

NORTHEAST OHIO REGIONAL SEWER DISTRICT  
A POLITICAL SUBDIVISION OF THE  
STATE OF OHIO  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2004

SUBMITTED BY:

Departments of Finance and District Administration





**Auditor of State  
Betty Montgomery**

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 Ciuni & Panichi, Inc. for the audit period January 1, 2004 through December 31, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

June 22, 2005

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*Protecting Your Health and Environment*

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

**DECEMBER 31, 2004**

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# **INTRODUCTORY SECTION**

June 10, 2005

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, 2004, is hereby submitted. This report conforms to accounting principles generally accepted in the United States of America (U.S. GAAP) including Governmental Accounting Standards Board Statements 34 through 39 as applicable. This report consists of management’s representations concerning the finances of the District. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management.

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

The Ohio Revised Code requires the Auditor of State to perform biennial audits of the District. In addition, the District’s Bond Resolution requires annual financial audits. Both these requirements are being met, with the approval of the Auditor of State, by the engagement of independent certified public accountants by the District. Ciuni & Panichi, Inc., a firm of licensed certified public accountants, has audited the District’s financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended December 31, 2004 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors’ report is presented as the first component of the financial section of this report.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial and statistical. The introductory section, which is unaudited, includes this letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association for the year ended December 31, 2003, a list of the District’s principal officials and a table of organization. The financial section includes the

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

The District is required to undergo an annual audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Information related to this Single Audit, including a schedule of expenditures of federal awards and the independent 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.

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, 2004 disclosed no material internal control weaknesses or material violations of laws and regulations.

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

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

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

## **PROFILE OF THE DISTRICT**

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

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

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of the year to which they apply. Readers should refer to the Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual on page 39 of this report, along with the accompanying Notes to Supplementary Information for additional budgetary information.

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

## **FACTORS AFFECTING FINANCIAL CONDITION**

### **Local Economy**

The economic environment in which the District operates is affected by the same events and conditions as the rest of the State of Ohio and the nation. Although the economy is experiencing a downturn, District revenue is expected to remain relatively unchanged due to approval of a rate increase by the Board of Trustees. The region is not dominated by any single industry. The City of Cleveland ranks 14th among cities with Fortune 500 company headquarters. There are five Fortune 500 companies in Cleveland and seven in the District's service area. Major industries with headquarters or divisions located in the District's service area or in close proximity include automotive manufacturers; industrial equipment, metals, paints and coatings producers; office supply retailer; insurance; and banking services. Major employers in the area include federal, state, county and municipal government agencies, health care providers, public schools, financial service providers, manufacturers and retail establishments. In recent years there has been a significant shift from manufacturing to a service and information based economy.

The area has experienced an increase in travel and tourism. The Convention & Visitors Bureau of Greater Cleveland has not released statistics for 2004 travel and tourism. The most recent statistics available are for 2003. The Bureau received 436,546 visitor information requests in 2003 compared to 445,598 in 2002, 394,769 in 2001 and 67,495 in 1994. The number of leisure visitors to Cuyahoga County in 2001 was 9.0 million, which is a 2.3% increase over the 8.8 million in 2000 and an 11.1% increase over the 8.1 million in 1999. Travel and tourism contributed approximately \$3.1 billion and 65,470 jobs to the economy of the area in 2001.

The unemployment rate in December 2004 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 5.7% was 0.1% higher than the seasonally adjusted rate for the State of Ohio and 0.7% higher than the national rate. The county had an employed labor force of approximately 631,800 as of December 2003, which was about 10,400 more than the revised amounts for December 2002. Although the City of Cleveland and Cuyahoga County have experienced an outward migration of residents to neighboring suburbs and counties, the presence of corporate, cultural and entertainment facilities continues to attract visitors and commuters to the area. Area economists are optimistic about the future and look for stabilization and expansion in area industries.

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

The District has produced a strong financial history since its inception in 1972. Moving forward, the District is well positioned to continue to meet the level of service and regulatory requirements demanded by its customers, its Board of Trustees and regulatory agencies. Part of that responsibility will entail investment, over the next 30 years, of approximately \$3.2 billion in new Combined Sewer Overflow (CSO) controls and wastewater facility improvements.

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

The LTFP incorporates an assumption that the District CSO program will be implemented over 30 years in accordance with facilities plans the District has prepared. A Long Term Financial and Rate Impact Model was developed while preparing the LTFP. The model was used to test the sensitivity and impact of variables such as time or dollar changes in District Construction in Progress. The District has adopted rate schedules effective through 2006 and those rates are incorporated into the LTFP and the Financial and Rate Impact Model. The Financial and Rate Impact Model does not consider costs that may arise out of future capital or operational initiatives in response to unforeseen regulations.

## **Cash Management**

The District currently invests in four major types of instruments: obligations issued or backed by the United States Government; the STAROhio Fund; bank or savings and loan non-negotiable certificates of deposit and bank money market savings. A portion of the District's investment portfolio is comprised of securities with longer maturity terms (three to five years) to more accurately match the time when the funds will be utilized and to take advantage of higher interest rates. In determining portfolio performance and value, marketable securities are periodically compared to market. The District has not incurred any realized loss in the portfolio since securities are held to maturity, at which time the anticipated return is received. At December 31, 2004, the District's investment portfolio, at cost, of \$268,716,923, including \$1,983,736 in the Debt Service Account for the Series 1995 Bonds and excluding accrued interest, had a market value of \$308,441,060.

## **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 11 to the audited financial statements discloses information about risk management.

## **Debt Administration**

At year-end, the District had bonded debt outstanding of \$68,415,000. The debt net of applicable unamortized discounts, issue costs and refunding costs is \$65,628,158. 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, 2004, the outstanding loan balances were \$350,908,031 for the WPCLF and \$1,274,254 with the OWDA. Outstanding revenue bonds of the District are rated AAA by Standard & Poor's and Aaa by Moody's rating agencies. Note 7 to the audited financial statements includes schedules of debt outstanding and future debt service requirements.

In prior years, the District refinanced bonded debt that was outstanding at the time. These legal defeasance transactions resulted in funds being deposited with escrow agents who invested them in U.S. Treasury obligations which, together with the income earned on such investments, will be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the refunding transactions. This information should be read in conjunction with Note 7 to the audited financial statements.

## **MAJOR INITIATIVES**

### **For the Year**

#### **2004 Awards**

The National Association of Clean Water Agencies (NACWA, formerly Association of Metropolitan Sewerage Agencies, or AMSA) honored our Westerly treatment plant with the Gold Award and our Easterly plant with the Silver Award for excellent performance last year. Westerly had no National Pollutant Discharge Elimination System (NPDES) permit violations and Easterly met their permit limits with only one violation in 2004.

Our Southerly treatment plant earned the Northeast Ohio Water Environment Association's Outstanding Facility Award for a Large Treatment Facility for their performance in 2004.

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

#### **Easterly CSO Project Update**

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

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

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

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

The District has proceeded with the design and construction of early-action projects to reduce CSO discharges. The early-action projects involve modifications to the existing combined sewer system to reduce CSO frequency. The construction of the early action projects will be completed in 2005. Additionally, the District has completed an Advanced Facilities Planning study for the recommended CSO storage tunnels. This study involved collecting additional data to help refine the size, depth and route of the recommended CSO storage tunnels. Design of the first tunnel will begin in 2005.

### **Southerly CSO Project Update**

The District concluded a study of its Southerly combined sewer area in 2002, intended to develop a facilities plan for system improvements that would reduce pollution levels in Lake Erie and area streams and meet Ohio EPA requirements for combined sewer overflow (CSO) control. According to study results, approximately 1.65 billion gallons of CSO reach receiving waters from 30 permitted outfalls in the Southerly study area. A recommended control plan — which includes two main storage tunnel systems, a dewatering pump station, a satellite storage tank, and several other miscellaneous modifications and improvements — has been submitted to the EPA for review. The estimated cost of the proposed plan, one that would capture and treat an additional 1.2 billion gallons of CSO annually, is \$468 million.

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

### **Westerly CSO Project Update**

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



Several early action CSO control projects in the Westerly CSO area have been completed. The design of upgrades to the District's CSOTF was completed in 2004 and construction is scheduled to begin in 2005.

### **Mill Creek Tunnel Update**

The Mill Creek Tunnel was designed to reduce combined sewer overflows (CSOs) to the environment. The first two legs of the three-phase tunneling project, known as Mill Creek Tunnel Contracts 1 and 2 (MCT-1 and MCT-2), have been completed, and are conveying flows to the District's Southerly Wastewater Treatment Center. Mill Creek Tunnel Contract 3 (MCT-3), a 15,000-ft. stretch of 20-foot-diameter sewer, is under construction. In conjunction with MCT-1 and 2, the entire system will be capable of storing more than 70 million gallons of CSO volume annually. Twelve communities will benefit from the project as the tunnel relieves currently overloaded combined and sanitary sewers. In addition, thirteen of 27 outfalls now discharging to Lake Erie, the Cuyahoga River, and Cranwood and Wolf Creeks, will be eliminated upon its completion. MCT-3 construction is scheduled through 2007 at a cost of \$58.3 million.

### **For the Future**

#### **Strategic Plan**

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

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

#### **Proposed 30-Year Combined Sewer Overflow Program**

The District has invested approximately \$2.0 billion in capital improvements since 1972 to help assure clean water for a Greater Cleveland. Estimated funding requirements for future CSO projects mandated by the US EPA are approximately \$1.6 billion over the next three decades. As

US EPA-mandated work, the District must make these improvements, projects that we agree will have a significant benefit on water quality.

Through the federal Clean Water Act, the US EPA mandates that we address the CSO problem. The District has adopted a 30-year timetable to implement the CSO control program to decrease the financial burden on our customers and to meet the complex requirements of the CSO projects.

### **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Northeast Ohio Regional Sewer District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2003. This was the ninth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

**ACKNOWLEDGEMENTS**

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

Respectfully submitted,



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Erwin J. Odeal  
Executive Director



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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, 2003

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.



