances, the funds may be used for repayment of principal and interest costs on the 1995 Wastewater Improvement Revenue Refunding Bonds.

Revenue Bond Debt Service Deposit

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2000 and 1999 consisted of direct obligations of the United States Government, plus accrued interest.

NOTE D - LONG-TERM DEBT

A summary of long-term debt outstanding at December 31, 2000 and 1999 follows:

	Interest Rate	2000	1999
Wastewater Improvement Revenue Refunding Bonds, Series 1995:			
Serial Bonds maturing 2001 - 2014	3.65%-5.60%	\$ 68,590,000	\$ 71,895,000
Term Bonds due 2016	5.60%	14,630,000	14,630,000
		83,220,000	86,525,000
Ohio Water Development Authority Loans payable annually through 2008	5.25%-8.47%	8,243,532	12,059,230
Water Pollution Control Loans payable through 2021	3.20%-5.20%	267,148,458	247,869,067
Other		27,862	45,296
Total Debt		358,639,852	346,498,593
Less current maturities		19,961,523	18,170,976
Long-Term Debt		\$338,678,329	\$328,327,617

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE D - LONG-TERM DEBT - CONTINUED

Wastewater Improvement Revenue Refunding Bonds, Series 1995

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

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

Ohio Water Development Authority Loans (OWDA)

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

Water Pollution Control Loans

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE D - LONG-TERM DEBT -- CONTINUED

Water Pollution Control Loans - Continued

outstanding during the construction period and is combined with the principal balance upon completion of the project. The repayment period for each loan commences no later than the first January or July following the expected completion date 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 thirty-three SRF loan awards related to projects, seven of which were not complete as of December 31, 2000. Loans related to completed projects are being repaid in semi-annual payments of principal and interest over a period of twenty years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2000 follows:

Completion or Expected Completion Year of Projects	Number of Projects	Current Amount Outstanding Including Accrued Construction Period Interest	Additional Available Borrowings Including Construction Period Interest
1993-2000	26	\$238,563,224	\$ -
2001	3	21,726,004	64,405,167
2002	2	2,997,792	9,212,437
2003	1	1,226,417	9,902,199
2004	1	2,635,021	586,804
		\$267,148,458	\$84,106,607

Defeasance Transactions

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE D - LONG-TERM DEBT -- CONTINUED

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

Future Debt Service Requirements

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

The total future debt service requirements for all long-term debt not defeased or refunded as of December 31, 2000 follows:

	Principal	Interest	Total
2001	\$19,961,523	\$15,618,534	\$35,580,057
2002	20,786,431	15,365,476	36,151,907
2003	18,496,199	14,353,098	32,849,297
2004	18,809,845	13,508,826	32,318,671
2005	18,832,928	12,631,947	31,464,875
2006 – 2010	98,688,987	50,397,639	149,086,626
2011 – 2015	108,598,056	24,790,025	133,388,081
2016 – 2020	53,629,000	4,985,086	58,614,086
2021	836,883	17,629	854,512
	\$358,639,852	\$151,668,260	\$510,308,112

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE E - 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, 2000, the carrying amount of the District's deposits, including certificates of deposit of \$837,992, was \$1,184,229 and the bank balance was \$1,995,040. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$1,695,040 was covered by collateral securities held in Federal Reserve pledge accounts. At December 31, 1999, the carrying amount of the District's deposits, including certificates of deposit of \$835,937, was \$1,229,592 and the bank balance was \$2,589,869. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$2,289,869 was covered by collateral securities held in Federal Reserve pledge accounts. In the event of default by the pledging financial institution, the District may make written demand upon the Federal Reserve Bank of Cleveland for surrender of the collateral.

Investments

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

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

The District categorizes investments to give an indication of the level of credit risk associated with the District's custodial arrangements at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name (the District had no Category 2 investments at December 31, 2000 and 1999). Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in the District's name.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE E - DEPOSITS AND INVESTMENTS - CONTINUED

Categorization of the District's investments at December 31, 2000 was as follows:

	C a t e g o r y		Total Fair Value
	1	3	
Debt Securities:			
United States Treasury	\$ 12,720,731	\$1,997,788	\$ 14,718,519
United States Government Agencies	246,216,671	-	246,216,671
<i>Total Debt Securities</i>	\$258,937,402	\$1,997,788	260,935,190
STAROhio			49,857,265
			\$310,792,455

Categorization of the District's investments at December 31, 1999 was as follows:

	C a t e g o r y		Total Fair Value
	1	3	
Debt Securities:			
United States Treasury	\$ 30,117,310	\$1,990,693	\$ 32,108,003
United States Government Agencies	221,769,204	-	221,769,204
<i>Total Debt Securities</i>	\$251,886,514	\$1,990,693	253,877,207
STAROhio			26,549,032
			\$280,426,239

The amounts invested with STAROhio at December 31, 2000 and 1999 are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE E - DEPOSITS AND INVESTMENTS - CONTINUED

The fair value of debt securities by contractual maturity at December 31, 2000 and 1999, are shown below:

	<u>2000</u>	<u>1999</u>
Due within one year	\$119,177,017	\$135,145,284
Due after one year through five years	141,758,173	118,731,923
	<u>\$260,935,190</u>	<u>\$253,877,207</u>

NOTE F - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash

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

Investments

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

Long-Term Debt

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The carrying value and estimated fair value of the District's long-term debt at December 31, 2000 were \$338,678,329 and \$330,880,368, respectively. The carrying value and estimated fair value of the District's long-term debt at December 31, 1999 were \$328,327,617 and \$308,351,682, respectively.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE G - EMPLOYEE RETIREMENT PLAN

The District contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. During 2000, covered District employees were required to contribute 8.5% of their annual covered salary and the District was required to contribute 10.84% of annual covered payroll. The District's contribution percentage included a temporary rollback rate of 8.13% effective from July of 2000 through December of 2000. Effective January 1, 2001, the employer contribution rate reverts back to 13.55%. The District's contributions to PERS for the years ending December 31, 2000, 1999 and 1998 were \$2,616,873, \$3,325,401 and \$3,364,899, respectively, which approximated the required contributions for each year.

NOTE H - POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the retirement plan benefits described in note G, PERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by PERS is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to PERS.

In 2000, the District was required to contribute 10.84% of covered payroll to PERS (see note G), of which 4.30% was used to fund post-retirement health care. In 1999, the District was required to contribute 13.55% of covered payroll to PERS, of which 4.20% was used to fund post-retirement health care. The actual contribution related to post retirement health care for the years ended December 31, 2000 and 1999 was \$1,038,058 and \$1,030,752, respectively.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE H - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

The following represents a summary of actuarial assumptions and calculations based on the latest actuarial review performed as of December 31, 1999:

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

Assets Valuation Method. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Investment Return. The investment assumption rate for 1999 was 7.75%.

Active Employee Total Payroll. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.

Health Care. Health care costs were assumed to increase 4.75% annually.

OPEB's are advance funded on an actuarially determined basis. As of December 31, 1999, the net assets available for future OPEB payments were \$10.8 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12.47 billion and \$1.67 billion, respectively. The number of active contributing participants was 401,339.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE I - 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 Aetna Life Insurance and Annuity Company Plan (the "Aetna Plan") or the Ohio Public Employees Deferred Compensation Plan (the "Ohio Plan" and 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, 2000 and 1999, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains an insurance reserve to account for and finance its uninsured risks of property damage. The District is self insured for workers' compensation and purchases commercial insurance for other specific types of coverage. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance and the insurance reserve are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2000 and 1999, estimated liabilities were less than \$300,000 and \$800,000, respectively, and are not material with respect to the financial position of the District. The District's insurance reserve as of December 31, 2000 and 1999 was \$14,703,786 and \$13,974,284, respectively, and is included in short-term investments on the District's balance sheet.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE K - COMMITMENTS AND CONTINGENCIES

The District has a major capital improvement and expansion program. At December 31, 2000, the District has outstanding commitments for contracts in progress of approximately \$127,000,000. Funding for future expenditures will be provided primarily from borrowings and District equity.

The District is currently appealing approximately \$11,000,000 in questioned and disallowed costs as a result of an EPA Federal grant audit. Although some portion of this claim may not be settled in the District's favor, management believes that the ultimate outcome will not have a material adverse effect on the financial position of the District and, accordingly, no liability for this amount has been accrued by the District.

The District has approximately \$2,000,000 in asserted or implied construction contract claims currently pending against it related to active construction contracts. In the opinion of District management, the ultimate outcome of these matters will not have a material adverse effect on the financial position of the District and, accordingly, no liability for this amount has been accrued by the District.

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

SUPPLEMENTARY INFORMATION

Northeast Ohio Regional Sewer District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2000

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<u>U.S. Environmental Protection Agency</u>			
Surveys, Studies, Investigations and Special Purpose Grants	66.606	XP985018-01-0 XP985464-01-0 XP985464-02-0	\$ 8,492,578 112,185 <u>699,311</u>
Subtotal Direct Programs			9,304,074
<u>U.S. Environmental Protection Agency</u>			
Pass-through Programs from Ohio Environmental Protection Agency:			
Capitalization Grants for State Revolving Funds	66.458	CS391893-01 CS391893-02 CS391867-01 CS391126-14 CS392064-01 CS391972-02 CS392039-02 CS392166-01 CS391126-16 CS391972-05 CS391972-03 CS392194-01 CS391126-17 CS392034-02	705,453 785,596 282,774 41,480 71,590 6,070,135 1,329,129 2,700,542 2,366,409 9,582,272 2,497,888 2,970,176 1,220,988 <u>362,290</u>
Subtotal Pass-Through Programs			<u>30,986,722</u>
<i>TOTAL EXPENDITURES OF FEDERAL AWARDS</i>			<u><u>\$ 40,290,796</u></u>

Northeast Ohio Regional Sewer District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2000

(1) **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the accrual basis of accounting in accordance with generally accepted accounting principles. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the financial statements of the Northeast Ohio Regional Sewer District (the "District") as of and for the year ended December 31, 2000, and have issued our report thereon dated April 23, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the District in a separate letter dated April 23, 2001.

This report is intended for the information and use of the Board of Trustees, management, the Auditor of State, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Cleveland, Ohio
April 23, 2001

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Northeast Ohio Regional Sewer District

Compliance

We have audited the compliance of the Northeast Ohio Regional Sewer District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended December 31, 2000. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2000.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Board of Trustees, management, the Auditor of State, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Cleveland, Ohio
April 23, 2001

Northeast Ohio Regional Sewer District

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505**

For the Fiscal Year Ended December 31, 2000

1. SUMMARY OF AUDITORS' RESULTS
--

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under §.510?	No
(d)(1)(vii)	Programs tested as Major Programs (list):	Capitalization Grants for State Revolving Funds (CFDA #64.458) Surveys, Studies, Investigations and Special Purpose Grants (CFDA #66.606)
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$1,208,724 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

NONE

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

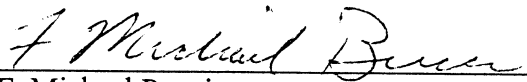
NONE

Northeast Ohio Regional Sewer District

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 §.315(c)**

For the Year Ended December 31, 2000

The December 31, 2000 audit reported no audit findings as defined in OMB Circular A-133 §.510. Therefore, preparation of a corrective action plan is not applicable.



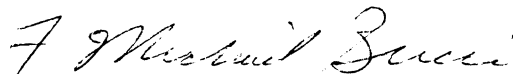
F. Michael Bucci
Director of Finance

Northeast Ohio Regional Sewer District

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)**

For the Year Ended December 31, 2000

The December 31, 1999 audit reported no audit findings as defined in OMB Circular A-133 §.510. Therefore, there are no prior findings on which to report.



