

NORTHEAST OHIO REGIONAL SEWER DISTRICT  
A POLITICAL SUBDIVISION OF THE  
STATE OF OHIO  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2008

SUBMITTED BY:

Department of Finance





Mary Taylor, CPA  
Auditor of State

Board of Trustees  
Northeast Ohio Regional Sewer District  
3900 Euclid Avenue  
Cleveland, Ohio 44115

We have reviewed the *Independent Auditors' Report* of the Northeast Ohio Regional Sewer District, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2008 through December 31, 2008. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

January 8, 2010

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**NORTHEAST OHIO REGIONAL SEWER DISTRICT**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**DECEMBER 31, 2008**

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# **introductory section**





December 15, 2009

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

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Northeast Ohio Regional Sewer District for the fiscal year ended December 31, 2008.

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

The Northeast Ohio Regional Sewer District's financial statements have been audited by Ciuni and Panichi, Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Northeast Ohio Regional Sewer District for the fiscal year ended December 31, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the Northeast Ohio Regional Sewer District's financial statements for the fiscal year ended December 31, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Northeast Ohio Regional Sewer District was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Northeast Ohio Regional Sewer District's separately issued Single Audit Report.

## **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 350 square miles. The District encompasses 97% of the City of Cleveland and all or portions of 59 suburban communities in Cuyahoga, Lake, and Summit Counties. The area contains a residential service population in excess of one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District treats more wastewater than any other wastewater treatment system in the State of Ohio.

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 44 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 stable due to approval of a rate increase by the Board of Trustees. The region is not dominated by any single industry. Major industries with headquarters or divisions located in the District's service area or in close proximity include automotive manufacturers; industrial equipment, metals, paints and coatings producers; 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 unemployment rate in December 2008 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 7.1% was 0.3% lower than the seasonally adjusted rate for the State of Ohio (7.4%) and 0.2% higher than the national rate of 7.2%. Although the City of Cleveland and Cuyahoga County have experienced an outward migration of residents to neighboring suburbs and counties, the presence of corporate, cultural and entertainment facilities continues to attract visitors and commuters to the area.

## **Long-term Financial Planning**

The District has produced a strong financial history since its inception in 1972. Moving forward, the District is positioned to continue to meet the level of service and regulatory requirements demanded by its customers, its Board of Trustees and regulatory agencies. Part of that responsibility will entail investment, over the next 30 years, of approximately \$2.3 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. Since then, another five-year rate study was conducted by Raftelis Financial Consultants in 2006 for the years 2007 – 2011.

## **Cash Management**

The District currently invests in four major types of instruments: obligations issued or backed by the United States Government; the STAR Ohio 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, 2008, the District's investment portfolio, at cost, of \$284,585,786, including \$9,004,502 in the Debt Service Account for the Series 2005 Bonds and \$9,822,011 in Debt Service Account for the Series 2007 Bonds and excluding accrued interest, had a market value of \$314,185,549.

## **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 10 to the audited financial statements disclose information about risk management.

## **Debt Administration**

At year-end, the District had bonded debt outstanding of \$177,985,000. The debt net of applicable unamortized discounts, issue costs and refunding costs is \$179,269,602. 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, 2008, the outstanding loan balances were \$417,079,591 for the WPCLF. Outstanding revenue bonds of the District are rated AA by Standard & Poor's and Aa2 by Moody's rating agencies. Note 6 to the audited financial statements include schedules of debt outstanding and future debt service requirements.

In 2005, the District refinanced bonded debt that was outstanding at the time. These legal defeasance transactions resulted in funds being deposited with escrow agents who invested them in U.S. Treasury obligations which, together with the income earned on such investments, will be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, are excluded from the District's 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 6 to the audited financial statements.

In 2007, the District issued \$126,055,000 Wastewater Improvement Revenue Bonds, Series 2007 Bonds, for the purpose of providing funds for the acquisition, construction, and improvement of water resource projects, funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and paying certain costs of issuance of the Series 2007 Bonds.

## **MAJOR INITIATIVES**

### **For the Year**

#### **2008 Awards**

During 2008 the District received awards for 2007 plant performance from the National Association of Clean Water Agencies (NACWA, formerly Association of Metropolitan Sewerage Agencies, or AMSA). NACWA honored all three of our treatment facilities for excellent performance in 2007. Our Southerly, Easterly and Westerly plants earned the Peak Performance Silver Award. A Silver honor recognizes facilities with no more than one National Pollutant Discharge Elimination System permit violations in a year. Awards for 2008 performance have not been announced as of the date of this report.