*Nancy L. Zielke*

President

*Jeffrey R. Emer*

Executive Director

DISTRICT OFFICIALS

DECEMBER 31, 2004

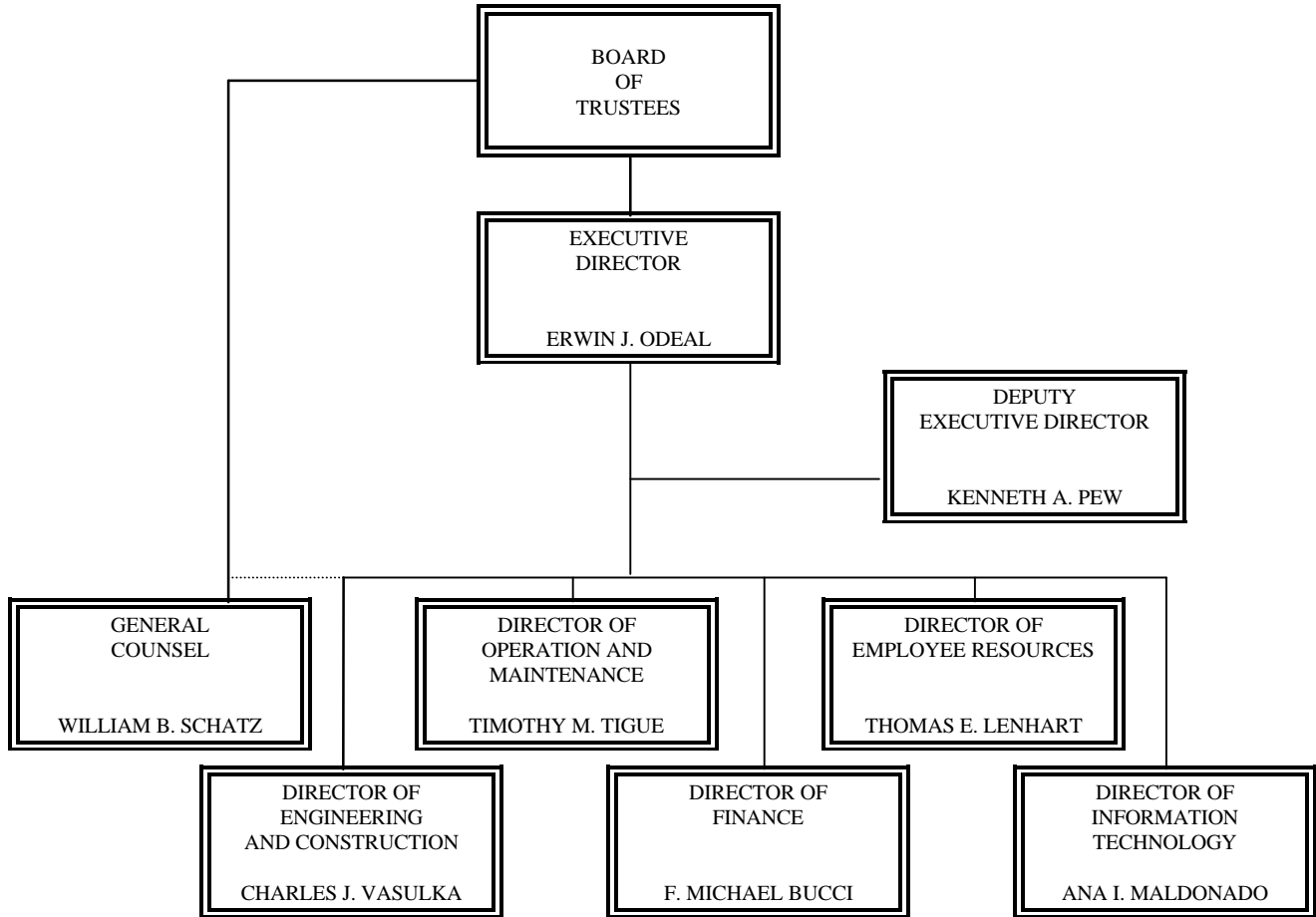
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**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
TABLE OF ORGANIZATION  
DECEMBER 31, 2004**



<u>NUMBER OF EMPLOYEES BY DEPARTMENT</u>	
OPERATION AND MAINTENANCE	403
EMPLOYEE RESOURCES	48
INFORMATION TECHNOLOGY	20
FINANCE	49
LEGAL	9
DISTRICT ADMINISTRATION	17
ENGINEERING AND CONSTRUCTION	63
TOTAL EMPLOYEES DECEMBER 31, 2004	<u>609</u>



Northeast Ohio Regional  
**Sewer District**

*Protecting Your Health and Environment*

# **FINANCIAL SECTION**



## **Independent Auditors' Report**

The Board of Trustees  
Northeast Ohio Regional Sewer District

We have audited the accompanying financial statements of the Northeast Ohio Regional Sewer District, as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Northeast Ohio Regional Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northeast Ohio Regional Sewer District, as of December 31, 2004 and 2003, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2005 on our consideration of the Northeast Ohio Regional Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The Board of Trustees  
Northeast Ohio Regional Sewer District

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

*Cini & Parichi, Inc.*

Cleveland, Ohio  
April 28, 2005

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

The following discussion provides a summary overview of the financial activities of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2004. This information should be read in conjunction with the letter of transmittal and basic financial statements included in this report.

### Financial Highlights

- Assets exceeded liabilities by \$1,219,658,010 as of December 31, 2004.
- Net assets increased by \$13,733,662 in 2004.
- Investment in capital assets, net of related debt increased by \$63,898,237.
- Unrestricted net assets decreased \$50,164,575.
- Debt increased \$24,821,743 due to new Water Pollution Control Loan Fund borrowings. Retirements of debt principal were \$24,311,041.

### Overview of the Financial Statements

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

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

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

The tables below provide a summary of the District's financial position and operations for 2004, 2003 and 2002, respectively. In 2004 the District corrected the depreciable lives used on certain assets and corrected the accrued payroll liability. These prior period adjustments to 2003 and 2002 are described in Note 3 in the notes to the financial statements. The District implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in 2002. Certain reclassifications have been made to restate the 2003 and 2002 financial statements in order to conform to the 2004 presentation. Certain amounts may vary slightly due to differences caused by rounding to thousands.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2004	2003	Change	
			Amount	%
<u>Assets</u>				
Current assets	\$150,628	\$147,665	\$2,963	2.0 %
Capital assets, net	1,327,775	1,262,880	64,895	5.1 %
Other noncurrent assets	190,165	241,572	(51,407)	(21.3)%
<b>Total assets</b>	<b>1,668,568</b>	<b>1,652,117</b>	<b>16,451</b>	<b>1.0 %</b>
 <u>Liabilities</u>				
Current liabilities	53,369	50,546	2,823	5.6 %
Long-term debt	395,541	395,647	(106)	- %
<b>Total liabilities</b>	<b>448,910</b>	<b>446,193</b>	<b>2,717</b>	<b>0.6 %</b>
 <u>Net assets</u>				
Invested in capital assets	911,951	848,052	63,899	7.5 %
Unrestricted	307,707	357,872	(50,165)	(14.0)%
<b>Total net assets</b>	<b>\$1,219,658</b>	<b>\$1,205,924</b>	<b>\$13,734</b>	<b>1.1 %</b>

Net assets may serve as a useful indicator of financial position. As noted earlier, District assets exceeded liabilities by \$1,219,658,010 as of December 31, 2004, of which \$911,950,892 is for net investment in capital assets.

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

During 2004, net assets increased by \$13,733,662. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$1,801,951.
- Receivables from Federal and state agencies decreased by \$723,546.
- Construction funds in the capital project account decreased by \$50,921,775.
- Capital assets increased by \$64,895,142 due mainly to construction of the wastewater treatment and conveyance system.
- Total debt increased by a net amount of \$510,702. Additions of \$24,821,743 were for new borrowings from the Water Pollution Control Loan Fund for various construction projects. Reductions were \$24,311,041 for repayment of debt principal.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2003	2002	Change	
			Amount	%
<u>Assets</u>				
Current assets	\$147,665	\$145,854	\$1,811	1.2 %
Capital assets, net	1,262,880	1,211,256	51,624	4.3 %
Other noncurrent assets	241,572	254,616	(13,044)	(5.1)%
<b>Total assets</b>	1,652,117	1,611,726	40,391	2.5%
 <u>Liabilities</u>				
Current liabilities	50,546	45,514	5,177	11.4 %
Long-term debt	395,647	386,209	9,438	2.5 %
<b>Total liabilities</b>	446,193	431,723	14,615	3.4 %
 <u>Net assets</u>				
Invested in capital assets	848,052	809,634	38,418	4.7 %
Unrestricted	357,872	370,368	(12,496)	(3.4)%
<b>Total net assets</b>	\$1,205,924	\$1,180,002	\$25,922	2.2 %

District assets exceeded liabilities by \$1,205,924,348 as of December 31, 2003, of which \$848,052,655 is for net investment in capital assets.

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

During 2003, net assets increased by \$25,922,359. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$657,488.
- Receivables from Federal and state agencies decreased by \$2,477,351.
- Construction funds in the capital project account decreased by \$12,510,157.
- Capital assets increased by \$51,624,423 due mainly to construction of the wastewater treatment and conveyance system and a new administration building.
- Total debt increased by a net amount of \$12,672,411. Additions of \$33,388,309 were for new borrowings from the Water Pollution Control Loan Fund for various construction projects. Reductions were \$20,715,898 for repayment of debt principal.

The following table summarizes the changes in revenues and expenses for the District between 2004 and 2003:

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2004	2003	Change	
			Amount	%
<u>Operating revenue</u>				
Sewer service fees				
Billing Agents				
City of Cleveland	\$110,815	\$107,662	\$3,153	2.9 %
Other Billing Agents	11,263	10,093	1,170	11.6 %
Total Billing Agents	122,078	117,755	4,323	3.7 %
Direct billed sewer service fees	11,442	11,505	(63)	(0.5)%
Total sewer service fees	133,520	129,260	4,260	3.3 %
Other operating revenue				
Septic tank and municipal sludge fees	581	474	107	22.6 %
Miscellaneous	182	141	41	29.1 %
Total other operating revenue	763	615	148	24.1 %
<b>Total operating revenue</b>	<b>134,283</b>	<b>129,875</b>	<b>4,408</b>	<b>3.4 %</b>
<u>Non-operating revenue</u>				
Interest revenue	11,265	12,268	(1,003)	(8.2)%
Increase (decrease) in fair value of investments	(6,663)	(5,710)	(953)	(16.7)%
<b>Total non-operating revenue</b>	<b>4,602</b>	<b>6,558</b>	<b>(1,956)</b>	<b>(29.8) %</b>
<b>Total revenue</b>	<b>138,885</b>	<b>136,433</b>	<b>2,452</b>	<b>1.8 %</b>
<u>Operating expenses</u>				
Operations	50,920	47,759	3,161	6.6 %
Maintenance	19,888	18,574	1,314	7.1 %
Depreciation	35,669	34,167	1,502	4.4 %
<b>Total operating expenses</b>	<b>106,477</b>	<b>100,500</b>	<b>5,977</b>	<b>5.9 %</b>
<u>Non-operating expenses</u>				
Interest expense on long-term debt	19,353	19,290	63	0.3 %
Loss on disposals of equipment	1,025	123	902	733.3 %
<b>Total non-operating expenses</b>	<b>20,378</b>	<b>19,413</b>	<b>965</b>	<b>5.0 %</b>
<b>Total expenses</b>	<b>126,855</b>	<b>119,913</b>	<b>6,942</b>	<b>5.8 %</b>
Income before contributions	12,030	16,520	(4,490)	(27.2)%
<b>Capital contributions</b>	<b>1,704</b>	<b>9,402</b>	<b>(7,698)</b>	<b>(81.9)%</b>
<b>Change in net assets</b>	<b>13,734</b>	<b>25,922</b>	<b>(12,188)</b>	<b>(47.0)%</b>
Net assets at beginning of year – as restated	1,205,924	1,180,002	25,922	2.2%
<b>Net assets at end of year</b>	<b>\$1,219,658</b>	<b>\$1,205,924</b>	<b>\$13,734</b>	<b>1.1%</b>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

Operating revenue consists of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2004:

- Operating revenue increased by \$4,407,909 (3.4%) compared to 2003. The increase was due mainly to higher billing rates in 2004.
- Non-operating revenue decreased by \$1,955,559 (29.8%). Non-operating revenue consists of interest income and the change in fair value of investments. Interest income decreased by \$1,002,766 (8.2%) due to both lower balances available for investment and a lower rate of return. The decline in fair value of investments for 2004 was \$952,793 more than in 2003. This decline is expected to reverse in the future since these investments in obligations of the U.S. Treasury and its agencies are held to maturity. Losses on equipment disposals in 2004 were \$901,628 higher due to disposal of equipment used in wastewater treatment and conveyance.
- Operating expenses increased \$5,977,710 (5.9%) compared to 2003. All components of operating expenses – operations, maintenance and depreciation – increased proportionately.
- Non-operating expenses increased \$964,918 (5.0%). Interest expense increased by \$63,290 due to increased Water Pollution Control Loans.