F. Michael Bucci
Director of Finance



*Protecting Your
Clean Water Investment*

Comprehensive Annual Financial Report

**For the year ended
December 31, 2000**



Legend

- A** Administration Building - 3826 Euclid Avenue
- E** Environmental & Maintenance Services Center - 4747 E. 49th Street
- E** Easterly Wastewater Treatment Plant - 14021 Lake Shore Boulevard
- S** Southerly Wastewater Treatment Plant - 6000 Canal Road
- W** Westerly Wastewater Treatment Plant - 5800 West Memorial Shoreway

EASTERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

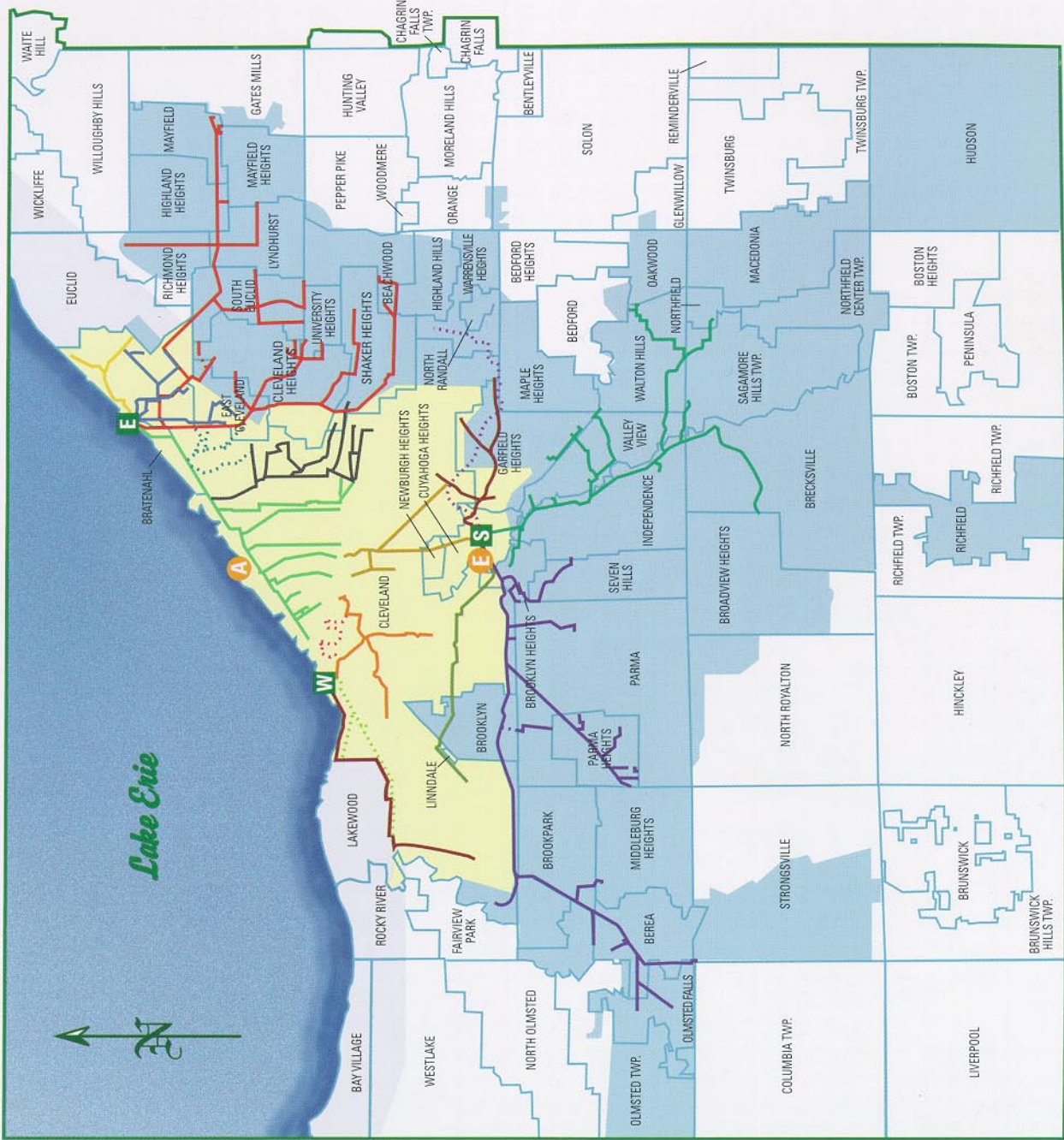
- Easterly
- Doan Valley
- ... Dugway
- Heights-Hilltop
- E. 140th & 152nd
- Lakeshore-Nottingham

SOUTHERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

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

WESTERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

- ... Low Level
- Northwest
- ... Westerly
- Welworth
- Combined Sewer Area
- Separate Sanitary Sewer Area



"Protecting Your Clean Water Investment"



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I. INTRODUCTORY SECTION

NORTHEAST OHIO REGIONAL SEWER DISTRICT
A POLITICAL SUBDIVISION OF THE
STATE OF OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2000

SUBMITTED BY:
FINANCE DEPARTMENT

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

DECEMBER 31, 2000

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Northeast Ohio Regional Sewer District

3826 Euclid Avenue · Cleveland, OH 44115-2504 · (216) 881-6600 · FAX: (216) 881-8018

May 11, 2001

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

The Comprehensive Annual Financial Report of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2000, is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's activities have been included.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial and statistical. The introductory section, which is unaudited, includes this letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association for the year ended December 31, 1999, a list of the District's principal officials and a table of organization. The financial section includes the 2000 financial statements and supplemental schedules, as well as the independent auditors' report thereon. The statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis that is helpful in performing trend analyses.

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

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

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.

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

The District's service area covers 355 square miles. The District encompasses 97% of the City of Cleveland and all or portions of 53 suburban communities in Cuyahoga and Summit Counties. The area contains a residential service population in excess of one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District treats the greatest amount of wastewater in the State of Ohio.

ECONOMIC CONDITION AND OUTLOOK

The economic environment in which the District operates is effected by the same events as the rest of the nation. Due to local energy prices increasing, the District is incurring higher gas and electric costs. In addition, revenue is not expected to increase significantly in 2001. The region is not dominated by any single industry; this diversity contributes to the relative stability of employment. The city of Cleveland ranks 7th among cities with Fortune 500 company headquarters. There are seven Fortune 500 companies in Cleveland and nine in the District's service area. Major industries with headquarters or divisions located in the District's service area or in close proximity include automotive manufacturers; industrial equipment, metals, paints and coatings producers; office supply retailer; insurance; and banking services. Major employers in the area also include federal, state and local government agencies, health care providers, public schools and financial service providers. In recent years there has been a significant shift from manufacturing to a service and information based economy.

The area has experienced an increase in travel and tourism. Statistics released by the Convention & Visitors Bureau of Greater Cleveland indicate the number of leisure visitors to Cuyahoga County in 2000 was 9.0 million, which is an 11.1% increase over the 8.1 million in 1999 and a 105% increase over the 4.4 million in 1994. The Bureau received 256,328 visitor information requests in 2000 compared to 186,731 in 1999 and 151,082 in 1998. Travel and tourism contributed approximately \$2 billion and 54,985 jobs to the economy of the area in 1998.

The unemployment rate in December 2000 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 4.1% was 0.2% higher than the seasonally adjusted rate for the State of Ohio and 0.1% higher than the national rate. The county had an employed labor force of approximately 661,700 as of December 2000, which was about 100 less than the prior year. 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. The service area of the District has remained stable, and can be readily expanded in the future, as opportunities arise.

MAJOR INITIATIVES

For the Year

Mill Creek Tunnel Project Update

Construction of the Mill Creek Tunnel Project began in 1997 in order to alleviate water quality problems in areas of southeast Cleveland and Garfield Heights. It will be completed in three phases, the first of which was essentially complete as of May 2000. The first phase consists of more than 14,000 feet of tunnel and the cost is approximately \$25 million. The second phase is well under way, and is being built under a \$51.5 million contract. The second phase of the tunnel will be 20 feet in diameter and approximately 13,000 feet in length. The expected completion date for the second phase is December 2003. The third phase of the tunnel will be approximately 20 feet in diameter and 15,000 feet long, with an estimated cost of \$50 million.

At its deepest level the tunnel will be 300 feet below ground with an average depth of 200 feet, and will be the largest interceptor the District has ever built. Total estimated cost of the three phases is more than \$125 million. The total project is expected to be complete by December 2005.

Rate Study

The results of a rate study conducted during 2000 indicated the District's 2000 sewer charge rates are sufficient to fund operating and capital costs for one more year, therefore there are no rate increases for the year 2001. This is attributed to the District's effort to streamline plant operations including the Plant Competitiveness Initiative, thus reducing costs.

As the District continues to provide wastewater transportation and treatment at standards higher than those set by the Environmental Protection Agency, there are some factors beyond the District's control that may contribute to higher charges in the future: decreasing water consumption, inflation, and future mandatory federal programs. The District will expand its rate study to determine if increases will be necessary for 2002 through 2006. Public meetings will be held, as needed, to address future study findings when they become available.

Awards Received in 2000

All Wastewater Treatment Plants earn AMSA Awards

The Association of Metropolitan Sewerage Agencies (AMSA) recognized the Southerly Wastewater Treatment Plant (Southerly) and the Easterly Wastewater Treatment Plant

(Easterly) with Gold Awards for meeting all of the National Pollutant Discharge Elimination System (NPDES) permit limits in 2000. The Westerly Wastewater Treatment Plant (Westerly) received the AMSA Silver Award.

Southerly Plant

Southerly earned two awards from the U.S. Environmental Protection Agency: the Beneficial Use of Biosolids Award for conservation of natural gas and reduction of air emissions and the Excellence Award for the District's storm water pollution prevention plan.

Westerly Plant

Westerly earned its second consecutive Safety Award from the Ohio Water Environment Association for an over-30 person treatment facility. This award recognizes the plant for its outstanding safety record during operation.

For the Future

Strategic Plan

A formal Strategic Plan (the "Plan") for 1999 through 2003 was prepared in 1999. It includes the District's mission, vision, values, guiding principles, goals, objectives and strategies. The District program goals are to maintain environmental compliance at all facilities and to develop a stormwater management plan. The District resource goals are to continue to operate in a fiscally sound manner, utilize employee resources to the fullest potential, and effectively use technology. Major initiatives implemented to achieve and maintain these goals include the Regional Intercommunity Drainage Evaluation, the Support Services Competitiveness Initiative and the Plant Competitiveness Initiative.

The Regional Intercommunity Drainage Evaluation (RIDE) began in the fall of 2000. The intent of the RIDE study is to determine the needs of the communities in the District's service area and the future role and responsibilities of the District in storm water management. The RIDE study is the second phase of the Regional Plan for Sewerage and Drainage. While gathering data to determine current problems in the service area, the District is preparing to interview member communities to explore the nature and severity of their drainage problems. Intercommunity stream and sewer models will be constructed to simulate drainage conditions in heavy storms. The duration of the project is two years and the cost estimate is \$7 million dollars.

The Support Services Competitiveness Initiative began in the fall of 1999. The Support Services Competitiveness Team (SSCT) identifies opportunities for the District to become more competitive, increase efficiency, better align support services (non-plant departments) with core services (waste water treatment), and develop a more flexible work force through employee development. The team analyzed the workflow between budget centers, and categorized it into twelve business processes. These processes are now being evaluated by the SSCT mainly through employee interviews. Analytical Services and Property Management process recommendations have been finalized, while those for Employee Resource

Management have been submitted to senior management for approval. The SSCT is now evaluating Asset Acquisition. The other processes are Financial Management; Industrial Monitoring and Management; Environmental Monitoring and Management; Customer Service; Hazardous Materials Management; Government, Business and Community Relations; Leadership, Organization and Strategic Planning; and Research and Development.

The Plant Competitiveness Initiative began in the spring of 1997. All of the Wastewater Treatment Plants, Easterly, Southerly and Westerly were included at the start of the project. The initiative for the Environmental Maintenance and Services Center will begin in 2001. The purpose is to maximize employees strengths and versatility, and improve efficiency by mapping the plants' daily routines, work loads and personnel responsibilities before recommending and implementing cross training efforts.