During 2008, the Government Finance Officers Association (GFOA) presented the Distinguished Budget Presentation Award to the District for the second time for its 2008 Budget.

#### **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 Lake Erie and area streams.

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.

The recommended plan to control CSOs is comprised of a storage tunnel network and sewer separation projects for the majority of the service area, with some minor satellite storage facilities 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 based on an ENR Construction Cost Index (CCI) for Cleveland for March 2009 is \$1.4 billion.

The District has completed early-action projects to reduce CSO discharges. The early-action projects involved modifications to the existing combined sewer system to reduce CSO frequency by using available sewer capacity in the Easterly Interceptor. The construction of the early action projects were

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 Dugway East Interceptor Relief Sewer and the Euclid Creek CSO Storage Tunnel began in 2005. The Dugway East Interceptor Relief Sewer design was completed in 2007. The project was approved by the Ohio EPA in 2008 and construction began in early 2009 with an anticipated completion in 2012. Euclid Creek CSO Storage Tunnel design has continued and construction on this tunnel system is anticipated to start in October 2010 and would be completed in late 2014. The Tunnel Dewatering Pump Station, that would empty the Euclid Creek, Dugway, and Shoreline tunnels into the Easterly Interceptor for treatment at the Easterly Wastewater Treatment Plant after a storm, will begin design in the fall of 2009. The completion of this pump station would coincide with the completion of the Euclid Creek Tunnel in the fall of 2014. The Dugway Storage Tunnel that is connected to the Euclid Creek Tunnel will begin design in 2011 and the construction of this tunnel would commence subsequent to the completion of the Euclid Creek Tunnel and Tunnel Dewatering Pump Station. These projects will reduce CSO discharges to Lake Erie and its tributary streams, Dugway Brook and Euclid Creek, respectively.

### **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 CSO 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 current estimated cost of the proposed plan, one that would capture and treat an additional 1.2 billion gallons of CSO annually, is \$896.3 million considering the March 2009 ENR index.

### **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 \$287.2 million considering the March 2009 ENR index.

Several Westerly early action CSO control projects, such as Barberton Creek Underground Storage and several CSO regulator modifications have been completed.

### **Mill Creek CSO Project Update**

The Lee Road Relief Sewer project design was completed in 2009 and the construction will commence in the fall of 2009 with an anticipated completion in 2013. The Miles Avenue Relief Sewer is also in construction and anticipated to be completed in 2010. 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, was terminated due to a subsurface claim regarding underground conditions relative to gas. A separate contract, MCT-3C will begin construction in late 2009 to complete the unfinished portions of MCT-3. 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. The current estimate for the remaining components of the Mill Creek CSO system is \$56.5 million considering the March 2009 ENR index for Cleveland.

## **Biosolids Management**

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

A District Residuals Management Study completed in 2005 determined that the District's most cost effective long-term biosolids management option is to continue incineration, with landfilling as a secondary option. As a result, the District is undertaking a program to replace four existing incinerators located at the Southerly Wastewater Treatment Plant with three new state-of-the-art fluid bed incinerators. The final design of the project included a facility to house waste heat boilers and a turbine generator to create a Renewable Energy Facility (REF) that will supply power from the incineration process to the Southerly WWTC. The new REF and incinerator facility should be in service in 2013 and has a current total project cost estimate of approximately \$213.0 million.

## **Asset Management Assessment**

In 2007, the District completed an asset management assessment project where many of the District's asset management business practices were evaluated and benchmarked against "world's best practices". Asset management information from a wide variety of international and U.S. water/wastewater agencies was utilized for the benchmarking exercise. The District's overall score from the benchmarking exercise was above average when compared to similarly sized U.S. utilities. However, opportunities to improve asset management performance were identified in various areas.

An Asset Management Implementation Plan was provided that outlines recommended improvements to the District's existing asset management business practices. The current phase of this Asset Management Implementation Program will address higher priority recommendations from the assessment that result in the most tangible benefits to the District.

The major tasks of the Asset Management Implementation Program Phase I project include the following:

- Establish a corporate risk management policy that provides the means for identifying, measuring and reducing the District's financial, legal, operational and environmental risks.
- Enhancing the capital improvement program (CIP) process to include validation of need and prioritization of capital projects based on risk mitigation, and understanding the risk of choosing not to implement a particular project.
- Documenting, reviewing and enhancing existing asset information technology systems to eliminate redundancy and improve utilization of systems.