Capital contributions from the U.S. Environmental Protection Agency decreased in 2004 by \$7,698,419 due to completion of grant funded projects.

The following table on the next page summarizes the changes in revenues and expenses for the District between 2003 and 2002.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2003	2002	Change	
			Amount	%
<u>Operating revenue</u>				
Sewer service fees				
Billing Agents				
City of Cleveland	\$107,662	\$109,417	(\$1,755)	(1.6)%
Other Billing Agents	10,093	10,099	(6)	(0.1)%
Total Billing Agents	117,755	119,516	(1,761)	(1.5)%
Direct billed sewer service fees	11,505	10,277	1,228	12.0 %
Total sewer service fees	129,260	129,793	(533)	(0.4)%
Other operating revenue				
Septic tank and municipal sludge fees	474	610	(136)	(22.3)%
Miscellaneous	141	355	(214)	(60.0)%
Total other operating revenue	615	965	(350)	(36.1)%
<b>Total operating revenue</b>	<b>129,875</b>	<b>130,758</b>	<b>(883)</b>	<b>(0.7) %</b>
<u>Non-operating revenue</u>				
Interest revenue	12,268	14,248	(1,980)	(13.9)%
Increase (decrease) in fair value of investments	(5,710)	5,457	(11,167)	(204.6)%
<b>Total non-operating revenue</b>	<b>6,558</b>	<b>19,705</b>	<b>(13,147)</b>	<b>(66.7)%</b>
<b>Total revenue</b>	<b>136,433</b>	<b>150,463</b>	<b>(14,030)</b>	<b>(9.3)%</b>
<u>Operating expenses</u>				
Operations	47,759	44,565	3,194	7.2 %
Maintenance	18,574	17,342	1,232	7.1 %
Depreciation	34,167	31,843	2,324	7.3 %
<b>Total operating expenses</b>	<b>100,500</b>	<b>93,750</b>	<b>6,750</b>	<b>7.2 %</b>
<u>Non-operating expenses</u>				
Interest expense on long-term debt	19,290	18,284	1,006	5.5 %
Loss on disposals of equipment	123	1,317	(1,194)	(90.6)%
<b>Total non-operating expenses</b>	<b>19,413</b>	<b>19,601</b>	<b>(188)</b>	<b>(1.0) %</b>
<b>Total expenses</b>	<b>119,913</b>	<b>113,351</b>	<b>6,562</b>	<b>5.8 %</b>
Income before contributions	16,520	37,112	(20,592)	(55.5)%
<b>Capital contributions</b>	<b>9,402</b>	<b>5,254</b>	<b>4,148</b>	<b>78.9 %</b>
<b>Change in net assets</b>	<b>25,922</b>	<b>42,366</b>	<b>(16,444)</b>	<b>(38.8)%</b>
Net assets at beginning of year – as restated	1,180,002	1,137,636	42,366	3.7%
<b>Net assets at end of year – as restated</b>	<b>\$1,205,924</b>	<b>\$1,180,002</b>	<b>\$25,922</b>	<b>2.2%</b>



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

- Operating revenue decreased by \$882,660 (0.7%) compared to 2002. The decrease was due to higher reductions in revenue for bad debt estimates for doubtful customer accounts receivable.
- Non-operating revenue decreased by \$13,147,636 (66.7%) due to lower interest revenue and the change in fair value of investments. Lower interest rates on investments, coupled with the decline in fair values contributed to the decrease.
- Operating expenses increased \$6,750,116 (7.2%) compared to 2002. All components of operating expenses – operations, maintenance and depreciation – increased proportionately.
- Non-operating expenses decreased \$187,701 (1.0%). Interest expense increased by \$1,005,899 due to increased Water Pollution Control Loans. This was offset by a decrease in losses on equipment disposals of \$1,193,600, resulting in a net decrease.

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Capital Assets

At the end of 2004, the District had \$1,327,775,101 invested in capital assets. This amount represents a net increase of approximately \$65 million, or 5.1% over 2003. Refer to Notes 2, 3 and 6 to the audited financial statements for more detailed information on capital assets.

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

	2004	2003	Change	
			Amount	%
Land	\$7,300	\$4,391	\$2,909	66.3 %
Construction in Progress	238,823	180,833	57,990	32.1 %
Interceptor Sewer Lines	614,300	581,919	32,381	5.6 %
Buildings, structures and improvements	352,743	399,688	(46,945)	(11.7)%
Sewage treatment and other equipment	114,609	96,049	18,560	19.3 %
Totals	\$1,327,775	\$1,262,880	\$64,895	5.1 %

Major additions in 2004, at cost included:

Interceptors:

Mill Creek Tunnel 3	\$20,250
Mill Creek Tunnel 2	7,187
Lee-Superior Relief Sewer	9,147
Tuxedo Road Relief Sewer	4,817
SOM Center Relief Sewer	4,967
Easterly Interceptor Rehabilitation	2,126

Wastewater treatment plants:

Easterly headworks improvements	2,335
Easterly early action combined sewer overflow (CSO)	6,316
Westerly outfall improvements	7,764
Southerly skimmings handling	5,432
Southerly gravity belt thickener	5,365
Plant process monitors	5,314
	\$81,020

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Capital Assets

At the end of 2003, the District had \$1,262,879,959 invested in capital assets. This amount represents a net increase of approximately \$52 million, or 4.3% over 2002. Refer to Notes 2, 3 and 6 to the audited financial statements for more detailed information on capital assets.

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

	2003	2002	Change	
			Amount	%
Land	\$4,391	\$3,889	\$502	12.9 %
Construction in Progress	180,833	230,125	(49,292)	(21.4)%
Interceptor Sewer Lines	581,919	505,709	76,210	15.1 %
Buildings, structures and improvements	399,688	381,965	17,723	4.6 %
Sewage treatment and other equipment	96,049	89,568	6,481	7.2 %
Totals	<u>\$1,262,880</u>	<u>\$1,211,256</u>	<u>\$51,624</u>	<u>4.3 %</u>

Major additions in 2003, at cost included:

Interceptors:

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

Wastewater treatment plants:

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

Administrative office complex

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Debt Administration

At December 31, 2004 the District had total debt outstanding of \$420,597,285 compared to \$420,086,583 at December 31, 2003. This represents an increase of \$510,702. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$24,821,743; total debt retirements were \$24,311,041. The carrying value of the long-term portion of debt at December 31, 2004 was \$395,540,766 and the fair value of the long-term debt was \$411,549,402.

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

This information should be read in conjunction with Note 7 to the audited financial statements for more detailed information on long-term debt.

### Outstanding Debt at December 31, (In Thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenue Bonds	\$68,415	\$72,415	\$76,175
Ohio Water Development Authority Loans	1,274	1,599	1,907
Water Pollution Control Loans Payable	<u>350,908</u>	<u>346,073</u>	<u>329,332</u>
Total Debt	<u>\$420,597</u>	<u>\$420,087</u>	<u>\$407,414</u>

### Economic Factors

Effective January 1, 2004 the District increased sewage service rates for the second time in four years. Rates increased by 7.5% to \$24.40 per thousand cubic feet (mcf) for customers located in the City of Cleveland, and by 5.2% to \$29.40 per mcf for customers outside the City. (The District's Homestead Program offers reduced rates to qualified customers age 65 or older, or those totally disabled.) Similar increases are scheduled for the years 2005 and 2006. Increasingly stringent federal regulations and remaining legal obligations are key factors that led to the increase. A rate study of a projected six-year period concluded that the need to finance \$495 million in federally mandated capital projects between 2002 and 2006, combined with the repayment of existing debt service for past projects and an anticipated decrease in billed consumption, necessitated the rate increases.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

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

### **Contacting the District's Financial Management**

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets

December 31, 2004 and 2003

	<u>Assets</u>	
	2004	2003
Current assets:		
Cash	\$ 216,393	\$ 937,792
Short-Term Investments	84,480,008	80,332,520
Sewage Service Fees Receivable, less allowance for doubtful accounts of \$7,714,000 in 2004 and \$6,878,000 in 2003 (Note 5)	56,502,254	54,700,303
Receivables from Federal and State Agencies	3,410,039	4,133,585
Inventory, Prepaid Expenses and Other	6,018,843	7,560,453
Total Current Assets	150,627,537	147,664,653
Noncurrent Assets:		
Capital Assets:		
Interceptor Sewer Lines	715,498,204	673,817,012
Buildings, Structures and Improvements	601,462,922	633,685,032
Sewage Treatment and Other Equipment	268,811,909	242,945,521
	1,585,773,035	1,550,447,565
Less Accumulated Depreciation	504,121,073	472,791,627
	1,081,651,962	1,077,655,938
Land	7,299,955	4,390,867
Construction in Progress	238,823,184	180,833,154
Net Capital Assets	1,327,775,101	1,262,879,959
Unamortized Deferred Debt Expense	2,786,842	3,274,390
Construction Funds (Note 2)	185,391,817	236,313,592
Revenue Bond Debt Service Deposit (Note 2)	1,986,233	1,984,889
Total Noncurrent Assets	1,517,939,993	1,504,452,830
Total Assets	\$ 1,668,567,530	\$ 1,652,117,483

Continued

The accompanying notes are an integral part of these statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets (Continued)

December 31, 2004 and 2003

	<u>Liabilities and Net Assets</u>	
	<u>2004</u>	<u>2003</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 4,574,077	\$ 4,659,215
Construction Contracts Payable	10,118,763	7,877,518
Accrued Interest	7,119,719	7,498,655
Other Accrued Liabilities	3,972,147	3,761,067
Retainages on Construction Contracts	2,527,529	2,310,097
Current Maturities of Long-Term Debt (Note 7)	<u>25,056,519</u>	<u>24,439,393</u>
Total Current Liabilities	<u>53,368,754</u>	<u>50,545,945</u>
Noncurrent Liabilities:		
Long-Term Debt, Net of Current Maturities (Note 7)	<u>395,540,766</u>	<u>395,647,190</u>
Total Liabilities	<u>448,909,520</u>	<u>446,193,135</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	911,950,892	848,052,655
Unrestricted	<u>307,707,118</u>	<u>357,871,693</u>
Total Net Assets	<u>\$ 1,219,658,010</u>	<u>\$ 1,205,924,348</u>