At the Wastewater Treatment Plants, more than 20 separate narrow classifications have been consolidated into three highly cross-trained and more flexible positions, Wastewater Plant Operators (WPOs), Electrical Instrument Technicians (EITs) and Plant Utility Maintenance Persons (PUMPs). The training for the WPOs will be completed in 2001. The training for the EITs and the PUMPs is under way. In addition to the Plant Competitiveness Initiative, the District is also implementing Plant Process Automation. This project is an integral and critical part of achieving the objectives of the Plant Competitiveness Initiative.

Easterly Wastewater Treatment Plant Upgrades

Upgrades to Easterly will increase the plant flow capacity to reduce untreated combined sewer overflows. The plant, which now can handle 300 million gallons per day (MGD), will be able to treat 400 MGD after modifications. In addition, the 70-year-old breakwater protecting Easterly from Lake Erie will undergo a restoration project beginning in 2001. The District's portion of the cost of the breakwater rehabilitation is approximately \$6.3 million, an estimated 45 percent of the total cost. U.S. Environmental Protection Agency Special Appropriation Grants will fund the remaining 55 percent of the reconstruction, which will be done as part of the Easterly Wet Weather improvement project. Other upgrades will include the construction of a new Wet Weather Pumping Station, rehabilitation of the Rockefeller relief and Easterly overflow sewers, and modification of the screenings system and the Collinwood Pumping Station. The work is required by the combined sewer overflow NPDES permit to minimize untreated overflows from Easterly's collection system.

Westerly Outfall Improvements

In an effort to increase flow capacity of Westerly by 40 MGD, the District will install a new outfall pipe for dispersion of plant effluent.

Study results found Westerly's current outfall – a deteriorating 60-inch diameter pipe installed 3,000 feet into Lake Erie in the early 1900s – could not accommodate flows greater than 60 MGD. The new outfall will extend 1,500 feet beyond the existing pipe, and will be 108 inches in diameter, capable of handling 100 MGD at minimum maintenance costs in the future.

These outfall improvements will begin in the fourth quarter of 2001 and continue for approximately two years thereafter at an estimated cost of \$15 million. As most of this construction will be completed underwater by specialized divers, the contractor will have a limited time frame for working on the lake, not only due to weather conditions, but also to minimize any impacts to aquatic life and the boating season.

FINANCIAL INFORMATION

Internal Control

Management of the District is responsible for establishing and maintaining an internal control structure designed to protect District assets from loss, theft or misuse and to compile adequate accounting data to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

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

As part of the District's Single Audit, described earlier, tests were made by the District's external auditors of its internal control structure and compliance with applicable laws and regulations, including those related to federal financial assistance programs. Although this testing is not sufficient to support a separate opinion on the District's internal control system or its overall compliance with laws and regulations related to federal financial assistance programs, the audit for the year ended December 31, 2000 disclosed no material internal control weaknesses or material violations of laws and regulations.

Budgetary Control

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. Until the final budgets are adopted, but before the fiscal year begins, the Board of Trustees may adopt a temporary appropriation for the first three months of the year. The level of budgetary control for the District's operation and maintenance expenses is on a budget center line item basis. The capital budget consists of major and minor capital expenditures. An annual capital plan prepared by the District's Engineering Department is the basis for the major capital budget appropriations, which constitute most of the capital budget. The capital plan outlines the 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 availability of funds by the Director of Finance. Board approval is required for all purchases of goods and services that exceed \$15,000. This applies to both operating and capital activity.

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

Revenues and Expenses

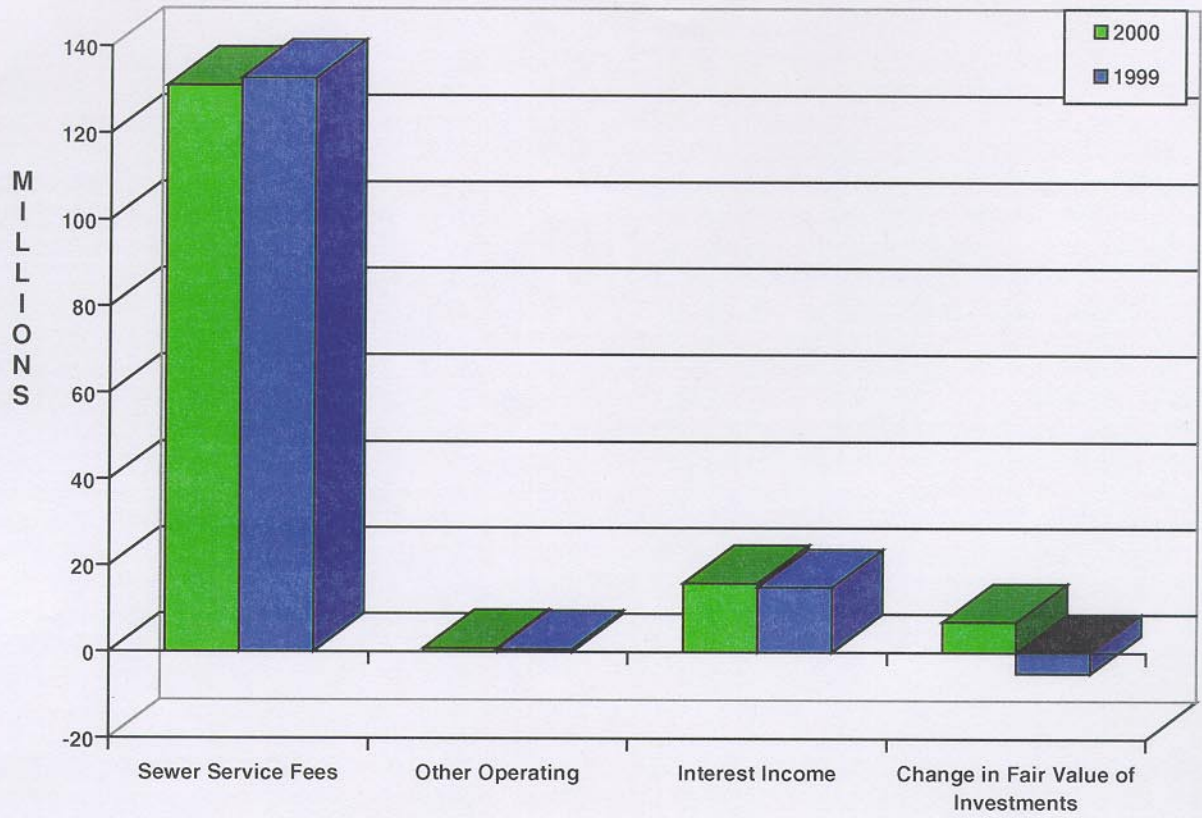
The following schedules summarize revenues and expenses for years 2000 and 1999 and increases or decreases from year to year.

COMPARATIVE REVENUE SCHEDULE

	2000		1999		Increase/(Decrease)	
	Amount	% of	Amount	% of	Amount	Percent
		Total		Total		
<u>Operating Revenue</u>						
Sewer Service Fees	\$ 130,994,545	84.5%	\$ 132,686,029	92.4%	\$ (1,691,484)	-1.3%
Other Operating Revenue	939,179	0.6%	744,600	0.5%	194,579	26.1%
Total Operating Revenue	<u>131,933,724</u>	<u>85.1%</u>	<u>133,430,629</u>	<u>92.9%</u>	<u>(1,496,905)</u>	<u>-1.1%</u>
<u>Non-operating Revenue</u>						
Interest Income	15,980,457	10.3%	14,996,659	10.4%	983,798	6.6%
Change in Fair Value of Investments	<u>7,125,918</u>	<u>4.6%</u>	<u>(4,806,082)</u>	<u>-3.3%</u>	<u>11,932,000</u>	<u>-248.3%</u>
Total Non-operating Revenue	<u>23,106,375</u>	<u>14.9%</u>	<u>10,190,577</u>	<u>7.1%</u>	<u>12,915,798</u>	<u>126.7%</u>
Total Revenue	<u>\$ 155,040,099</u>	<u>100.0%</u>	<u>\$ 143,621,206</u>	<u>100.0%</u>	<u>\$ 11,418,893</u>	<u>8.0%</u>

Total revenue for 2000 increased \$11,418,893 or 8.0% compared to 1999. This was due mainly to an increase in the fair value of investments. The change in Sewer Service Fees is primarily the result of the following two components. Sewer Service Fees for unbilled accounts decreased due to a reduction in estimated consumption as of year-end. Sewer Service Fees for billed accounts increased marginally due to a combination of a rate increase for the year 2000 coupled with a reduction in overall consumption.

COMPARISON OF 2000/1999 REVENUE



COMPARATIVE EXPENSE SCHEDULE

	2000		1999		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	Percent
<u>Operating Expenses</u>						
Salaries and Benefits	\$ 31,089,330	29.0%	\$ 30,408,745	29.2%	\$ 680,585	2.2%
Depreciation	30,320,517	28.2%	29,028,480	27.9%	1,292,037	4.5%
Utilities	13,931,089	13.0%	12,768,339	12.3%	1,162,750	9.1%
Contractual and Professional	10,431,643	9.7%	10,364,307	9.9%	67,336	0.6%
Materials and Supplies	5,419,783	5.0%	4,206,545	4.0%	1,213,238	28.8%
Repairs and Maintenance	1,722,805	1.6%	2,004,747	1.9%	(281,942)	-14.1%
Bad Debt Expense	602,891	0.6%	800,163	0.8%	(197,272)	-24.7%
Miscellaneous	352,457	0.3%	328,397	0.3%	24,060	7.3%
Capitalized Labor, Fringes & Indirect Construction Costs	(3,053,217)	-2.8%	(3,122,880)	-3.0%	69,663	-2.2%
Total Operating Expenses	90,817,298	84.6%	86,786,843	83.3%	4,030,455	4.6%
<u>Non-Operating Expenses</u>						
Interest Expense	16,486,676	15.4%	17,166,184	16.5%	(679,508)	-4.0%
Loss on Equipment Disposals	74,682	0.1%	219,656	0.2%	(144,974)	-66.0%
Total Non-Operating Expenses	16,561,358	15.4%	17,385,840	16.7%	(824,482)	-4.7%
Total Expenses	\$ 107,378,656	100.0%	\$ 104,172,683	100.0%	\$ 3,205,973	3.1%

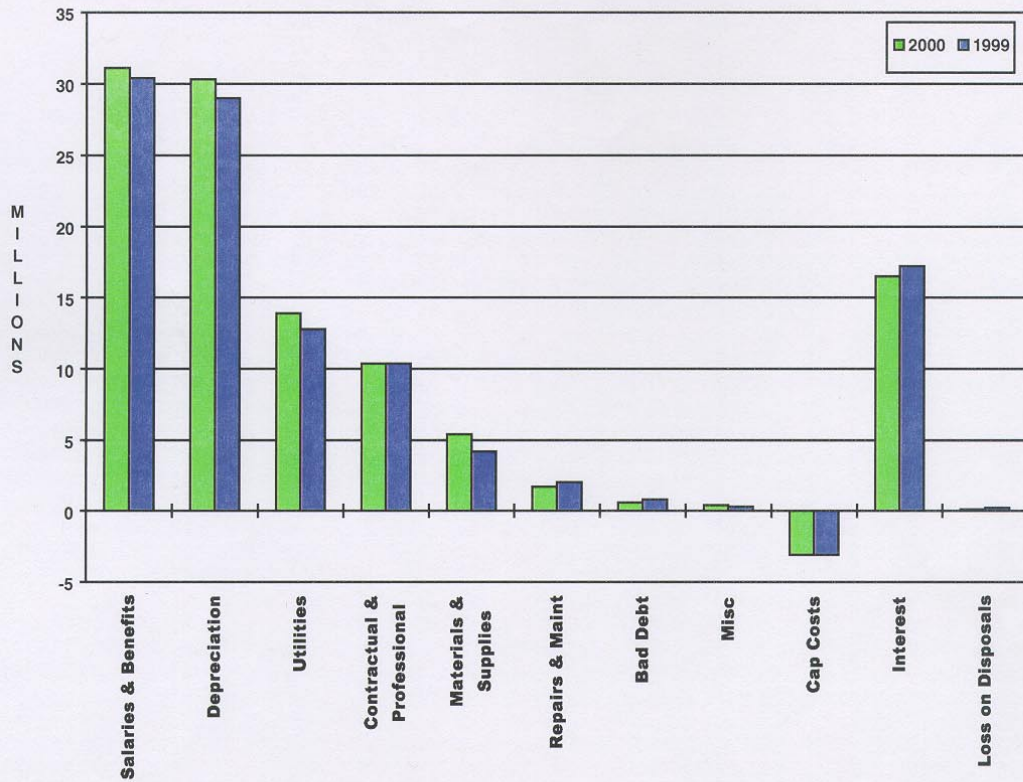
Salaries and benefits increased \$680,585. Salaries increased \$229,585, an increase of less than 1%, as a result of the general wage increase offset by the effects of the competitiveness initiative and additional reductions in the work force due to attrition. Benefits increased by \$451,000 due to higher health care insurance premiums and workers' compensation claims, offset by lower Public Employees Retirement System (PERS) expense.