- Developing consistent asset data hierarchies within the wastewater treatment plants and collection system to enhance the asset maintenance and repair decision-making ability of Operation & Maintenance staff.
- Assigning an asset criticality rating for District assets based on the corporate risk policy to assist in the prioritization of asset maintenance and repair activities.
- Establishing a consistent method to enhance the District's ability to develop short and long-term repair and renewal plans for District assets.
- Enhancing financial planning by incorporating anticipated long-term financial needs from the enhanced CIP development and repair and renewal processes established during this project.

## **Program Management**

During 2008, the District initiated a project to procure the services of a professional program manager for the implementation of the Capital Plan. Program Management will assist the District in managing and implementing its capital improvement program and the associated available funds. The primary goal of Program Management is to improve the District's efforts in providing an efficient and cost effective management of information, data, and resources to better manage and implement its Capital Improvement Program. This will result in a more successful implementation of a Capital Improvement Program that meets both regulatory requirements and renewal/replacement needs, and best utilizes District funds.

The estimated project cash flow for the total Capital Improvement Plan over the next five years is approximately \$1.0 billion. This includes approximately \$452 million for the plants, \$462 million for the CSO projects, and \$105 for the collection system improvements, and \$3 million of miscellaneous District-wide improvements. Over this five year period, the District will need to address both regulatory driven capital improvements and rehabilitation driven capital improvements at its three (3) wastewater treatment plants and within its collection system. The regulatory driven improvements are associated with the District's Combined Sewer Overflow Long Term Control Plan at an estimated cost of over \$2 billion for the collection system and \$17 to \$168 million for related wet-weather plant improvements at the Easterly WWTP and Southerly WWTC. Included in the 30-year CIP is an estimated \$1.27 billion of improvements for the Easterly, Southerly and Westerly treatment plants, and an additional \$780 million for the collection system rehabilitation and replacement..

Although the Combined Sewer Overflow Long Term Control Plan and the plant facilities plans have a thirty year planning horizon, a considerable amount of the work is recommended and/or required to occur over the next ten (10) years. In addition to being faced with a large capital improvement program over the next ten (10) plus years, the District anticipates a consent decree with the US EPA for its Combined Sewer Overflow Long Term Control Plan that includes specific and strict project reporting and completion milestones. A five year program management contract will assist the District in successful execution of this initial surge in capital planning.



## **For the Future**

### **Leadership Sustainability Program**

The goal of the Leadership Sustainability Program (LSP) is to identify leader resources needed to meet present District goals and future developing strategies. As the District faces some significant changes in the future, the LSP provides a plan for the organization to run responsibly and successfully. With retirements, lack of federal funding and the possibility of assuming new roles in storm water management, the LSP will serve as an overall guide for the organization.

The LSP includes eight areas of focus: workforce analysis; leadership development; replacement and recruitment; workplace re-assessment; supply and demand analysis; diversity and inclusion; managers as developers; and knowledge retention. Workforce analysis is a review of the current jobs in the organization and a profile of the position requirements. Leadership development identifies and develops current and potential leaders for the future.

Four levels outline the track which identified candidates would follow to advance in potential leadership positions. With development plans in place for the top two tiers – Senior Executive Level and Executive Level – the LSP team is currently defining the development track for the third level, Senior Manager Level candidates. The fourth level, the Manager Level will be defined once the Senior Manager plan is complete.

Individuals participating in the LSP demonstrate potential for performance at the next level; participation does not guarantee advancement into any position. LSP is an ongoing process that shifts as individual growth and professional development occur, and as the needs of the organization change.

### **Regional Stormwater Management Program**

In 2008, the District procured services to assist with the development of a Stormwater Management Program. The District's Court Order required the District to "develop a detailed integrated capital improvement plan for regional management of wastewater collection and storm drainage". The District has focused on the regional wastewater portion of this mandate, investing more than \$2.3 billion since its inception on wastewater-related projects. To address the regional stormwater portion of this mandate, the District is currently engaged in a Regional Stormwater Management Implementation Project. This project is designed to outline the steps necessary for the District to assume responsibility for regional stormwater management. Tasks related to defining stormwater program roles and responsibilities, funding approaches, resource needs; legal issues, customer service requirements and data/billing issues are included in this effort. The District is currently discussing the details of the proposed regional stormwater management program with its member communities. Pending Board of Trustee approval of the proposed program, implementation is currently planned for mid-2010.

### **Strategic Plan**

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

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

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

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

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

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

The District has responsibility for combined sewer overflows (CSOs) within its service area. The District holds an NPDES permit for the CSOs, and is required to meet the requirements of the Federal CSO Policy. Even before the CSO Policy was finalized in 1994, the District constructed a number of capital improvement projects to significantly reduce the amount of overflow during rainstorms.