The accompanying notes are an integral part of these statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the years ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating Revenue		
Billing Agents	\$ 122,078,222	\$ 117,755,171
Direct Billed	11,442,284	11,504,702
Other	<u>762,782</u>	<u>615,506</u>
Total Operating Revenue	<u>134,283,288</u>	<u>129,875,379</u>
Operating Expenses:		
Operations	50,920,440	47,758,331
Maintenance	19,888,337	18,574,352
Depreciation	<u>35,668,913</u>	<u>34,167,297</u>
Total Operating Expenses	<u>106,477,690</u>	<u>100,499,980</u>
Operating Income	27,805,598	29,375,399
Non-Operating Revenues (Expenses):		
Interest Income	11,264,860	12,267,626
Decrease in Fair Value of Investments, Net	(6,662,611)	(5,709,818)
Loss on Disposals of Equipment	(1,025,183)	(123,555)
Interest on Long-Term Debt	<u>(19,352,880)</u>	<u>(19,289,590)</u>
Total Non-Operating Revenues (Expenses)	<u>(15,775,814)</u>	<u>(12,855,337)</u>
Income Before Contributions	12,029,784	16,520,062
Capital Contributions	<u>1,703,878</u>	<u>9,402,297</u>
Change in Net Assets	13,733,662	25,922,359
Net Assets at Beginning of Year – as restated (Note 3)	<u>1,205,924,348</u>	<u>1,180,001,989</u>
Net Assets at End of Year	\$ <u>1,219,658,010</u>	\$ <u>1,205,924,348</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash Flows from Operating Activities:		
Cash Received From Customers	\$ 132,406,202	\$ 130,497,199
Cash Payments to Suppliers for Goods and Services	(30,261,080)	(29,771,132)
Cash Payments to Employees for Services	<u>(38,880,145)</u>	<u>(36,032,355)</u>
Net Cash Provided by Operating Activities	<u>63,264,977</u>	<u>64,693,712</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(441,282,565)	(406,397,734)
Proceeds from Maturities of Investments	481,006,702	407,950,514
Interest on Investments	<u>11,651,054</u>	<u>12,890,716</u>
Net Cash Provided by Investing Activities	<u>51,375,191</u>	<u>14,443,496</u>
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(24,311,041)	(20,715,898)
Interest Payments on Long-Term Debt	(17,717,246)	(15,170,512)
Proceeds from Water Pollution Control Loans	24,250,204	33,844,382
Acquisition and Construction of Capital Assets	(99,130,561)	(85,876,032)
Grants Received	<u>1,547,077</u>	<u>9,480,483</u>
Net Cash Used in Capital and Related Financing Activities	<u>(115,361,567)</u>	<u>(78,437,577)</u>
Net Increase (Decrease) in Cash	(721,399)	699,631
Cash at Beginning of Year	<u>937,792</u>	<u>238,161</u>
Cash at End of Year	\$ <u><u>216,393</u></u>	\$ <u><u>937,792</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, 2004 and 2003

	2004	2003
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 27,805,598	\$ 29,375,399
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	35,668,913	34,167,297
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(1,877,086)	621,820
Inventory and Prepaid Expenses	1,541,610	377,357
Accounts Payable and Other Accrued Liabilities	<u>125,942</u>	<u>151,839</u>
Total Adjustments	<u>35,459,379</u>	<u>35,318,313</u>
Net Cash Provided by Operating Activities	<u>\$ 63,264,977</u>	<u>\$ 64,693,712</u>
<b>Supplemental Schedule of Non-Cash Investing, Capital and Related Financing Activities:</b>		
Construction Grants Recorded for Receivables from (Payables to) Federal Agencies in Connection with Reimbursable Project Costs	\$ <u>868,476</u>	\$ <u>676,007</u>
Long-Term Debt Recorded for Receivables from State Agencies in Connection with Water Pollution Control Loans	\$ <u>2,466,428</u>	\$ <u>3,421,911</u>
Long-Term Debt (Decreased) Increased due to Accrued Construction Interest and Recorded Receivables	\$ <u>571,539</u>	\$ <u>(456,073)</u>
Capital Assets Increased due to Capitalized Costs, Recorded Accounts Payable, and Asset Reclassifications	\$ <u>2,780,758</u>	\$ <u>81,744</u>
Decrease in Fair Value of Investments, Net	\$ <u>(6,662,611)</u>	\$ <u>(5,709,818)</u>

The accompanying notes are an integral part of these statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

### Note 1: Reporting Entity

The Northeast Ohio Regional Sewer District (the "District"), a political subdivision of the State of Ohio, was created by Order of the Cuyahoga County Court of Common Pleas and commenced operations on July 18, 1972, under statutory provisions of the Ohio Revised Code. The District serves a region comprised of the City of Cleveland and 58 suburban communities.

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

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

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

### Note 2: Summary of Significant Accounting Policies

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

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

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

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

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

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

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

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

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

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

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

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

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

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

#### **D. Cash Equivalents and Investments (continued)**

The District invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2004 and 2003. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on the respective statement of net assets date.

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

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

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

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

##### **Cash**

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

##### **Investments**

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

##### **Long-Term Debt**

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The carrying value and estimated fair value of the District's long-term debt at December 31, 2004 were \$395,540,766 and \$411,549,402 respectively. The carrying value and estimated fair value of the District's long-term debt at December 31, 2003 were \$395,647,190 and \$416,710,547 respectively.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

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

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

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

#### **Construction Funds**

At December 31, 2004 and 2003, 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, 2004 and 2003 consisted of direct obligations of the United States Government, plus accrued interest.

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

Sewage service fees receivable are shown net of an allowance for uncollectibles. The allowance is based on aged accounts receivable and current year operating revenues. The allowance amounts are \$7,714,000 at December 31, 2004 and \$6,878,000 at December 31, 2003.

### **I. Inventory**

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

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

#### J. Capital Assets

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

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

#### K. Deferred Debt Expense

Bond issuance costs, bond premiums, and the difference between the reacquisition price and the net carrying value of refunded debt were capitalized and are being amortized over the terms of the respective bonds using a method which approximates the effective interest method. Amortization amounted to \$487,548 for 2004 and \$533,928 for 2003.

#### L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Northeast Ohio Regional Sewer District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The District did not have any restricted net assets for 2004 or 2003.

#### M. Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment services. Operating revenues consist of user charges for sewage services based on water consumption. Operating revenues are shown net of bad debt expense of \$1,639,990 in 2004 and \$2,639,433 in 2003. Operating expenses include the cost of these sewer services, including administrative expenses and depreciation on capital assets.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

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

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

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

Sewage service fees are billed to users of the system on a cycle basis based primarily upon water usage. Estimates for services provided between the ends of various cycles and the end of the year are recorded as unbilled revenue. Included in sewage service fees receivable at December 31, 2004 and 2003 are unbilled sewage service fees of \$17,582,997 and \$19,614,117, respectively.

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

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

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

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

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

Comparative data for the prior year are presented in order to provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2003 financial statements in order to conform to the 2004 presentation.



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2004 and 2003**

**Note 3: Prior Period Adjustments**

In 2004, the District corrected the depreciable lives used on certain assets that were inconsistent with District policies and corrected certain capitalization dates. These errors created an overstatement of accumulated depreciation of \$2,639,240 as of January 1, 2003. Also, the accrued payroll liability for accrued longevity pay was understated by \$144,800. Net assets at January 1, 2003 have been increased by \$2,494,440 to reflect the cumulative net effect of these adjustments for prior years. The accompanying financial statements for 2003 have been restated to correct for the impact of these errors in 2003. The effect of the restatement on the Change in Net Assets in 2003 was to increase the Change in Net Assets by \$ 598,898. The cumulative effect of the restatement at December 31, 2003 was to increase total net assets by \$3,093,338. The following table reconciles net assets at December 31, 2002 and 2003, as previously reported, to the restated amounts.

	<u>Invested in Capital Assets, Net of Related Debt</u>	<u>Unrestricted</u>	<u>Total</u>
December 31, 2002 as previously reported	\$ 806,994,285	\$ 370,513,264	\$ 1,177,507,549
Adjustment for depreciation on capital assets	2,639,240	-	2,639,240
Adjustment for accrued payroll liability	-	(144,800)	(144,800)
Total adjustments	<u>2,639,240</u>	<u>(144,800)</u>	<u>2,494,440</u>
December 31, 2002 as restated	<u>\$ 809,633,525</u>	<u>\$ 370,368,464</u>	<u>\$ 1,180,001,989</u>
December 31, 2003 as previously reported	\$ 844,802,167	\$ 358,028,843	\$ 1,202,831,010
Adjustment for depreciation on capital assets	3,250,488	-	3,250,488
Adjustment for accrued payroll liability	-	(157,150)	(157,150)
Total adjustments	<u>3,250,488</u>	<u>(157,150)</u>	<u>3,093,338</u>
December 31, 2003 as restated	<u>\$ 848,052,655</u>	<u>\$ 357,871,693</u>	<u>\$ 1,205,924,348</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

### Note 4: 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, 2004, the carrying amount of the District's deposits, including certificates of deposit of \$2,116,791, was \$2,333,183 and the bank balance was \$3,777,320. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$3,477,320 was covered by collateral securities held in Federal Reserve pledge accounts. At December 31, 2003, the carrying amount of the District's deposits, including certificates of deposit of \$1,905,009, was \$2,842,801 and the bank balance was \$5,505,160. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$5,205,160 was covered by collateral securities held in Federal Reserve pledge accounts. 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, 2004 and 2003). Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in the District's name.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2004 and 2003**

**Note 4: Deposits and Investments (continued)**

Categorization of the District's investments at December 31, 2004 was as follows:

	Category		Total Fair Value
	1	3	
Debt Securities:			
United States Treasury	\$ -	\$ 1,986,233	\$ 1,986,233
United States Government Agencies	<u>235,220,384</u>	<u>-</u>	<u>235,220,384</u>
Total Debt Securities	\$ <u>235,220,384</u>	\$ <u>1,986,233</u>	237,206,617
STAROhio*			<u>32,534,651</u>
			\$ <u>269,741,268</u>

\*Non-Categorized

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

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

\*Non-Categorized

The amounts invested with STAROhio at December 31, 2004 and 2003 are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form.