Utilities increased \$1,162,750 mainly due to higher natural gas costs.

The increase of \$1,213,238 in Materials and Supplies is due to the disposal of items which became obsolete because of changes in plant process.

Interest expense was \$679,508 lower in 2000 primarily due to lower outstanding debt balances on the Wastewater Revenue Improvement Refunding Bonds, Series 1995 and the Ohio Water Development Authority Loans, and due to a reduction in construction period interest for construction projects funded by Water Pollution Control Loan Fund debt.

COMPARISON OF 2000/1999 EXPENSES



Debt Administration

At year-end, the District had bonded debt outstanding of \$83,220,000. The debt net of applicable unamortized discounts, issue costs and refunding costs is \$78,187,169. The District also has obtained loans through the State of Ohio Water Pollution Control Loan Fund (WPCLF) and through the Ohio Water Development Authority (OWDA). As of December 31, 2000, the outstanding loan balances were \$267,148,458 with the WPCLF and \$8,243,532 with the OWDA. Outstanding revenue bonds of the District are rated AAA by Standard & Poor's and Aaa by Moody's rating agencies. Note D to the audited financial statements includes schedules of debt outstanding and future debt service requirements.

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

The 2000 activity in the debt principal accounts was as follows:

	<u>Balance Jan. 1, 2000</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Balance Dec. 31, 2000</u>
Wastewater Improvement Revenue Refunding Bonds, Series 1995	\$86,525,000		(\$3,305,000)	\$83,220,000
Ohio Water Development Authority Loans	12,059,230		(3,815,698)	8,243,532
Water Pollution Control Loans	247,869,067	\$31,555,390	(12,275,999)	267,148,458
Other	<u>45,296</u>		<u>(17,434)</u>	<u>27,862</u>
Total Debt	<u>\$346,498,593</u>	<u>\$31,555,390</u>	<u>(\$19,414,131)</u>	<u>\$358,639,852</u>

Cash Management

The District currently invests in only three major types of instruments: obligations issued or backed by the United States Government; the STAROhio Fund; and bank or savings and loan non-negotiable certificates of deposit. A portion of the District's investment portfolio is comprised of securities with longer term maturities (three to five years) to more accurately match the time when the funds will be utilized and to take advantage of higher interest rates.

In determining portfolio performance and value, marketable securities are periodically compared to market. The District has not incurred any realized loss in the portfolio since securities are held to maturity, at which time the anticipated return is received. At December 31, 2000, the District's investment portfolio, at cost, of \$302,029,957, including \$1,983,012 in the Debt Service Account for the Series 1995 Bonds and excluding accrued interest, had a market value of \$306,862,574.

Risk Management

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

INDEPENDENT AUDIT

The Ohio Revised Code requires the Auditor of State to perform biennial audits of the District. In addition, the District's Bond Resolution requires annual financial audits. Both these requirements are being met, with the approval of the Auditor of State, by the engagement of independent certified public accountants by the District. The opinion of Grant Thornton LLP, the District's independent auditors, on the financial statements and supplementary information is included on page II-1 of this report.

AWARDS

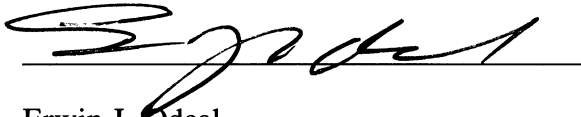
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Northeast Ohio Regional Sewer District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 1999. This was the fifth 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 on a timely basis was made possible by the dedicated service of the Finance Department staff as well as other District departments. We would also like to thank the Board of Trustees, for, without their support, the preparation of this report would not have been possible.

Respectfully submitted,



Erwin J. Odeal
Executive Director



F. Michael Bucci
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Northeast Ohio Regional Sewer District

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1999

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



Anne Spray Kinney
President

Jeffrey L. Esler
Executive Director

DISTRICT OFFICIALS

DECEMBER 31, 2000

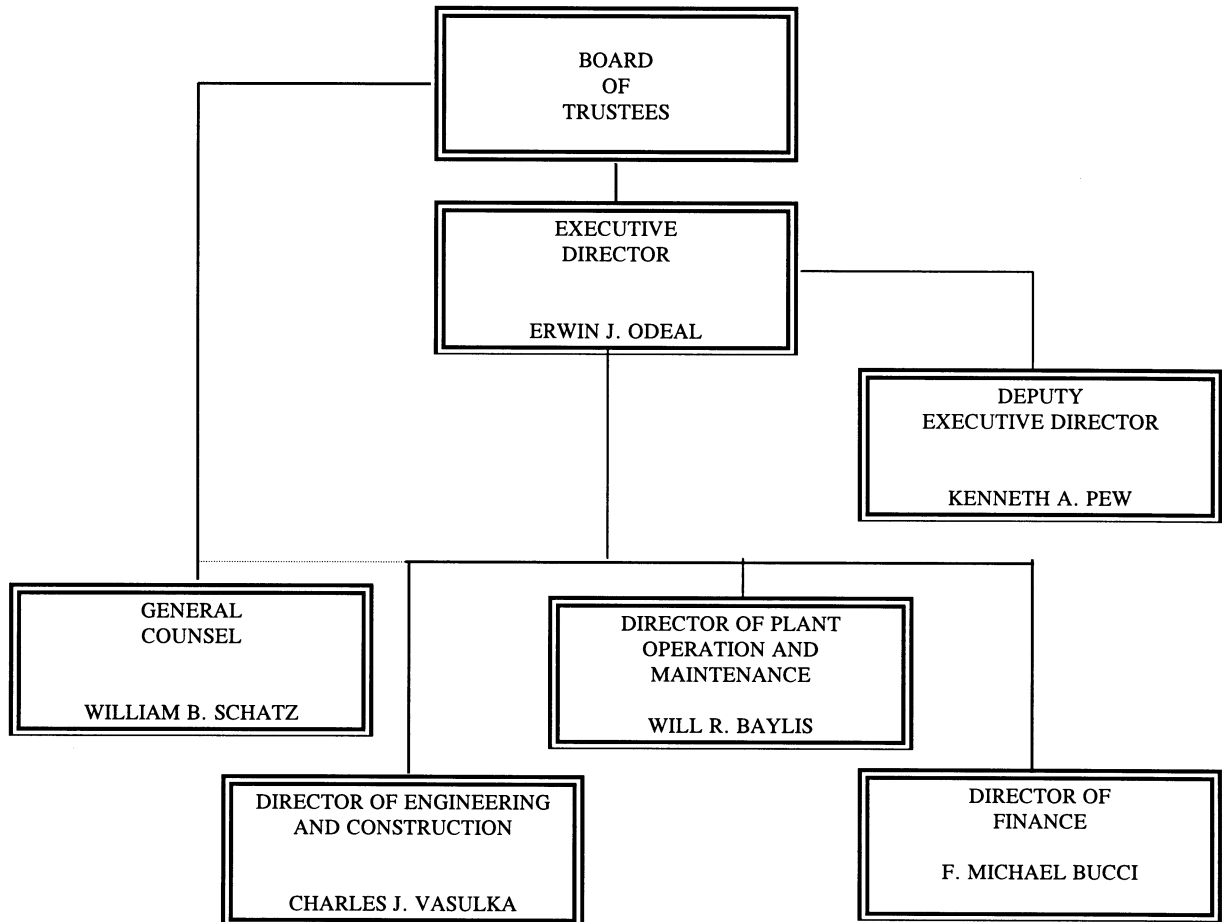
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Will R. Baylis	Director of Plant Operation and Maintenance
F. Michael Bucci	Director of Finance

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
TABLE OF ORGANIZATION
2000**



<u>NUMBER OF EMPLOYEES BY DEPARTMENT</u>	
DISTRICT ADMINISTRATION	67
PLANT OPERATION AND MAINTENANCE	396
ENGINEERING AND CONSTRUCTION	45
FINANCE	35
LEGAL	<u>8</u>
TOTAL EMPLOYEES	<u>551</u>

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II. FINANCIAL SECTION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the accompanying balance sheets of the Northeast Ohio Regional Sewer District (the "District") as of December 31, 2000 and 1999, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Ohio Regional Sewer District as of December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2001 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on Pages II-27 through II-28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the data included in the introductory and statistical sections of this report and, therefore, express no opinion thereon.

Grant Thornton LLP

Cleveland, Ohio
April 23, 2001



Northeast Ohio Regional Sewer District

BALANCE SHEETS

December 31,

ASSETS

	2000	1999
PROPERTY, PLANT AND EQUIPMENT		
Interceptor sewer lines	\$ 548,742,386	\$ 539,779,494
Buildings, structures and improvements	553,959,407	523,873,026
Sewage treatment and other equipment	219,576,275	206,124,655
	1,322,278,068	1,269,777,175
Less accumulated depreciation	392,673,618	364,937,904
	929,604,450	904,839,271
Land	3,805,718	3,487,018
Construction in progress	154,960,206	140,551,779
	1,088,370,374	1,048,878,068
 UNAMORTIZED DEFERRED DEBT EXPENSE	 5,032,831	 5,736,732
 CONSTRUCTION FUNDS (note C)	 243,563,716	 217,815,963
 REVENUE BOND DEBT SERVICE DEPOSIT (note C)	 1,997,788	 1,990,693
 CURRENT ASSETS		
Cash	346,238	394,655
Short-term investments	66,068,942	61,455,520
Sewage service fees receivable, less allowance for doubtful accounts of \$5,567,000 in 2000 and \$4,967,000 in 1999 (note B)	49,701,487	50,656,442
Receivables from Federal and state agencies	3,189,849	4,918,008
Inventory, prepaid expenses and other	7,990,878	9,411,064
	127,297,394	126,835,689
 TOTAL ASSETS	 \$ 1,466,262,103	 \$ 1,401,257,145

The accompanying notes are an integral part of these statements.