The fair value of debt securities by contractual maturity at December 31, 2004 and 2003, are shown below:

	2004	2003
Due Within One Year	\$ 87,211,360	\$ 104,609,677
Due After One Year Through Five Years	<u>149,995,257</u>	<u>169,924,083</u>
	\$ <u>237,206,617</u>	\$ <u>274,533,760</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

### Note 5: 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 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 38,026,030	\$ 36,557,937
Amounts billed to District customers by the City during the year	113,135,013	110,045,680
Cash collected from District customers by the City and remitted to the District during the year	(108,010,131)	(107,541,448)
Write off of inactive accounts	(531,836)	(954,060)
Cash collected directly by the District on invoices rendered by the City and other adjustments	<u>(1,285,428)</u>	<u>(82,079)</u>
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	\$ <u>41,333,648</u>	\$ <u>38,026,030</u>

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

Fees paid to the City for billing and collection services in 2004 and 2003 were \$4,708,263 and \$4,650,779, respectively.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2004 and 2003**

**Note 6: Capital Assets and Depreciation**

Capital Asset Activity for the year ended December 31, 2004 was as follows:

	<u>Balance December 31, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance December 31, 2004</u>
<b>Non-depreciable:</b>					
Land	\$ 4,390,867	\$ 158,420	\$ -	\$ 2,780,668	\$ 7,299,955
Construction in Progress	<u>180,833,154</u>	<u>98,817,633</u>	<u>-</u>	<u>(40,827,603)</u>	<u>238,823,184</u>
	<u>185,224,021</u>	<u>98,976,053</u>	<u>-</u>	<u>(30,076,935)</u>	<u>246,123,139</u>
<b>Depreciable:</b>					
Interceptor Sewer Lines	673,817,012	-	(58,477)	41,739,669	715,498,204
Buildings, Structures and Improvements	633,685,032	85,913	(2,062,268)	(30,245,755)	601,462,922
Sewage Treatment and Other Equipment	<u>242,945,521</u>	<u>2,849,393</u>	<u>(3,565,986)</u>	<u>26,583,021</u>	<u>268,811,909</u>
	<u>1,550,447,565</u>	<u>2,935,266</u>	<u>(5,686,731)</u>	<u>36,076,935</u>	<u>1,585,773,035</u>
Totals at Historical Cost	<u>1,735,671,586</u>	<u>101,911,319</u>	<u>(5,686,731)</u>	<u>-</u>	<u>1,831,896,174</u>
<b>Less Accumulated Depreciation For:</b>					
Interceptor Sewer Lines	(91,897,584)	(9,311,785)	11,200	-	(101,198,169)
Buildings, Structures and Improvements	(233,996,567)	(15,904,764)	1,181,775	-	(248,719,556)
Sewage Treatment and Other Equipment	<u>(146,897,476)</u>	<u>(10,452,364)</u>	<u>3,146,492</u>	<u>-</u>	<u>(154,203,348)</u>
Total Accumulated Depreciation	<u>(472,791,627)</u>	<u>(35,668,913)</u>	<u>4,339,467</u>	<u>-</u>	<u>(504,121,073)</u>
Capital Assets, Net	\$ <u>1,262,879,959</u>	\$ <u>66,242,406</u>	\$ <u>(1,347,264)</u>	\$ <u>-</u>	\$ <u>1,327,775,101</u>
Depreciation Expense Charged to Operating Expenses		\$ <u>35,668,913</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2004 and 2003**

**Note 6: Capital Assets and Depreciation (continued)**

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

	Balance December 31, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance December 31, <u>2003</u>
<b>Non-depreciable:</b>					
Land	\$ 3,888,718	\$ 532,198	\$ (30,049)	\$ -	\$ 4,390,867
Construction in Progress	<u>230,125,365</u>	<u>83,889,770</u>	<u>-</u>	<u>(133,181,981)</u>	<u>180,833,154</u>
	<u>234,014,083</u>	<u>84,421,968</u>	<u>(30,049)</u>	<u>(133,181,981)</u>	<u>185,224,021</u>
<b>Depreciable:</b>					
Interceptor Sewer Lines	589,511,249	-	-	84,305,763	673,817,012
Buildings, Structures and Improvements	602,745,553	13,758	(2,771,520)	33,697,241	633,685,032
Sewage Treatment and Other Equipment	<u>229,627,158</u>	<u>1,522,050</u>	<u>(3,382,664)</u>	<u>15,178,977</u>	<u>242,945,521</u>
	<u>1,421,883,960</u>	<u>1,535,808</u>	<u>(6,154,184)</u>	<u>133,181,981</u>	<u>1,550,447,565</u>
Totals at Historical Cost	<u>1,655,898,043</u>	<u>85,957,776</u>	<u>(6,184,233)</u>	<u>-</u>	<u>1,735,671,586</u>
<b>Less Accumulated Depreciation For:</b>					
Interceptor Sewer Lines	(83,802,737)	(8,094,847)	-	-	(91,897,584)
Buildings, Structures and Improvements	(220,780,756)	(16,062,400)	2,771,520	75,069	(233,996,567)
Sewage Treatment and Other Equipment	<u>(140,059,014)</u>	<u>(10,010,050)</u>	<u>3,246,657</u>	<u>(75,069)</u>	<u>(146,897,476)</u>
Total Accumulated Depreciation	<u>(444,642,507)</u>	<u>(34,167,297)</u>	<u>6,018,177</u>	<u>-</u>	<u>(472,791,627)</u>
Capital Assets, Net	\$ <u>1,211,255,536</u>	\$ <u>51,790,479</u>	\$ <u>(166,056)</u>	\$ <u>-</u>	\$ <u>1,262,879,959</u>
Depreciation Expense Charged to Operating Expenses		\$ <u>34,167,297</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2004 and 2003**

**Note 7: Long-Term Debt**

A summary of long-term debt outstanding at December 31, 2004 and 2003 follows:

	Interest Rate	2004	2003
Wastewater Improvement Revenue Refunding Bonds, Series 1995:			
Serial Bonds Maturing 2002 – 2014	3.65%-5.60%	\$ 53,785,000	\$ 57,785,000
Term Bonds Due 2016	5.60%	<u>14,630,000</u>	<u>14,630,000</u>
		68,415,000	72,415,000
Ohio Water Development Authority			
Loans Payable Annually Through 2008	6.75%-8.47%	1,274,254	1,598,938
Water Pollution Control Loans Payable			
Through 2025	3.20%-5.20%	<u>350,908,031</u>	<u>346,072,645</u>
Total Debt		420,597,285	420,086,583
Less Current Maturities		<u>25,056,519</u>	<u>24,439,393</u>
Total Long-Term Debt		\$ <u>395,540,766</u>	\$ <u>395,647,190</u>

Wastewater Improvement Revenue Refunding Bonds, Series 1995

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

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

Ohio Water Development Authority Loans (OWDA)

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

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# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2004 and 2003**

**Note 7: Long-Term Debt (continued)**

Water Pollution Control Loans

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

The repayment period for each loan commences no later than the first January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. The District is required to submit final eligible project costs within one year of the project completion date at which time the final loan amount is determined and semi-annual payment amounts are adjusted to reflect such costs. The District had 44 SRF loan awards related to projects, seven of which were not complete as of December 31, 2004. Loans related to completed construction projects are being repaid in semi-annual payments of principal and interest over a period of up to twenty years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2004 follow.

Completion or Expected Completion Year of Projects	Number of Projects	Current Amount Including Accrued Construction Period Interest	Additional Available Borrowings Including Construction Period Interest
1993 – 2004	36	\$ 297,705,180	\$ 15,129,396
2005	2	29,053,243	22,084,544
2006	5	24,149,608	77,457,626
2007	1	-	6,226,445
		\$ 350,908,031	\$ 120,898,011

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2004 and 2003**

### **Note 7: Long-Term Debt (continued)**

#### Defeasance Transactions

In July 1991, the District deposited available construction funds and revenue bond debt service deposits in an irrevocable trust with an escrow agent for the purpose of defeasing bonded debt issued in 1984. The deposit was invested in U.S. Treasury obligations, which, together with the revenue earned on such investments, will be sufficient to service the debt until maturity or redemption. The defeased debt and the escrow funds deposited in the irrevocable trust are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the defeasance transaction. As of December 31, 2004, the amount of defeased debt outstanding is \$81,250,000.

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

#### Future Debt Service Requirements

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

The total future debt service requirements for all long-term debt not defeased or refunded as of December 31, 2004 follows:

	Wastewater Improvement Revenue Refunding Bonds		Ohio Water Development Authority Loans		Water Pollution Control Loans		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
	2005	\$ 4,250,000	\$ 3,684,945	\$ 341,730	\$ 66,898	\$ 20,464,789	
2006	4,450,000	3,480,945	359,671	48,958	20,800,799	13,686,650	42,827,023
2007	4,670,000	3,262,895	378,553	30,075	20,866,771	12,814,995	42,023,289
2008	4,910,000	3,024,725	194,300	10,014	20,312,905	11,944,940	40,396,884
2009	5,165,000	2,769,405	-	-	20,559,441	11,080,168	39,574,014
2010-2014	30,340,000	9,335,030	-	-	114,739,859	41,253,912	195,668,801
2015-2019	14,630,000	1,240,120	-	-	88,451,180	18,476,491	122,797,791
2020-2024	-	-	-	-	42,832,863	4,552,795	47,385,658
2025	-	-	-	-	1,879,424	36,528	1,915,952
<b>Total</b>	<b>\$ <u>68,415,000</u></b>	<b>\$ <u>26,798,065</u></b>	<b>\$ <u>1,274,254</u></b>	<b>\$ <u>155,945</u></b>	<b>\$ <u>350,908,031</u></b>	<b>\$ <u>127,620,798</u></b>	<b>\$ <u>575,172,093</u></b>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2004 and 2003**

**Note 7: Long-Term Debt (continued)**

Long-term debt activity for the year ended December 31, 2004 was as follows:

	<u>Balance December 31, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2004</u>	<u>Amount Due in 2005</u>
Wastewater Improvement: Revenue Refunding Bonds, Series 1995	\$ 72,415,000	\$ -	\$ (4,000,000)	\$ 68,415,000	\$ 4,250,000
Ohio Water Development Authority Loans	1,598,938	-	(324,684)	1,274,254	341,730
Water Pollution Control Loans	<u>346,072,645</u>	<u>24,821,743</u>	<u>(19,986,357)</u>	<u>350,908,031</u>	<u>20,464,789</u>
Total Debt	\$ <u>420,086,583</u>	\$ <u>24,821,743</u>	\$ <u>(24,311,041)</u>	\$ <u>420,597,285</u>	\$ <u>25,056,519</u>

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

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

**Note 8: Defined Benefit Pension Plans**

Ohio Public Employees Retirement System

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. District members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2004 employer contribution rate for the District was 13.55 percent of covered payroll. The District's contributions to the OPERS for the years ended December 31, 2004, 2003 and 2002 were \$4,046,897, \$3,809,747 and \$3,540,726, respectively, which are the required contributions for each year.

### **Note 9: Postemployment Benefits**

#### Ohio Public Employees Retirement System

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

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

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 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 the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

### Note 9: Postemployment Benefits (continued)

the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions and for requiring public employers to fund postretirement health care through their contributions to OPERS. For the District's employer units, the 2004 contribution rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care for the year. During 2004 and 2003 the District's portion that was used to fund health care was \$1,194,656 and \$1,405,811, respectively, representing 4.00 percent and 5.00 percent of covered payroll, respectively.

The postretirement health care coverage is advance-funded on an actuarially determined basis. The following assumptions and calculations were based on OPERS' latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities. The difference between assumed and actual experience is part of the unfunded actuarial accrued liability. The investment assumption rate for 2003 was 8.00 percent; all investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used – meaning that assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. Individual pay increases are assumed to increase 4.00 percent compounded annually, with no change in the number of active employees; annual pay increases over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.30 percent; and health care costs are assumed to increase 4.00 percent annually, plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years health care costs are assumed to increase by 4%. The actuarially accrued postretirement health care liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$26.9 billion and \$16.4 billion, respectively. The actuarial value of net assets available for OPEB at December 31, 2003 were \$10.5 billion. At year-end 2004, number of active contributing participants in the Traditional and Combined Plans totaled 369,885.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2004 and 2003

### **Note 10: Deferred Compensation Plans**

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

The District follows the provisions of GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans. In accordance with the provisions of GASB Statement No.32, at both December 31, 2004 and 2003, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

### **Note 11: 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, 2004 and 2003, estimated liabilities were less than \$112,000 and \$110,000, respectively, and are not material with respect to the financial position of the District. The District's insurance reserve as of December 31, 2004 and 2003 was \$17,813,422 and \$17,137,787, respectively, and is included in short-term investments on the District's balance sheet.

### **Note 12: Commitments and Contingencies**

The District has a major capital improvement and expansion program. At December 31, 2004, the District has outstanding commitments for contracts in progress of approximately \$104,000,000. Funding for future expenditures will be provided primarily from borrowings and District equity.

# **NORTHEAST OHIO REGIONAL SEWER DISTRICT**

## **Notes to Financial Statements**

**December 31, 2004 and 2003**

**Note 12: Commitments and Contingencies (continued)**

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<u>Revenue:</u>				
User Charges:				
Billed	\$ 138,635,000	\$ 138,635,000	\$ 131,850,239	\$ (6,784,761)
Unbilled	-	-	1,670,267	1,670,267
Other Revenue	-	-	<u>762,782</u>	<u>762,782</u>
 Total Revenue	 <u>138,635,000</u>	 <u>138,635,000</u>	 <u>134,283,288</u>	 <u>(4,351,712)</u>
 <u>Expenses:</u>				
Salaries and Wages	30,197,011	30,197,011	29,127,972	1,069,039
Benefits	9,738,000	9,738,000	9,916,038	(178,038)
Power	9,694,252	9,694,252	9,230,045	464,207
Materials and Supplies	3,794,992	3,794,992	3,981,807	(186,815)
Collection Fees	5,482,750	5,482,750	4,977,801	504,949
Gas	4,160,070	4,160,070	4,085,469	74,601
Chemicals	845,793	845,793	735,715	110,078
Repairs and Maintenance	3,178,070	3,178,070	2,287,614	890,456
Solids Handling	1,109,490	1,109,490	989,915	119,575
Water	1,164,363	1,164,363	1,242,143	(77,780)
Professional Services	3,094,850	3,094,850	3,132,075	(37,225)
Insurance	1,135,000	1,135,000	1,087,302	47,698
Judgments and Awards	70,000	70,000	47,066	22,934
Other Operating Expenses	3,281,086	3,281,086	3,254,861	26,225
Capitalized Construction Costs	(3,627,000)	(3,627,000)	(3,287,046)	(339,954)
Depreciation	<u>38,000,000</u>	<u>38,000,000</u>	<u>35,668,913</u>	<u>2,331</u>
 Total Operating Expenses	 <u>111,318,727</u>	 <u>111,318,727</u>	 <u>106,477,690</u>	 <u>(4,841,037)</u>
 Excess of Revenues Over Operating Expenses	 \$ <u>27,316,273</u>	 \$ <u>27,316,273</u>	 27,805,598	 \$ <u>489,325</u>
 Reconciliation to Change in Net Assets:				
Interest Revenue			11,264,860	
Decrease in Fair Value of Investments			(6,662,611)	
Loss on Disposals of Equipment			(1,025,183)	
Interest Expense on Long-Term Debt			<u>(19,352,880)</u>	
Income Before Contributions			12,029,784	
Capital Contributions			<u>1,703,878</u>	
 Change in Net Assets			 \$ <u>13,733,662</u>	



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Supplementary Information

December 31, 2004

### Note 1: Summary of Significant Accounting Policies

#### Budgetary Basis of Accounting

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

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

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

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

	<u>2004</u>	<u>2003</u>
Excess of revenue over operating expenses – operating budget basis	\$ 27,805,598	\$ 28,776,501
Interest income	11,264,860	12,267,626
(Decrease) increase in fair value of investments	(6,662,611)	(5,709,818)
Loss on disposals of equipment	(1,025,183)	(123,555)
Interest on long-term debt	(19,352,880)	(19,289,590)
Capital contributions	<u>1,703,878</u>	<u>9,402,297</u>
Change in net assets	<u>\$ 13,733,662</u>	<u>\$ 25,323,461</u>

# **STATISTICAL SECTION**



*Protecting Your Health and Environment*

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

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
<u>Operating Revenues</u>				
Sewer Service Fees				
City of Cleveland Billing Agent (1)	\$90,988,184	\$95,374,478	\$99,227,876	\$107,385,439
Other Billing Agents	7,826,656	8,481,837	8,819,246	9,754,924
Other Sewer Service Fees	6,906,932	7,404,001	7,622,117	8,174,134
Other Operating Revenue	<u>982,145</u>	<u>1,058,847</u>	<u>1,198,112</u>	<u>1,159,594</u>
Total Operating Revenue (2)	106,703,917	112,319,163	116,867,351	126,474,091
<u>Non-Operating Revenues</u>				
Interest Income	11,761,325	14,419,575	14,656,424	14,833,852
Increase (Decrease) in Fair Value of Investments (3)	<u>0</u>	<u>0</u>	<u>1,050,095</u>	<u>2,445,183</u>
Total Non-Operating Revenues	11,761,325	14,419,575	15,706,519	17,279,035
Capital Contributions (4)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u><u>\$118,465,242</u></u>	<u><u>\$126,738,738</u></u>	<u><u>\$132,573,870</u></u>	<u><u>\$143,753,126</u></u>

(1) 1995 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.

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

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

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

Source: District accounting records.

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$114,613,601	\$110,749,258	\$113,591,867	\$109,416,694	\$107,662,424	\$110,815,131
10,025,945	9,914,671	10,435,577	10,099,165	10,092,747	11,263,091
8,846,646	9,727,725	9,780,118	10,277,561	11,504,702	11,442,284
<u>744,600</u>	<u>939,179</u>	<u>805,196</u>	<u>964,619</u>	<u>615,506</u>	<u>762,782</u>
134,230,792	131,330,833	134,612,758	130,758,039	129,875,379	134,283,288
14,996,659	15,980,457	18,580,276	14,247,954	12,267,626	11,264,860
<u>(4,806,082)</u>	<u>7,125,918</u>	<u>3,331,519</u>	<u>5,457,490</u>	<u>(5,709,818)</u>	<u>(6,662,611)</u>
10,190,577	23,106,375	21,911,795	19,705,444	6,557,808	4,602,249
<u>0</u>	<u>0</u>	<u>3,377,953</u>	<u>5,253,943</u>	<u>9,402,297</u>	<u>1,703,878</u>
<u><u>\$144,421,369</u></u>	<u><u>\$154,437,208</u></u>	<u><u>\$159,902,506</u></u>	<u><u>\$155,717,426</u></u>	<u><u>\$145,835,484</u></u>	<u><u>\$140,589,415</u></u>

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

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Salaries and Wages	\$24,086,396	\$24,993,344	\$25,033,703	\$24,437,135
Benefits	6,360,136	6,235,727	6,621,439	6,492,369
Power	9,646,002	9,664,024	9,751,968	9,490,602
Materials and Supplies	2,603,262	2,648,300	2,936,944	2,750,734
Collection Fees	4,486,005	4,568,164	4,666,139	4,863,083
Gas	2,607,493	2,581,693	2,744,234	2,557,611
Chemicals	1,578,721	912,559	808,661	831,880
Repairs and Maintenance	1,196,549	1,167,174	1,437,440	1,700,997
Solids Handling	1,431,972	1,393,493	1,010,364	1,082,460
Water	667,855	701,934	768,811	858,857
Professional Services	3,207,863	1,346,917	1,070,494	1,303,469
Insurance	533,639	583,216	541,835	580,001
All Other Expenses	2,324,815	2,124,851	2,097,277	2,240,893
Capitalized Construction Costs	(3,576,318)	(3,715,274)	(3,393,015)	(3,637,103)
Depreciation	<u>24,332,512</u>	<u>26,589,817</u>	<u>29,929,463</u>	<u>28,335,108</u>
Total Operating Expenses	<u><u>\$81,486,902</u></u>	<u><u>\$81,795,939</u></u>	<u><u>\$86,025,757</u></u>	<u><u>\$83,888,096</u></u>

(1) Years 1995 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.

(2) Restated 2003 and 2002. Refer to Note 3 to the Audited Financial Statements.

Source : District accounting records.

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$23,662,565	\$23,892,150	\$24,647,491	\$25,832,219	\$27,542,022 (2)	\$29,127,972
6,746,180	7,197,179	6,774,095	7,790,909	8,521,645	9,916,038
9,126,719	8,953,181	9,267,991	9,147,231	9,370,436	9,230,045
3,261,897	4,677,056	3,375,647	3,383,852	3,599,091	3,981,807
4,947,264	5,002,072	5,110,654	4,977,231	5,598,772	4,977,801
2,391,660	3,601,449	4,926,932	3,805,104	3,587,102	4,085,469
944,648	742,727	765,279	742,794	777,478	735,715
2,004,747	1,722,806	3,641,665	2,435,869	2,505,875	2,287,614
1,373,228	1,439,390	1,495,717	1,181,476	782,822	989,915
871,216	954,713	831,926	500,030	1,128,576	1,242,143
1,990,640	1,426,942	1,484,679	2,097,685	2,488,843	3,132,075
583,644	864,156	819,952	908,484	1,005,164	1,087,302
2,176,672	2,473,286	2,686,842	2,668,495	2,857,775	3,301,927
(3,122,880)	(3,053,217)	(3,096,585)	(3,564,485)	(3,432,918)	(3,287,046)
<u>29,028,480</u>	<u>30,320,517</u>	<u>31,495,906</u>	<u>31,843,070 (2)</u>	<u>34,167,297 (2)</u>	<u>35,668,913</u>
<u><u>\$85,986,680</u></u>	<u><u>\$90,214,407</u></u>	<u><u>\$94,228,191</u></u>	<u><u>\$93,749,964 (2)</u></u>	<u><u>\$100,499,980 (2)</u></u>	<u><u>\$106,477,690</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**

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



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
COMMUNITIES SERVED BY THE DISTRICT AND  
ESTIMATED POPULATION SERVED  
DECEMBER 31, 2004**

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

- (1) Based on 2000 U.S. Census Block Data as presented in the Northeast Ohio Areawide Coordinating Agency (NOACA) Magic 2001 Database, using the Service Area Boundary determined by the District's Regional Plan for Sewerage and Drainage Phase I study revised 01/11/02 .
- (2) Estimated population for that portion of the municipality within the service area of the District.
- (3) Service population not applicable. District serves commercial properties only.
- (4) Part of the community is not within the District service area. Service population to be determined by ongoing service area verification project.