EQUITY AND LIABILITIES

	2000	1999
EQUITY		
Retained earnings	\$ 724,602,954	\$ 666,638,337
Contributions in aid of construction - net	363,621,143	364,323,444
Total equity	1,088,224,097	1,030,961,781
 LONG-TERM DEBT, net of current maturities (note D)	 338,678,329	 328,327,617
 CURRENT LIABILITIES		
Accounts payable	4,286,766	4,514,973
Construction contracts payable	4,645,659	9,650,246
Accrued interest	6,068,643	6,014,358
Other accrued liabilities	3,387,279	2,721,643
Retainages on construction contracts	1,009,807	895,551
Current maturities of long-term debt (note D)	19,961,523	18,170,976
Total current liabilities	39,359,677	41,967,747
 TOTAL EQUITY AND LIABILITIES	 \$ 1,466,262,103	 \$ 1,401,257,145

Northeast Ohio Regional Sewer District

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS

For the years ended December 31,

	<u>2000</u>	<u>1999</u>
Operating revenue	\$ 131,933,724	\$ 133,430,629
Operating expenses		
Operations	44,787,096	42,078,339
Maintenance	15,709,685	15,680,024
Depreciation	30,320,517	29,028,480
	<u>90,817,298</u>	<u>86,786,843</u>
Operating income	41,116,426	46,643,786
Nonoperating revenues (expenses)		
Interest income	15,980,457	14,996,659
Increase (decrease) in fair value of investments - net	7,125,918	(4,806,082)
Loss on disposals of equipment	(74,682)	(219,656)
Interest on long-term debt	(16,486,676)	(17,166,184)
	<u>6,545,017</u>	<u>(7,195,263)</u>
NET INCOME	47,661,443	39,448,523
Add depreciation related to assets purchased from contributions in aid of construction	<u>10,303,174</u>	<u>11,177,000</u>
	57,964,617	50,625,523
Retained earnings at beginning of year	<u>666,638,337</u>	<u>616,012,814</u>
Retained earnings at end of year	<u>\$ 724,602,954</u>	<u>\$ 666,638,337</u>

The accompanying notes are an integral part of these statements.

Northeast Ohio Regional Sewer District

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	<u>2000</u>	<u>1999</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 132,851,879	\$ 130,158,198
Cash payments to suppliers for goods and services	(28,270,054)	(29,090,062)
Cash payments to employees for services	(30,317,673)	(29,043,470)
	<hr/>	<hr/>
Net cash provided by operating activities	74,264,152	72,024,666
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(358,873,887)	(336,138,196)
Proceeds from maturities of investments	335,946,200	327,221,357
Interest on investments	15,517,327	14,264,441
	<hr/>	<hr/>
Net cash (used in) provided by investing activities	(7,410,360)	5,347,602
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	(18,693,089)	(14,617,155)
Interest payments on long-term debt	(15,810,607)	(13,813,177)
Proceeds from water pollution control loans	31,987,323	28,493,541
Acquisition and construction of property, plant and equipment	(74,777,836)	(81,536,421)
Grants received	10,323,864	3,970,355
Proceeds from note receivable	68,136	357,850
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(66,902,209)	(77,145,007)
 NET (DECREASE) INCREASE IN CASH	 (48,417)	 227,261
Cash at beginning of year	<hr/> 394,655	<hr/> 167,394
Cash at end of year	<hr/> \$ 346,238 <hr/>	<hr/> \$ 394,655 <hr/>

(Continued)

The accompanying notes are an integral part of these statements.

Northeast Ohio Regional Sewer District

STATEMENTS OF CASH FLOWS - CONTINUED

For the years ended December 31,

	<u>2000</u>	<u>1999</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 41,116,426	\$ 46,643,786
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	30,320,517	29,028,480
Changes in operating assets and liabilities:		
Accounts receivable	918,155	(3,272,431)
Inventory and prepaid expenses	1,471,625	(33,796)
Accounts payable and other accrued liabilities	<u>437,429</u>	<u>(341,373)</u>
Total adjustments	<u>33,147,726</u>	<u>25,380,880</u>
Net cash provided by operating activities	<u>\$ 74,264,152</u>	<u>\$ 72,024,666</u>
 SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributions in aid of construction recorded for (payables to) receivables from federal agencies in connection with reimbursable project costs	\$ (408,565)	\$ 314,425
Long-term debt recorded for receivables from state agencies in connection with water pollution control loans	\$ 3,598,414	\$ 4,603,583
Increase (decrease) in fair value of investments - net	\$ 7,125,918	\$ (4,806,082)

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District reports its operations as a single enterprise fund using proprietary fund accounting. A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows. Certain reclassifications have been made to the 1999 financial statements in order to conform to the 2000 presentation.

Nature of Operations

The Northeast Ohio Regional Sewer District (the "District"), a political subdivision of the State of Ohio, was created by Order of the Cuyahoga County Court of Common Pleas and commenced operations on July 18, 1972, under statutory provisions of the Ohio Revised Code. The District serves a region comprised of the City of Cleveland and 53 suburban communities.

Proprietary Activity Accounting and Financial Reporting

In accordance with paragraph 6 and, at the District's election, paragraph 7 of Governmental Accounting Standards Board (GASB) Statement No. 20, the District applies all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, Accounting Research Bulletins (ARB's), and the American Institute of Certified Public Accountants Accounting Standards Executive Committee's Statements of Position (SOP's) issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Reporting Entity

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

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Reporting Entity (continued)

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

Revenues

Sewage service fees are billed quarterly 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, 2000 and 1999 are unbilled sewage service fees of \$17,901,272 and \$20,248,848, respectively.

Cash Equivalents and Investments

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

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

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2000 and 1999. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on the respective balance sheet date.

Short-term Investments

Short-term investments consist of nonnegotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAROhio.

Northeast Ohio Regional Sewer District
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, Plant and Equipment

Property, plant and equipment, including major renewals or betterments, are capitalized and stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method based on the estimated useful lives of the various classes of assets.

The estimated useful lives used in computing depreciation follow:

Interceptor sewer lines	Primarily 75 years
Buildings, structures and improvements	Primarily 40 years
Sewage treatment and other equipment	5 to 20 years

Deferred Debt Expense

Bond issuance costs, bond premiums, and the difference between the reacquisition price and the net carrying value of refunded debt were capitalized and are being amortized over the terms of the respective bonds using a method which approximates the effective interest method. Amortization amounted to \$703,902 for 2000 and \$779,200 for 1999.

Interest Expense

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

Contribution in Aid of Construction

Participation in construction projects through approved grants-in-aid is recorded when reimbursable project costs are incurred and identified by the District. Amounts received are subject to verification of compliance with the provisions of the applicable grant terms. The portion of depreciation included in the determination of net income that is attributable to plant and equipment acquired through grants is classified as a reduction of the contribution account balance and an increase to retained earnings.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Contribution in Aid of Construction (continued)

Changes in contributions in aid of construction for the years ended December 31, 2000 and 1999 are as follows:

	2000	1999
Balance at beginning of year	\$364,323,444	\$372,014,005
Contributions in aid of construction	9,600,873	3,486,439
Depreciation on assets purchased from contributions in aid of construction	(10,303,174)	(11,177,000)
Balance at end of year	\$363,621,143	\$364,323,444

Inventory

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

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 any interest income for fiscal year 2000 (certain nonoperating interest income for fiscal year 1999), 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.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Budgetary Basis of Accounting (continued)

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 that are \$15,000 or greater in cost. All budget appropriations lapse on December 31 of each year.

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

	2000	1999
Excess of revenue and other income over operating expenses – operating budget basis	\$ 41,116,426	\$ 47,711,887
Other interest income	15,980,457	13,928,558
Loss on disposals of equipment	(74,682)	(219,656)
Increase (decrease) in fair value of investments	7,125,918	(4,806,082)
Interest on long-term debt	(16,486,676)	(17,166,184)
Net Income	\$ 47,661,443	\$ 39,448,523

Prior to fiscal year 2000, the District was exempt from its requirement to submit an annual tax budget to the County Auditor's Tax Commission. During 1999, this exemption was reversed by the Ohio Attorney General, and beginning in fiscal year 2000 the District is required to submit a tax budget even though it currently levies no taxes.

Use of Estimates

The preparation of financial statements in conformity with 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.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE B - 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 2000 and 1999 follows:

	2000	1999
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 31,494,059	\$ 31,271,764
Amounts billed to District customers by the City during the year	114,052,893	111,016,994
Cash collections from District customers by the City and remitted to the District during the year	(111,342,839)	(110,111,411)
Cash collected directly by the District on invoices rendered by the City and other adjustments	(277,560)	(683,288)
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	\$ 33,926,553	\$ 31,494,059

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 2000 and 1999 were \$4,635,151 and \$4,803,912, respectively.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE C - 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, 2000 and 1999, these funds consisted of cash, nonnegotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAROhio. They are used to finance construction expenditures approved by the Board of Trustees. Under certain circumstances, the funds may be used for repayment of principal and interest costs on the 1995 Wastewater Improvement Revenue Refunding Bonds.

Revenue Bond Debt Service Deposit

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2000 and 1999 consisted of direct obligations of the United States Government, plus accrued interest.

NOTE D - LONG-TERM DEBT

A summary of long-term debt outstanding at December 31, 2000 and 1999 follows:

	Interest Rate	2000	1999
Wastewater Improvement Revenue Refunding Bonds, Series 1995:			
Serial Bonds maturing 2001 - 2014	3.65%-5.60%	\$ 68,590,000	\$ 71,895,000
Term Bonds due 2016	5.60%	14,630,000	14,630,000
		83,220,000	86,525,000
Ohio Water Development Authority Loans payable annually through 2008	5.25%-8.47%	8,243,532	12,059,230
Water Pollution Control Loans payable through 2021	3.20%-5.20%	267,148,458	247,869,067
Other		27,862	45,296
Total Debt		358,639,852	346,498,593
Less current maturities		19,961,523	18,170,976
Long-Term Debt		\$338,678,329	\$328,327,617

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE D - LONG-TERM DEBT - CONTINUED

Wastewater Improvement Revenue Refunding Bonds, Series 1995

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

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

Ohio Water Development Authority Loans (OWDA)

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

Water Pollution Control Loans

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

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE D - LONG-TERM DEBT -- CONTINUED

Water Pollution Control Loans - Continued

outstanding during the construction period and is combined with the principal balance upon completion of the project. The repayment period for each loan commences no later than the first January or July following the expected completion date 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 thirty-three SRF loan awards related to projects, seven of which were not complete as of December 31, 2000. Loans related to completed projects are being repaid in semi-annual payments of principal and interest over a period of twenty years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2000 follows:

Completion or Expected Completion Year of Projects	Number of Projects	Current Amount Outstanding Including Accrued Construction Period Interest	Additional Available Borrowings Including Construction Period Interest
1993-2000	26	\$238,563,224	\$ -
2001	3	21,726,004	64,405,167
2002	2	2,997,792	9,212,437
2003	1	1,226,417	9,902,199
2004	1	2,635,021	586,804
		\$267,148,458	\$84,106,607

Defeasance Transactions

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

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE D - LONG-TERM DEBT -- CONTINUED

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

Future Debt Service Requirements

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

The total future debt service requirements for all long-term debt not defeased or refunded as of December 31, 2000 follows:

	Principal	Interest	Total
2001	\$19,961,523	\$15,618,534	\$35,580,057
2002	20,786,431	15,365,476	36,151,907
2003	18,496,199	14,353,098	32,849,297
2004	18,809,845	13,508,826	32,318,671
2005	18,832,928	12,631,947	31,464,875
2006 – 2010	98,688,987	50,397,639	149,086,626
2011 – 2015	108,598,056	24,790,025	133,388,081
2016 – 2020	53,629,000	4,985,086	58,614,086
2021	836,883	17,629	854,512
	\$358,639,852	\$151,668,260	\$510,308,112

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE E - 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, 2000, the carrying amount of the District's deposits, including certificates of deposit of \$837,992, was \$1,184,229 and the bank balance was \$1,995,040. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$1,695,040 was covered by collateral securities held in Federal Reserve pledge accounts. At December 31, 1999, the carrying amount of the District's deposits, including certificates of deposit of \$835,937, was \$1,229,592 and the bank balance was \$2,589,869. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$2,289,869 was covered by collateral securities held in Federal Reserve pledge accounts. In the event of default by the pledging financial institution, the District may make written demand upon the Federal Reserve Bank of Cleveland for surrender of the collateral.

Investments

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

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

The District categorizes investments to give an indication of the level of credit risk associated with the District's custodial arrangements at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name (the District had no Category 2 investments at December 31, 2000 and 1999). Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in the District's name.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE E - DEPOSITS AND INVESTMENTS - CONTINUED

Categorization of the District's investments at December 31, 2000 was as follows:

	C a t e g o r y		Total Fair Value
	1	3	
Debt Securities:			
United States Treasury	\$ 12,720,731	\$1,997,788	\$ 14,718,519
United States Government Agencies	246,216,671	-	246,216,671
<i>Total Debt Securities</i>	\$258,937,402	\$1,997,788	260,935,190
STAROhio			49,857,265
			\$310,792,455

Categorization of the District's investments at December 31, 1999 was as follows:

	C a t e g o r y		Total Fair Value
	1	3	
Debt Securities:			
United States Treasury	\$ 30,117,310	\$1,990,693	\$ 32,108,003
United States Government Agencies	221,769,204	-	221,769,204
<i>Total Debt Securities</i>	\$251,886,514	\$1,990,693	253,877,207
STAROhio			26,549,032
			\$280,426,239

The amounts invested with STAROhio at December 31, 2000 and 1999 are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE E - DEPOSITS AND INVESTMENTS - CONTINUED

The fair value of debt securities by contractual maturity at December 31, 2000 and 1999, are shown below:

	2000	1999
Due within one year	\$119,177,017	\$135,145,284
Due after one year through five years	141,758,173	118,731,923
	\$260,935,190	\$253,877,207

NOTE F - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash

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

Investments

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

Long-Term Debt

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The carrying value and estimated fair value of the District's long-term debt at December 31, 2000 were \$338,678,329 and \$330,880,368, respectively. The carrying value and estimated fair value of the District's long-term debt at December 31, 1999 were \$328,327,617 and \$308,351,682, respectively.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE G - EMPLOYEE RETIREMENT PLAN

The District contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to Public Employees Retirement System of Ohio, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. During 2000, covered District employees were required to contribute 8.5% of their annual covered salary and the District was required to contribute 10.84% of annual covered payroll. The District's contribution percentage included a temporary rollback rate of 8.13% effective from July of 2000 through December of 2000. Effective January 1, 2001, the employer contribution rate reverts back to 13.55%. The District's contributions to PERS for the years ending December 31, 2000, 1999 and 1998 were \$2,616,873, \$3,325,401 and \$3,364,899, respectively, which approximated the required contributions for each year.

NOTE H - POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the retirement plan benefits described in note G, PERS provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by PERS is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to PERS.

In 2000, the District was required to contribute 10.84% of covered payroll to PERS (see note G), of which 4.30% was used to fund post-retirement health care. In 1999, the District was required to contribute 13.55% of covered payroll to PERS, of which 4.20% was used to fund post-retirement health care. The actual contribution related to post retirement health care for the years ended December 31, 2000 and 1999 was \$1,038,058 and \$1,030,752, respectively.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE H - POST-RETIREMENT HEALTH CARE BENEFITS - CONTINUED

The following represents a summary of actuarial assumptions and calculations based on the latest actuarial review performed as of December 31, 1999:

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

Assets Valuation Method. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

Investment Return. The investment assumption rate for 1999 was 7.75%.

Active Employee Total Payroll. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.

Health Care. Health care costs were assumed to increase 4.75% annually.

OPEB's are advance funded on an actuarially determined basis. As of December 31, 1999, the net assets available for future OPEB payments were \$10.8 billion. The actuarial accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12.47 billion and \$1.67 billion, respectively. The number of active contributing participants was 401,339.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE I - 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 Aetna Life Insurance and Annuity Company Plan (the "Aetna Plan") or the Ohio Public Employees Deferred Compensation Plan (the "Ohio Plan" and 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, 2000 and 1999, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains an insurance reserve to account for and finance its uninsured risks of property damage. The District is self insured for workers' compensation and purchases commercial insurance for other specific types of coverage. There were no significant reductions in insurance coverage from the prior year. Claim settlements and judgments not covered by commercial insurance and the insurance reserve are covered by operating resources. The amount of settlements did not exceed insurance coverage for each of the past three years. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. At December 31, 2000 and 1999, estimated liabilities were less than \$300,000 and \$800,000, respectively, and are not material with respect to the financial position of the District. The District's insurance reserve as of December 31, 2000 and 1999 was \$14,703,786 and \$13,974,284, respectively, and is included in short-term investments on the District's balance sheet.

Northeast Ohio Regional Sewer District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2000 and 1999

NOTE K - COMMITMENTS AND CONTINGENCIES

The District has a major capital improvement and expansion program. At December 31, 2000, the District has outstanding commitments for contracts in progress of approximately \$127,000,000. Funding for future expenditures will be provided primarily from borrowings and District equity.

The District is currently appealing approximately \$11,000,000 in questioned and disallowed costs as a result of an EPA Federal grant audit. Although some portion of this claim may not be settled in the District's favor, management believes that the ultimate outcome will not have a material adverse effect on the financial position of the District and, accordingly, no liability for this amount has been accrued by the District.

The District has approximately \$2,000,000 in asserted or implied construction contract claims currently pending against it related to active construction contracts. In the opinion of District management, the ultimate outcome of these matters will not have a material adverse effect on the financial position of the District and, accordingly, no liability for this amount has been accrued by the District.

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

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SUPPLEMENTARY INFORMATION
(UNAUDITED)

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
SCHEDULE OF REVENUE AND EXPENSES
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2000**

	Annual Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUE</u>			
User Charges:			
Billed (1)	\$136,450,000	\$134,403,342	(\$2,046,658)
Unbilled	1,500,000	(2,808,605)	(4,308,605)
Other Revenue	400,000	338,987	(61,013)
Total Revenue	<u>138,350,000</u>	<u>131,933,724</u>	<u>(6,416,276)</u>
<u>EXPENSES</u>			
Salaries and Wages	25,921,637	23,892,150	2,029,487
Other Operating Expenses (1)	35,901,599	36,604,631	(703,032)
Depreciation	30,600,000	30,320,517	279,483
Total Operating Expenses	<u>92,423,236</u>	<u>90,817,298</u>	<u>1,605,938</u>
Excess of Revenues Over Operating Expenses	<u>\$45,926,764</u>	41,116,426	<u>(\$4,810,338)</u>
Reconciliation to Net Income:			
Interest Income		\$15,980,457	
Increase in Fair Value of Investments		7,125,918	
Loss on Disposals of Equipment		(74,682)	
Interest on Long-Term Debt		<u>(16,486,676)</u>	
Net Income		<u>\$47,661,443</u>	

(1) Adopted Budget restated to present Bad Debt Expense as a component of Other Operating Expenses instead of a reduction in User Charges.

See accompanying independent auditors' report.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
SCHEDULE OF OPERATING EXPENSES
BUDGET TO ACTUAL
YEAR ENDED DECEMBER 31, 2000**

Expense Category	Annual Budget	Actual	Variance Favorable (Unfavorable)
Salaries and Wages	\$25,921,637	\$23,892,150	\$2,029,487
Other Operating Expenses			
Benefits	7,910,397	7,197,179	713,218
Power	9,489,168	8,953,181	535,987
Gas	2,697,340	3,601,449	(904,109)
Water	986,788	954,713	32,075
Professional Services	2,519,050	1,426,942	1,092,108
Billing and Collection Fees	5,129,000	5,002,072	126,928
Insurance and Bonds	850,000	864,156	(14,156)
Solids Handling	1,114,300	1,439,390	(325,090)
Chemicals	806,790	742,727	64,063
Materials and Supplies	3,448,050	4,677,056	(1,229,006)
Repairs and Maintenance	1,855,170	1,722,806	132,364
Bad Debt Expense	800,000	602,891	197,109
All Other Expenses	2,701,046	2,473,286	227,760
Capitalized Construction Costs	(4,405,500)	(3,053,217)	(1,352,283)
Total Other Operating Expenses	<u>35,901,599</u>	<u>36,604,631</u>	<u>(703,032)</u>
Depreciation	<u>30,600,000</u>	<u>30,320,517</u>	<u>279,483</u>
Total Operating Expenses	<u><u>\$92,423,236</u></u>	<u><u>\$90,817,298</u></u>	<u><u>\$1,605,938</u></u>

See accompanying independent auditors' report.

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**III. STATISTICAL SECTION
(UNAUDITED)**



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**NORTHEAST OHIO REGIONAL SEWER DISTRICT
OPERATING REVENUE AND OTHER INCOME BY TYPE
LAST TEN YEARS**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Sewer Service Fees				
City of Cleveland Billing Agent	\$71,143,878	\$79,559,008	\$89,008,882	\$93,094,991
Other Billing Agents	2,196,690	2,571,805	2,856,538	7,459,849
Other Sewer Service Fees	5,100,826	6,101,947	6,600,176	7,226,733
Other Operating Revenue	<u>1,552,341</u>	<u>1,875,981</u>	<u>948,315</u>	<u>1,016,818</u>
Total Operating Revenue (1)	79,993,735	90,108,741	99,413,911	108,798,391
Interest Income	10,775,095	8,958,755	8,431,474	9,726,315
Increase (Decrease) in Fair Value of Investments (2)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue	<u><u>\$90,768,830</u></u>	<u><u>\$99,067,496</u></u>	<u><u>\$107,845,385</u></u>	<u><u>\$118,524,706</u></u>

(1) The increases in operating revenue are primarily due to rate increases.

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

Note: Years 1991 and 1992 are presented using the cash basis of accounting. In 1993, for internal reporting purposes the District began using the full accrual basis of accounting and years 1993 through 2000 represent accrual basis amounts. Although the audited financial statements for 1991 and 1992 were presented on the accrual basis, the revenue detail in this schedule is available only on the cash basis for those years.

Source: District accounting records.

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
\$91,621,101	\$95,918,392	\$99,720,616	\$108,120,810	\$113,813,438	\$111,352,149
7,826,656	8,481,837	8,819,246	9,754,924	10,025,945	9,914,671
6,906,932	7,404,001	7,622,117	8,174,134	8,846,646	9,727,725
<u>982,145</u>	<u>1,058,847</u>	<u>1,198,112</u>	<u>1,159,594</u>	<u>744,600</u>	<u>939,179</u>
107,336,834	112,863,077	117,360,091	127,209,462	133,430,629	131,933,724
11,761,325	14,419,575	14,656,424	14,833,852	14,996,659	15,980,457
<u>0</u>	<u>0</u>	<u>1,050,095</u>	<u>2,445,183</u>	<u>(4,806,082)</u>	<u>7,125,918</u>
<u><u>\$119,098,159</u></u>	<u><u>\$127,282,652</u></u>	<u><u>\$133,066,610</u></u>	<u><u>\$144,488,497</u></u>	<u><u>\$143,621,206</u></u>	<u><u>\$155,040,099</u></u>

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

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Salaries and Wages	\$20,368,770	\$21,220,849	\$22,113,901	\$23,319,678
Benefits	6,285,203	6,280,973	6,318,051	6,720,646
Power	9,308,639	9,316,151	9,424,042	9,303,057
Gas	2,702,237	2,450,523	2,652,841	2,373,248
Water	469,651	538,546	631,245	631,753
Professional Services	1,697,639	1,622,670	1,869,990	2,787,508
Billing and Collection Fees	3,195,992	3,474,205	3,725,604	4,176,279
Insurance and Bonds	652,234	637,175	557,202	615,065
Solids Handling	1,188,268	1,134,959	1,605,700	1,173,927
Chemicals	870,193	1,291,766	1,474,658	1,419,660
Materials and Supplies	2,820,023	2,498,774	2,304,772	2,474,834
Repairs and Maintenance	1,224,836	1,019,204	1,123,637	1,334,008
Bad Debt Expense (Recovery)	447,000	29,000	(5,949)	3,820,888
Depreciation	27,372,690	21,651,818	22,290,708	22,052,053
All Other Expenses	1,276,085	1,249,208	1,416,172	1,546,501
Capitalized Construction Costs	<u>(1,332,206)</u>	<u>(2,630,231)</u>	<u>(3,322,855)</u>	<u>(3,210,377)</u>
Total Operating Expenses	<u><u>\$78,547,254</u></u>	<u><u>\$71,785,590</u></u>	<u><u>\$74,179,719</u></u>	<u><u>\$80,538,728</u></u>

Note : Years 1991 and 1992 are presented using the cash basis of accounting, except for bad debt expense, depreciation, and capitalized construction costs. In 1993, for internal reporting purposes the District began using the full accrual basis of accounting and years 1993 through 2000 represent accrual basis amounts. Although the audited financial statements for 1991 and 1992 were presented on the accrual basis, the expense detail in this schedule is available only on the cash basis for those years.