Source: District administrative records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
LARGEST CUSTOMERS OF THE DISTRICT  
AS OF DECEMBER 31, 2004**

	<u>CONSUMPTION</u> 2004 MCF	<u>AMOUNT</u> BILLED
<u>SUBDISTRICT 1</u>		
Cuyahoga Metropolitan Housing Agency (2)	107,341.0	\$3,449,045
Cleveland Clinic (2)	55,829.0	1,791,711
City of Cleveland Water Filtration Plants	33,322.2	1,110,132
ISG Cleveland	31,241.3	1,083,132
Case Western Reserve University	26,712.7	851,079
Cleveland Board of Education (2)	26,165.4	838,758
Metro Health Medical Centers (2)	20,159.4	646,685
University Hospitals (2)	18,773.8	617,380
Dominion Cleveland Thermal Energy Corporation	18,034.9	612,831
Cuyahoga County (2)	17,333.7	555,292
Ferro Corporation (2)	14,460.8	456,351
Veterans Administration Hospital (2)	12,540.3	392,657
Cleveland State University (2)	10,204.8	341,312
General Electric Company (2)	7,920.6	252,089
Synthetic Products	6,291.5	203,046
Ninth Street - Euclid Ltd	6,084.9	200,439
Columbus Road Realty	6,060.8	191,527
Property Management Rental	5,327.2	171,342
Total Subdistrict 1	423,804.3	\$13,764,807
<u>SUBDISTRICT 2</u>		
Ford Motor Corporation	58,129.7	\$1,727,017
Aluminum Corporation of America	31,130.0	912,703
NASA Lewis Research Center	29,844.3	877,281
Forest City Management (2)	16,217.8	490,690
Zehman & Wolfe Management	5,810.6	173,291
Total Subdistrict 2	141,132.4	\$4,180,982
Grand Total	564,936.7	\$17,945,789

(1) One (1) MCF = one thousand cubic feet = 7,480 gallons.

(2) Amount represents Subdistrict 1 and Subdistrict 2 billings combined.

Customer is listed in the Subdistrict where majority of consumption occurs.

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



*Protecting Your Health and Environment*

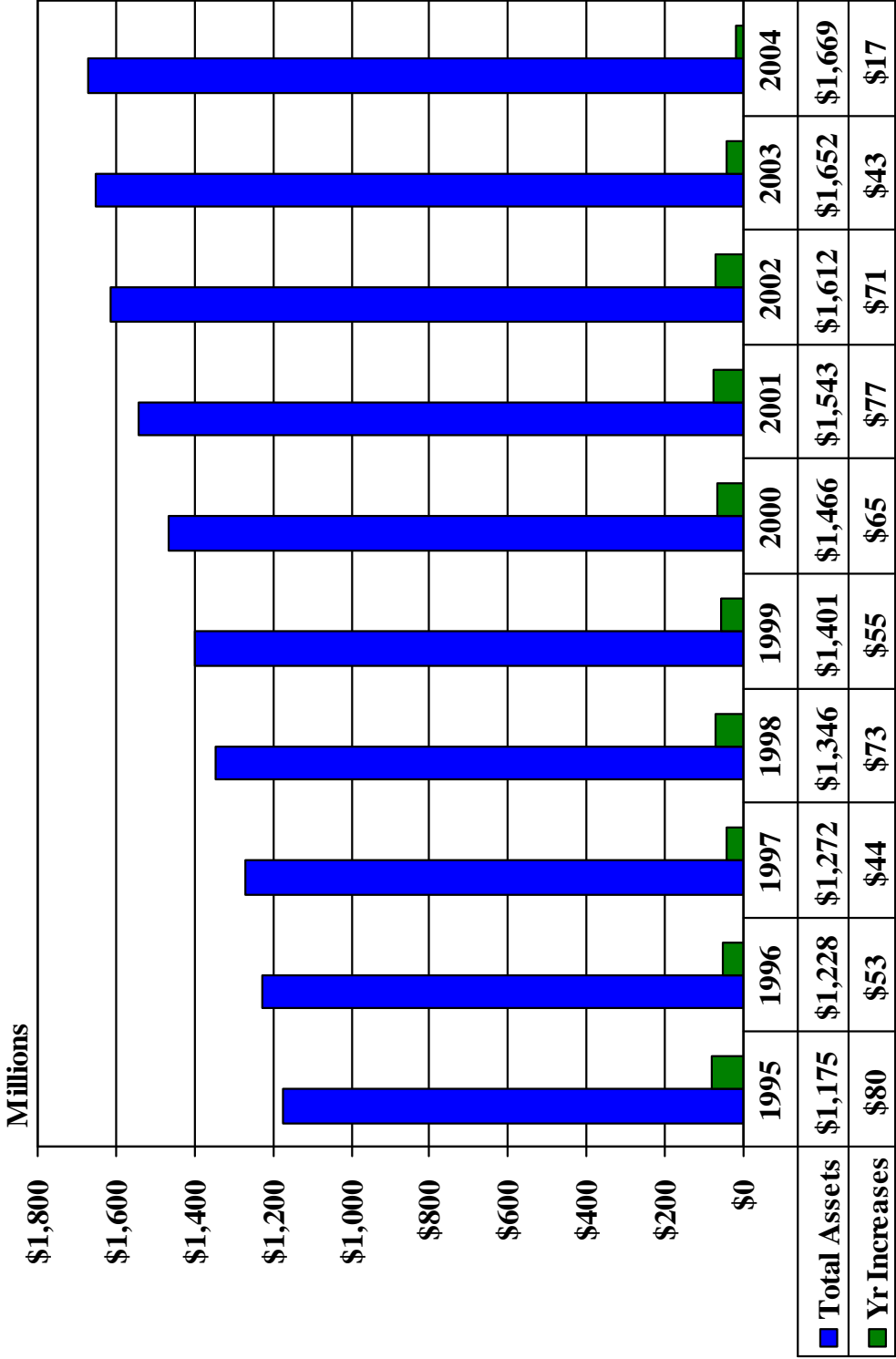
**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
MISCELLANEOUS OPERATING STATISTICS  
LAST TEN YEARS**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
<b><u>TREATMENT PLANT FLOW</u></b>				
<b>Billions of gallons of sewage treated per plant:</b>				
Easterly	58.3	54.6	41.0	36.5
Southerly	46.4	54.2	47.5	43.3
Westerly	14.6	13.1	13.8	12.7
Total	<u>119.3</u>	<u>121.9</u>	<u>102.3</u>	<u>92.5</u>
<b>Total sewage treated, in MCFs (1)</b>	<u>15,949,198</u>	<u>16,296,791</u>	<u>13,676,471</u>	<u>12,366,310</u>
<b>MCFs billed, total District</b>	<u>6,057,449</u>	<u>6,158,601</u>	<u>5,963,566</u>	<u>6,004,778</u>
<b><u>STAFFING LEVELS</u></b>				
<b>Number of employees (2):</b>				
Plant Operations & Maintenance	390	385	370	467
Support Services	178	183	186	0
Engineering	50	49	47	45
Finance	39	39	39	38
Employee Resources (3)	0	0	0	0
Information Technology (3)	0	0	0	0
District Administration	11	13	13	66
Legal	11	8	8	8
Total	<u>679</u>	<u>677</u>	<u>663</u>	<u>624</u>
<b>Budgeted employees, total District</b>	<u>705</u>	<u>709</u>	<u>704</u>	<u>644</u>

- (1) Conversion factor: 1 MCF (thousand cubic feet) = 7,480 gallons.  
(2) Includes all positions filled during the year. In 1998, Support Services budget centers were redistributed between Operations and District Administration.  
(3) Reclassified from District Administration beginning in 2002.  
(4) Restated 2001 for consumption adjustment in the City of Cleveland, Subdistrict 1.  
(5) Restated 2003 Southerly plant flow.  
Source: Various District records.

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
38.0	40.9	36.7	37.3	40.4	40.6
40.0	39.2	38.9	37.2	43.1 (5)	44.2
11.4	12.0	11.1	10.4	11.0	10.5
<u>89.4</u>	<u>92.1</u>	<u>86.7</u>	<u>84.9</u>	<u>94.5</u>	<u>95.3</u>
<u>11,951,872</u>	<u>12,312,834</u>	<u>11,590,909</u>	<u>11,350,267</u>	<u>12,633,690</u>	<u>12,740,642</u>
<u>5,785,288</u>	<u>5,600,215</u>	<u>5,342,696</u> (4)	<u>5,191,506</u>	<u>5,094,136</u>	<u>4,930,817</u>
435	420	400	382	383	404
0	0	0	0	0	0
46	45	48	54	61	66
38	35	35	48	49	50
0	0	0	41	44	47
0	0	0	19	20	18
66	73	76	20	18	17
9	9	10	9	8	8
<u>594</u>	<u>582</u>	<u>569</u>	<u>573</u>	<u>583</u>	<u>610</u>
<u>620</u>	<u>625</u>	<u>595</u>	<u>634</u>	<u>637</u>	<u>677</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>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
<u>Subdistrict 1</u>				
Cleveland (1)	134,688	134,851	134,819	134,228
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	3	3	3	4
Direct Service - Suburbs (1)	<u>164,395</u>	<u>167,376</u>	<u>167,784</u>	<u>170,325</u>
Subtotal	<u>164,398</u>	<u>167,379</u>	<u>167,787</u>	<u>170,329</u>
Total Customers	<u><u>299,086</u></u>	<u><u>302,230</u></u>	<u><u>302,606</u></u>	<u><u>304,557</u></u>

(1) 2000 through 2004 exclude inactive accounts.

(2) The Master Meter Suburbs, which bill their customers separately, had approximately 17,151 accounts at the end of 2004. Master Meter communities are East Cleveland, Hudson, Richfield Village and Summit County. The City of Hudson became a Master Meter community in 1998.

Source: District accounting records.



<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
136,234	132,801	136,332	133,611	132,541	137,746
4	4	4	4	4	4
<u>170,032</u>	<u>171,712</u>	<u>174,264</u>	<u>175,194</u>	<u>175,652</u>	<u>175,293</u>
<u>170,036</u>	<u>171,716</u>	<u>174,268</u>	<u>175,198</u>	<u>175,656</u>	<u>175,297</u>
<u><u>306,270</u></u>	<u><u>304,517</u></u>	<u><u>310,600</u></u>	<u><u>308,809</u></u>	<u><u>308,197</u></u>	<u><u>313,043</u></u>

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

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
<u>Subdistrict 1</u>				
Cleveland	3,198,706	3,309,692	3,173,571	3,176,655
<u>Subdistrict 2</u>				
Direct Service - Suburbs	2,593,163	2,569,691	2,519,858	2,559,852
Master Meter - Suburbs (1)	<u>265,580</u>	<u>279,218</u>	<u>270,137</u>	<u>268,271</u>
Subtotal	<u>2,858,743</u>	<u>2,848,909</u>	<u>2,789,995</u>	<u>2,828,123</u>
Total Service Area	<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>

- (1) Consumption of Master Meter Suburbs is presented at 80% of total consumption which is the billing basis.
- (2) 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.
- (3) Restated 2001 for consumption adjustment.
- Source: District accounting records.

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
2,919,241	2,815,865	2,665,282 (3)	2,662,602	2,495,126	2,379,632
2,553,481	2,427,096	2,387,609	2,231,962	2,287,825	2,241,819
<u>312,566 (2)</u>	<u>357,254</u>	<u>289,805</u>	<u>296,942</u>	<u>311,185</u>	<u>309,366</u>
<u>2,866,047</u>	<u>2,784,350</u>	<u>2,677,414</u>	<u>2,528,904</u>	<u>2,599,010</u>	<u>2,551,185</u>
<u><u>5,785,288</u></u>	<u><u>5,600,215</u></u>	<u><u>5,342,696</u></u>	<u><u>5,191,506</u></u>	<u><u>5,094,136</u></u>	<u><u>4,930,817</u></u>

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

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Operating Revenue (1)	\$106,704	\$112,319	\$116,867	\$126,474
Non-Operating Revenue (2)	<u>9,657</u>	<u>13,575</u>	<u>8,592</u> (3)	<u>16,434</u>
Total Revenues	<u>116,361</u>	<u>125,894</u>	<u>125,459</u>	<u>142,908</u>
Operating Expenses (Exclusive of depreciation)				
Operations (1)	42,705	40,272	40,650	40,368
Maintenance	<u>14,450</u>	<u>14,934</u>	<u>15,446</u>	<u>15,185</u>
Total Operating Expenses	<u>57,155</u>	<u>55,206</u>	<u>56,096</u>	<u>55,553</u>
Net Revenues Available for Debt Service	<u>\$59,206</u>	<u>\$70,688</u>	<u>\$69,363</u>	<u>\$87,355</u>
Total Revenue Bond Debt Service (4)	\$9,961	\$8,285	\$7,932	\$7,932
Coverage on Revenue Bond Debt Service	5.94	8.53	8.74	11.01
Total All Debt Service (4)	\$18,960	\$21,561	\$25,640	\$26,253
Coverage on Total Debt Service	3.12	3.28	2.71	3.33

(1) 1995 through 2000 restated for reclassification of bad debt expense as a reduction of revenue. This has no effect on debt service.

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

Interest Income from Project Account investments was as follows:	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
	\$701	\$271	\$0	\$0

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

(4) 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, 2004 were:

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Revenue Bond Issues and Debt Service				
\$122,315 Series 1991(A)	\$9,961	\$0	\$0	\$0
\$97,830 Series 1995	<u>0</u>	<u>8,285</u>	<u>7,932</u>	<u>7,932</u>
Total Revenue Bond Debt Service	9,961	8,285	7,932	7,932
OWDA Debt Service	4,654	4,501	5,479 (B)	4,643
WPCLF Debt Service	<u>4,345</u>	<u>8,775</u>	<u>12,229</u>	<u>13,678</u>
Total All Debt Service	<u>\$18,960</u>	<u>\$21,561</u>	<u>\$25,640</u>	<u>\$26,253</u>

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

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

(5) 2003 restated. Refer to Note 3 to the Audited Financial Statements.

Source: District accounting records.

<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$132,631	\$131,331	\$134,613	\$130,758	\$129,875	\$134,283
<u>9,971</u>	<u>23,032</u>	<u>21,143</u>	<u>18,388</u>	<u>6,434</u>	<u>3,577</u>
142,602	154,363	155,756	149,146	136,309	137,860
41,278	44,184	44,550	44,565	47,759 (5)	50,920
<u>15,680</u>	<u>15,710</u>	<u>18,182</u>	<u>17,342</u>	<u>18,574</u>	<u>19,888</u>
56,958	59,894	62,732	61,907	66,333	70,808
<u>\$85,644</u>	<u>\$94,469</u>	<u>\$93,024</u>	<u>\$87,239</u>	<u>\$69,976</u>	<u>\$67,052</u>
\$7,934	\$7,936	\$7,932	\$7,934	\$7,930	\$7,935
10.79	11.90	11.73	11.00	8.82	8.45
\$28,331	\$34,409	\$34,866	\$35,984	\$35,886	\$42,029
3.02	2.75	2.67	2.42	1.95	1.60
<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$0	\$0	\$0	\$0	\$0	\$0
<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
\$0	\$0	\$0	\$0	\$0	\$0
<u>7,934</u>	<u>7,936</u>	<u>7,932</u>	<u>7,934</u>	<u>7,930</u>	<u>7,935</u>
7,934	7,936	7,932	7,934	7,930	7,935
4,643	4,643	4,079	3,136	408	409
<u>15,754</u>	<u>21,830</u>	<u>22,855</u>	<u>24,914</u>	<u>27,548</u>	<u>33,685</u>
<u>\$28,331</u>	<u>\$34,409</u>	<u>\$34,866</u>	<u>\$35,984</u>	<u>\$35,886</u>	<u>\$42,029</u>

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

Fiscal Years During Which Rates Were Effective	SUBDISTRICT 1				SUBDISTRICT 2			
	Standard		Homestead (2)		Standard		Homestead (2)	
	Rate (1)	Change	Rate (1)	Change	Rate (1)	Change	Rate (1)	Change
1994 - 1995	14.75	13.5	9.79	3.7	19.80	10.0	12.81	2.9
1996	15.95	8.1	11.10	13.4	21.00	6.1	13.85	8.1
1997	17.15	7.5	11.80	6.3	22.25	6.0	14.75	6.5
1998	18.25	6.4	12.55	6.4	23.45	5.4	15.70	6.4
1999	19.60	7.4	13.35	6.4	24.50	4.5	16.70	6.4
2000 - 2002	21.10	7.7	14.25	6.7	26.60	8.6	17.80	6.6
2003	22.70	7.6	15.30	7.4	27.95	5.1	18.70	5.1
2004	24.40	7.5	16.45	7.5	29.40	5.2	19.70	5.3

(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, 2005 THROUGH 2009  
(In Thousands of Dollars)**

	2005	2006	2007	2008	2009	TOTAL
<u>USES OF FUNDS (1)</u>						
Sewage Treatment Plant Improvements						
Westerly	\$0	\$0	\$1,500	\$200	\$200	\$1,900
Southerly	14,770	25,780	65,200	4,500	24,400	134,650
Easterly	10,000	1,500	1,200	8,540	8,040	29,280
Sub-Total	<u>24,770</u>	<u>27,280</u>	<u>67,900</u>	<u>13,240</u>	<u>32,640</u>	<u>165,830</u>
Interceptors						
Inter-Community Relief Sewers	3,450	2,500	0	0	0	5,950
Cuyahoga Valley	750	3,000	0	0	0	3,750
Sub-Total	<u>4,200</u>	<u>5,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,700</u>
Combined Sewer Overflow and						
Interceptor Rehabilitation	68,625	50,230	119,747	176,080	72,215	486,897
Other Projects	20,200	4,900	10,600	3,600	3,600	42,900
TOTAL	<u>\$117,795</u>	<u>\$87,910</u>	<u>\$198,247</u>	<u>\$192,920</u>	<u>\$108,455</u>	<u>\$705,327</u>
<u>SOURCES OF FUNDS</u>						
WPCLF Loans (2)						
Internally Generated Funds	\$63,400	\$55,400	\$176,200	\$169,900	\$67,300	\$532,200
TOTAL	<u>\$117,795</u>	<u>\$87,910</u>	<u>\$198,247</u>	<u>\$192,920</u>	<u>\$108,455</u>	<u>\$705,327</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**

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**Printing**

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**Northeast Ohio Regional  
Sewer District**

**Single Audit Reports**

**December 31, 2004**

# Northeast Ohio Regional Sewer District

For The Year Ended December 31, 2004

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**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters 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, 2004, and have issued our report thereon dated April 28, 2005. 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.

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 an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 and other matters that are required to be reported under *Government Auditing Standards*.

Members of the Board of Trustees of the  
Northeast Ohio Regional Sewer District

This report is intended solely for the information and use of the Board of Trustees, Management, Auditor of State's Office, and 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.

*Cini & Parichi, Inc.*

Cleveland, Ohio  
April 28, 2005

**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 each of its major federal programs for the year ended December 31, 2004. 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 each of 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 of 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 each of its major federal programs for the year ended December 31, 2004.

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.

Members of the Board of Trustees of the  
Northeast Ohio Regional Sewer District

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 reportable 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 of noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the District as of and for the year ended December 31, 2004, and have issued our report there dated April 28, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, Management, Auditor of State's Office, and 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.

*Cini & Panichi, Inc.*

Cleveland, Ohio  
April 28, 2005

# Northeast Ohio Regional Sewer District

## Schedule of Expenditures of Federal Awards

**For The Year Ended December 31, 2004**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency: Surveys, Studies, Investigations and Special Purpose Grants	66.606	XP985464-03-0	\$ 1,703,878
Nonpoint Source Implementation Grants	66.460	C997550001-0	14,512
U.S. Environmental Protection Agency: Pass-through Programs from Ohio Environmental Protection Agency: Capitalization Grants for State Revolving Funds	66.458	CS391126-15 CS391972-05 CS392194-01 CS391126-17 CS391972-04 CS391126-18 CS392380-01 CS392039-03 CS391972-07 CS392461-01 CS392381-01 CS392460-01 CS392586-01 CS391972-08	41,272 1,749,969 236,910 85,087 240 3,756,689 18,560 262,430 8,904,129 755,754 4,355,346 2,990,169 213,145 <u>49,981</u>
Subtotal Pass-through Programs			<u>23,419,681</u>
Total Expenditures of Federal Awards			\$ <u>25,138,071</u>

# **Northeast Ohio Regional Sewer District**

## **Notes to the Schedule of Expenditures of Federal Awards**

**For The Year Ended December 31, 2004**

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### **Note 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 accounting principles generally accepted in the United States of America. 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*.



# Northeast Ohio Regional Sewer District

## Schedule of Findings OMB Circular A-133 Section .505

December 31, 2004

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### 1. Summary of Auditor's Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	Capitalization Grants for State Revolving Funds (CFDA No. 64.458)
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$ 754,142 Type B: All Others
(d)(I)(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 Section .315(c)**

### **December 31, 2004**

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The December 31, 2004 audit reported no audit findings as defined in OMB Circular A-133, Section .510. Therefore, preparation of a corrective action plan is not applicable.

# **Northeast Ohio Regional Sewer District**

## **Schedule of Prior Audit Findings OMB Circular A-133 Section .315(b)**

### **December 31, 2004**

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The December 31, 2003 audit reported no audit findings as defined in OMB Circular A-133, Section .510. Therefore, there are no prior findings on which to report.





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
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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  
JULY 7, 2005**