Source : District accounting records.

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
\$24,086,396	\$24,993,344	\$25,033,703	\$24,437,135	\$23,662,565	\$23,892,150
6,360,136	6,235,727	6,621,439	6,492,369	6,746,180	7,197,179
9,646,002	9,664,024	9,751,968	9,490,602	9,126,719	8,953,181
2,607,493	2,581,693	2,744,234	2,557,611	2,391,660	3,601,449
667,855	701,934	768,811	858,857	871,216	954,713
3,207,863	1,346,917	1,070,494	1,303,469	1,990,640	1,426,942
4,486,005	4,568,164	4,666,139	4,863,083	4,947,264	5,002,072
533,639	583,216	541,835	580,001	583,644	864,156
1,431,972	1,393,493	1,010,364	1,082,460	1,373,228	1,439,390
1,578,721	912,559	808,661	831,880	944,648	742,727
2,603,262	2,648,300	2,936,944	2,750,734	3,261,897	4,677,056
1,196,549	1,167,174	1,437,440	1,700,997	2,004,747	1,722,806
632,917	543,914	492,740	735,371	800,163	602,891
24,332,512	26,589,817	29,929,463	28,335,108	29,028,480	30,320,517
2,324,815	2,124,851	2,097,277	2,240,893	2,176,672	2,473,286
<u>(3,576,318)</u>	<u>(3,715,274)</u>	<u>(3,393,015)</u>	<u>(3,637,103)</u>	<u>(3,122,880)</u>	<u>(3,053,217)</u>
<u><u>\$82,119,819</u></u>	<u><u>\$82,339,853</u></u>	<u><u>\$86,518,497</u></u>	<u><u>\$84,623,467</u></u>	<u><u>\$86,786,843</u></u>	<u><u>\$90,817,298</u></u>

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

SEE SUMMARY OF REVENUES, EXPENSES, DEBT SERVICE AND DEBT SERVICE
COVERAGE ON PAGES III-18 AND III-19, WHICH INCLUDES DEBT SERVICE RATIOS
FOR BONDED AND TOTAL DISTRICT DEBT FOR THE LAST TEN YEARS.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMMUNITIES SERVED BY THE DISTRICT AND
ESTIMATED POPULATION SERVED
DECEMBER 31, 2000**

<u>Municipality</u>	<u>Estimated Service Population (1)</u>	<u>Municipality</u>	<u>Estimated Service Population (1)</u>
SUBDISTRICT 1			
Cleveland	473,200		
SUBDISTRICT 2			
Beachwood	11,500	Middleburg Heights	13,015 (2)
Bedford	0 (3)	Newburgh Heights	2,100
Bedford Heights	575 (2)	North Randall	900
Berea	19,000	North Royalton	2,880 (2)
Boston Heights	0 (3)	Northfield	3,640
Bratenahl	1,300	Northfield Center Township	2,933 (2)
Brecksville	12,150 (2)	Oakwood	3,100
Broadview Heights	12,240 (2)	Olmsted Falls	760 (2)
Brook Park	19,570 (2)	Olmsted Township	1,104 (2)
Brooklyn	11,400	Orange	165 (2)
Brooklyn Heights	1,300	Parma	85,600
Cleveland Heights	53,100	Parma Heights	20,500
Cuyahoga Heights	600	Pepper Pike	315 (2)
East Cleveland	30,500	Richfield	793 (2)
Garfield Heights	29,700	Richmond Heights	188 (2)
Gates Mills	280 (2)	Sagamore Hills Township	2,896 (2)
Highland Heights	5,100 (2)	Seven Hills	11,500
Highland Hills	2,200	Shaker Heights	30,000
Hudson	21,230	Solon	392 (2)
Independence	6,500	South Euclid	18,240 (2)
Lakewood	0 (3)	Strongsville	21,050 (2)
Linndale	200	Twinsburg	0 (3)
Lyndhurst	14,500	University Heights	14,600
Macedonia	4,450 (2)	Valley View	2,700
Maple Heights	25,400	Walton Hills	2,470 (2)
Mayfield Heights	16,920 (2)	Warrensville Heights	13,860 (2)
Mayfield Village	2,720 (2)		
		Total Subdistrict 2	<u>558,136</u>
Total estimated service population			<u><u>1,031,336</u></u>

- (1) Based on approved community-level Minor Civil Division (MCD) census data populations supplied by Northeast Ohio Areawide Coordinating Agency (NOACA) and Northeast Ohio Four County Regional Planning and Development Organization (NEFCO).
(2) Estimated population for that portion of the municipality within the service area of the District.
(3) Service population not applicable; District serves commercial properties only.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
LARGEST CUSTOMERS OF THE DISTRICT
AS OF DECEMBER 31, 2000**

	<u>2000 MCF CONSUMPTION</u>	<u>AMOUNT BILLED</u>
<u>SUBDISTRICT 1</u>		
Cuyahoga Metropolitan Housing Agency*	138,649.9	\$3,814,499
LTV Steel Company*	49,684.3	1,445,770
City of Cleveland Water Filtration Plants	32,239.6	1,037,294
Cleveland Thermal Energy Corporation	38,277.4	989,659
Cleveland Clinic*	39,392.2	950,545
Cleveland Board of Education*	29,903.5	796,109
University Hospitals	31,604.3	766,063
Case Western Reserve University	25,814.5	702,828
Cuyahoga County*	20,715.8	535,775
Synthetic Products	16,498.7	457,009
Ferro Corporation*	16,260.5	446,227
New Longwood Association	11,290.3	308,888
MetroHealth Medical Centers	11,605.1	305,920
Cleveland State University*	10,537.9	288,398
Veterans Administration Hospital*	11,671.6	258,286
Clean Harbors of Cleveland Inc.	4,341.6	248,011
Holiday Inn*	8,154.1	220,271
Pure Tech	3,835.6	206,766
General Electric Company*	7,809.7	200,394
	<hr/>	<hr/>
Total Subdistrict 1	508,286.6	\$13,978,712
 <u>SUBDISTRICT 2</u>		
Ford Motor Corporation	53,094.0	\$1,412,299
Aluminum Corporation of America	47,694.6	1,263,594
NASA Lewis Research Center*	23,123.5	606,424
Forest City Management*	17,760.1	477,465
General Motors Corporation	10,783.0	286,549
	<hr/>	<hr/>
Total Subdistrict 2	152,455.2	\$4,046,331
Grand Total	<hr/> <hr/>	<hr/> <hr/>

* Amount represents Subdistrict 1 and Subdistrict 2 billings combined. Customer is listed in the Subdistrict where majority of consumption occurs.

Source: District accounting records and City of Cleveland Division of Water billing records.



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

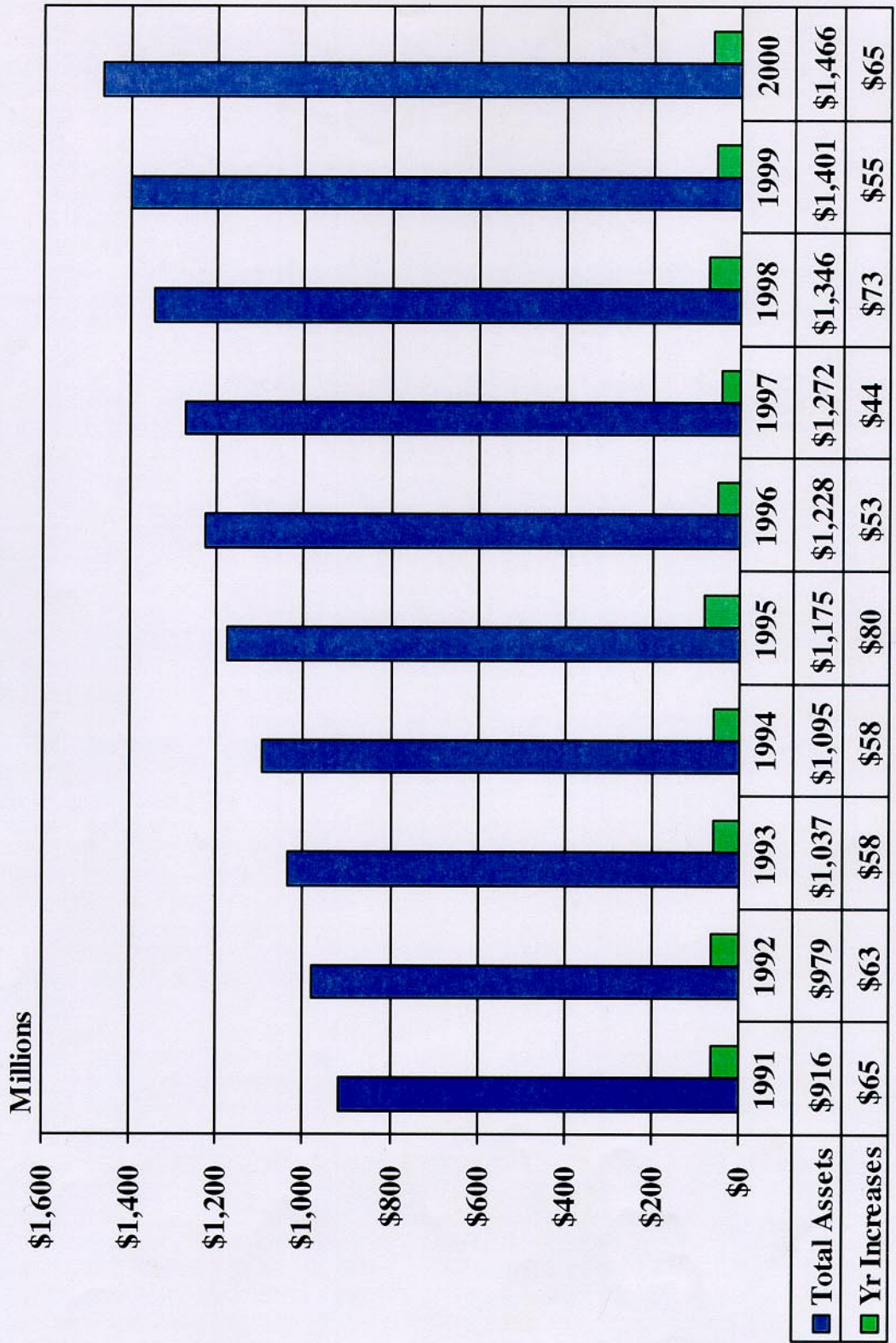
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
<u>TREATMENT PLANT FLOW</u>				
Billions of gallons of sewage treated per plant:				
Easterly	51.0	55.2	57.5	54.1
Southerly	42.0	44.4	45.9	46.5
Westerly	12.2	12.5	12.6	12.6
Strongsville (1)	1.2	1.3	1.3	0.7
Berea (1)	0.9	0.9	0.7	0.0
Total	<u>107.3</u>	<u>114.3</u>	<u>118.0</u>	<u>113.9</u>
Total sewage treated, in MCFs (2)	<u>14,344,920</u>	<u>15,280,749</u>	<u>15,775,401</u>	<u>15,227,273</u>
MCFs billed, total District	<u>7,086,628</u>	<u>6,356,764</u>	<u>6,211,793</u>	<u>6,436,047</u>
<u>STAFFING LEVELS</u>				
Number of employees (3):				
Plant Operations & Maintenance	419	406	400	396
Support Services	168	169	174	177
Engineering and Construction	46	46	45	50
Finance	38	37	39	39
District Administration	10	10	10	12
Legal	8	9	10	9
Total	<u>689</u>	<u>677</u>	<u>678</u>	<u>683</u>
Budgeted employees, total District	<u>699</u>	<u>693</u>	<u>699</u>	<u>700</u>

- (1) Berea plant decommissioned in 1993 and Strongsville plant decommissioned in 1994.
- (2) Conversion factor: 1 MCF (thousand cubic feet) = 7,480 gallons.
- (3) Includes all positions filled during the year. In 1998, Support Services budget centers were redistributed between Operations and District Administration.

Source: Various District records.

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
58.3	54.6	41.0	36.5	38.0	40.9
46.4	54.2	47.5	43.3	40.0	39.2
14.6	13.1	13.8	12.7	11.4	12.0
0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0
<u>119.3</u>	<u>121.9</u>	<u>102.3</u>	<u>92.5</u>	<u>89.4</u>	<u>92.1</u>
<u>15,949,198</u>	<u>16,296,791</u>	<u>13,676,471</u>	<u>12,366,310</u>	<u>11,951,872</u>	<u>12,312,834</u>
<u>6,057,449</u>	<u>6,158,601</u>	<u>5,963,566</u>	<u>6,004,778</u>	<u>5,785,288</u>	<u>5,600,215</u>
390	385	370	467	435	420
178	183	186	0	0	0
50	49	47	45	46	45
39	39	39	38	38	35
11	13	13	66	66	73
11	8	8	8	9	9
<u>679</u>	<u>677</u>	<u>663</u>	<u>624</u>	<u>594</u>	<u>582</u>
<u>705</u>	<u>709</u>	<u>704</u>	<u>644</u>	<u>620</u>	<u>625</u>

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



CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
<u>Subdistrict 1</u>				
Cleveland (1)	138,976	137,274	135,981	136,845
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	4	4	4	3
Direct Service - Suburbs (1)	<u>137,793</u>	<u>138,830</u>	<u>146,611</u>	<u>163,481</u>
Subtotal	<u>137,797</u>	<u>138,834</u>	<u>146,615</u>	<u>163,484</u>
Total Customers	<u><u>276,773</u></u>	<u><u>276,108</u></u>	<u><u>282,596</u></u>	<u><u>300,329</u></u>

(1) Year 2000 excludes inactive accounts.

(2) The Master Meter Suburbs, which bill their customers separately, had a total of 15,095 accounts at the end of 2000. The 2000 count represents an increase from 1999 of 1,187 accounts in Summit County.

The Village of Richfield became a Master Meter community in 1991.

As of April 1, 1994 the City of Cleveland Heights converted from a Master Meter to a Direct Service community and performs billing and collection functions similar to those performed by the City of Cleveland. The City of Hudson became a Master Meter community in 1998.

Source: District accounting records.

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
134,688	134,851	134,819	134,228	136,234	132,801
3	3	3	4	4	4
<u>164,395</u>	<u>167,376</u>	<u>167,784</u>	<u>170,325</u>	<u>170,032</u>	<u>171,712</u>
<u>164,398</u>	<u>167,379</u>	<u>167,787</u>	<u>170,329</u>	<u>170,036</u>	<u>171,716</u>
<u><u>299,086</u></u>	<u><u>302,230</u></u>	<u><u>302,606</u></u>	<u><u>304,557</u></u>	<u><u>306,270</u></u>	<u><u>304,517</u></u>

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

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
<u>Subdistrict 1</u>				
Cleveland	3,848,883	3,572,012	3,394,178	3,540,224
<u>Subdistrict 2</u>				
Direct Service - Suburbs	2,712,318	2,254,467	2,273,988	2,537,397
Master Meter - Suburbs(1)	<u>525,427</u>	<u>530,285</u>	<u>543,627</u>	<u>358,426</u> (2)
Subtotal	<u>3,237,745</u>	<u>2,784,752</u>	<u>2,817,615</u>	<u>2,895,823</u>
Total Service Area	<u><u>7,086,628</u></u>	<u><u>6,356,764</u></u>	<u><u>6,211,793</u></u>	<u><u>6,436,047</u></u>

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

Source: District accounting records.

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
3,198,706	3,309,692	3,173,571	3,176,655	2,919,241	2,815,865
2,593,163	2,569,691	2,519,858	2,559,852	2,553,481	2,427,096
<u>265,580</u> (3)	<u>279,218</u>	<u>270,137</u>	<u>268,271</u>	<u>312,566</u> (4)	<u>357,254</u>
<u>2,858,743</u>	<u>2,848,909</u>	<u>2,789,995</u>	<u>2,828,123</u>	<u>2,866,047</u>	<u>2,784,350</u>
<u><u>6,057,449</u></u>	<u><u>6,158,601</u></u>	<u><u>5,963,566</u></u>	<u><u>6,004,778</u></u>	<u><u>5,785,288</u></u>	<u><u>5,600,215</u></u>

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

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Operating Revenue	\$87,195	\$90,799	\$99,229	\$108,534
Non-Operating Revenue (1)	8,490	6,743	3,933	4,140
Total Revenues	<u>95,685</u>	<u>97,542</u>	<u>103,162</u>	<u>112,674</u>
Operating Expenses (Exclusive of depreciation)				
Operations	40,402	39,968	38,593	44,315
Maintenance	12,937	11,246	13,444	14,190
Total Operating Expenses	<u>53,339</u>	<u>51,214</u>	<u>52,037</u>	<u>58,505</u>
Net Revenues Available for Debt Service	<u>\$42,346</u>	<u>\$46,328</u>	<u>\$51,125</u>	<u>\$54,169</u>
Total Revenue Bond Debt Service (3)	\$7,963	\$8,966	\$9,961	\$9,959
Coverage on Revenue Bond Debt Service	5.32	5.17	5.13	5.44
Total All Debt Service (3)	\$12,618	\$13,612	\$15,381	\$16,143
Coverage on Total Debt Service	3.36	3.40	3.32	3.36

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

Interest Income from Project Account investments was as follows:

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
	\$1,938	\$5,539	\$3,159	\$1,898

(2) Beginning in 1997 investments are stated at fair value.

(3) Net Revenues are first used to pay debt service on Revenue Bonds and second to pay debt service on loans from the Ohio Water Development Authority (OWDA) and Water Pollution Control Loan Fund (WPCLF). The annual Debt Service Requirements on these obligations for the ten years ended December 31, 2000 were:

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Revenue Bond Issues and Debt Service				
\$63,439 Series 1984(A)	\$5,194	\$0	\$0	\$0
\$122,315 Series 1991(B)	2,769	8,966	9,961	9,959
\$97,830 Series 1995	0	0	0	0
Total Revenue Bond Debt Service	<u>7,963</u>	<u>8,966</u>	<u>9,961</u>	<u>9,959</u>
OWDA Debt Service	4,655	4,646	4,654	4,652
WPCLF Debt Service	0	0	766	1,532
Total All Debt Service	<u>\$12,618</u>	<u>\$13,612</u>	<u>\$15,381</u>	<u>\$16,143</u>

(A) The Series 1984 Bonds were paid and discharged on July 1, 1991.

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

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

Source: District accounting records.

<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
\$107,337	\$112,863	\$117,360	\$127,209	\$133,431	\$131,934
9,657	13,575	8,592 (2)	16,434	9,971	23,032
<u>116,994</u>	<u>126,438</u>	<u>125,952</u>	<u>143,643</u>	<u>143,402</u>	<u>154,966</u>
43,338	40,816	41,143	41,103	42,078	44,787
14,450	14,934	15,446	15,185	15,680	15,710
<u>57,788</u>	<u>55,750</u>	<u>56,589</u>	<u>56,288</u>	<u>57,758</u>	<u>60,497</u>
<u>\$59,206</u>	<u>\$70,688</u>	<u>\$69,363</u>	<u>\$87,355</u>	<u>\$85,644</u>	<u>\$94,469</u>
\$9,961	\$8,285	\$7,932	\$7,932	\$7,934	\$7,936
5.94	8.53	8.74	11.01	10.79	11.90
\$18,960	\$21,561	\$25,640	\$26,253	\$28,331	\$34,409
3.12	3.28	2.71	3.33	3.02	2.75
<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
\$701	\$271	\$0	\$0	\$0	\$0
<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
\$0	\$0	\$0	\$0	\$0	\$0
9,961	0	0	0	0	0
0	8,285	7,932	7,932	7,934	7,936
<u>9,961</u>	<u>8,285</u>	<u>7,932</u>	<u>7,932</u>	<u>7,934</u>	<u>7,936</u>
4,654	4,501	5,479 (C)	4,643	4,643	4,643
4,345	8,775	12,229	13,678	15,754	21,830
<u>\$18,960</u>	<u>\$21,561</u>	<u>\$25,640</u>	<u>\$26,253</u>	<u>\$28,331</u>	<u>\$34,409</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
1991	\$10.60	24.0 %	\$8.96	N.A.	\$13.50	22.1 %	\$11.55	N.A.
1992	12.75	20.3	9.39	4.8 %	16.50	22.2	12.15	5.2 %
1993	13.00	2.0	9.44	0.5	18.00	9.1	12.45	2.5
1994 - 1995	14.75	13.5	9.79	3.7	19.80	10.0	12.81	2.9
1996	15.95	8.1	11.10	13.4	21.00	6.1	13.85	8.1
1997	17.15	7.5	11.80	6.3	22.25	6.0	14.75	6.5
1998	18.25	6.4	12.55	6.4	23.45	5.4	15.70	6.4
1999	19.60	7.4	13.35	6.4	24.50	4.5	16.70	6.4
2000	21.10	7.7	14.25	6.7	26.60	8.6	17.80	6.6

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

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

Industrial Waste Surcharge

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

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

Minimum Quarterly Billing

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

Source: District accounting records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
CAPITAL IMPROVEMENT PROGRAM
USES AND SOURCES OF FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2001 THROUGH 2005
(In Thousands of Dollars)**

<u>USES OF FUNDS (1)</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>TOTAL</u>
Sewage Treatment Plant Improvements						
Westerly	\$19,200	\$100	\$100	\$100	1,000	\$20,500
Southerly	4,800	8,000	14,700	13,300	31,900	72,700
Easterly	26,236	8,200	500	500	1,000	36,436
Sub-Total	<u>50,236</u>	<u>16,300</u>	<u>15,300</u>	<u>13,900</u>	<u>33,900</u>	<u>129,636</u>
Interceptors						
Inter-Community Relief Sewers	26,250	15,925	9,950	2,000	0	54,125
Cuyahoga Valley	1,900	0	0	0	0	1,900
Sub-Total	<u>28,150</u>	<u>15,925</u>	<u>9,950</u>	<u>2,000</u>	<u>0</u>	<u>56,025</u>
Combined Sewer Overflow and Interceptor Rehabilitation Other Projects	25,685	97,490	21,860	47,000	52,650	244,685
TOTAL	<u>\$133,569</u>	<u>\$159,115</u>	<u>\$48,860</u>	<u>\$66,200</u>	<u>\$89,600</u>	<u>\$497,344</u>
<u>SOURCES OF FUNDS</u>						
Federal Grants (2)	\$0	\$0	\$0	\$0	\$23,900	\$23,900
WPCLF Loans (2)	30,975	97,800	21,300	8,400	8,600	167,075
Internally Generated Funds	102,594	61,315	27,560	57,800	57,100	306,369
TOTAL	<u>\$133,569</u>	<u>\$159,115</u>	<u>\$48,860</u>	<u>\$66,200</u>	<u>\$89,600</u>	<u>\$497,344</u>

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

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

Source: District accounting records.

Cover Photograph
Euclid Creek Reservation
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NORTHEAST OHIO REGIONAL SEWER DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 7, 2001**