From 1995 to 2002 the District performed facilities planning studies to develop a plan to further reduce CSOs throughout the service area to meet the mandates of the federal CSO Policy. These studies resulted in plans to build storage tunnels throughout the combined sewer service area, as well as smaller consolidated sewers, storage tanks and other improvements. Construction on the first of these large tunnel systems, the Mill Creek Tunnel began in 1997 with two of the three contracts completed and the last contract scheduled for completion in 2008. CSO volumes to Mill Creek have been significantly reduced as a result of the Mill Creek Tunnel.

To date, the District has invested approximately \$415 million on capital improvement projects for CSO control. Additional investments at District wastewater treatment plants and the construction of the NWI, SWI, H/HI and associated ICRS projects, at a cost of approximately \$475 million, have resulted in further reductions of CSO volume. In March 2005, the District adopted a 30-year schedule to design and construct a \$1.6 billion CSO Long Term Control Plan (the "CSO LTCP") to limit pollution caused by CSOs. The CSO LTCP calls for the construction of 103 miles of tunnels and connecting sewers throughout 65 construction projects and is designed to reduce targeted annual CSO discharges by 88

percent within 20 years after construction. As of December 2008, the District estimates the CSO LTCP to cost \$2.3 billion considering escalation.

### **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, 2007. This was the 13th consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

## ACKNOWLEDGEMENTS

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

Respectfully submitted,



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Julius Ciaccia  
Executive Director



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



*2007 Comprehensive Annual Financial Reporting Award*



***2008 Government Finance Officers Association  
Distinguished Budget Award***



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
TABLE OF ORGANIZATIONS  
DECEMBER 31, 2008**

**BOARD OF TRUSTEES**



Darnell Brown,  
Board President



Mayor Thomas J. Longo,  
Vice President



Mayor Dean E. DePiero,  
Secretary



Sheila J. Kelly



Walter O'Malley



Mayor Gary W. Starr



Ronald D. Sulik

**DIRECTORS**



Julius Ciaccia  
Executive Director  
District Administration:  
46 Employees



F. Michael Buccì  
Deputy Executive Director



Jennifer L. Demmerle  
Director of Finance  
Finance: 47 Employees



Marlene Sundheimer  
Director of Law  
Legal: 14 Employees



Constance T. Haqq  
Director of Administration  
& External Affairs (AEA)  
AEA: 16 Employees



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



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



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



Douglas M. Dykes  
Director of Human Resources  
Human Resources: 14 Employees



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

# **financial section**



## Independent Auditors' Report

Board of Trustees  
Northeast Ohio Regional Sewer District

We have audited the accompanying statements of net assets of the Northeast Ohio Regional Sewer District (the "District"), as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of December 31, 2008 and 2007, 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.

As described in Note 12, during the year ended December 31, 2008, the District implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 50, *Pension Disclosures*, GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and SFAS 157 *Fair Value Measurements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Board of Trustees  
Northeast Ohio Regional Sewer District

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

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, budgetary comparison information, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Ciuni & Panichi, Inc.*

Cleveland, Ohio  
December 14, 2009

# 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, 2008. 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 \$1,276,060,248.
- Net assets increased by \$15,761,347.
- Investment in capital assets, net of related debt increased by \$16,625,791.
- Unrestricted net assets decreased \$864,444.
- Retirements of debt principal were \$37,502,945.
- Operating revenue increased by \$3,216,640.
- Operating expenses increased by \$7,695,986.

### Overview of the Financial Statements

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

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

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

The tables below provide a summary of the District's financial position and operations for 2008, 2007 and 2006, respectively. Certain reclassifications have been made to restate the 2007 and 2006 financial statements in order to conform to the 2008 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)

	2008	2007	Change	
			Amount	%
<u>Assets</u>				
Current assets	\$182,640	\$184,294	(\$1,654)	(0.9)%
Capital assets, net	1,493,783	1,485,694	8,089	0.5%
Other noncurrent assets	222,679	222,811	(132)	(0.1%)
<b>Total assets</b>	<b>1,899,102</b>	<b>1,892,799</b>	<b>6,303</b>	<b>0.3%</b>
<u>Liabilities</u>				
Current liabilities	58,435	60,134	(1,699)	(2.9%)
Long-term debt	564,607	572,366	(7,759)	(1.4%)
<b>Total liabilities</b>	<b>623,042</b>	<b>632,500</b>	<b>(9,458)</b>	<b>(1.5%)</b>
<u>Net assets</u>				
Invested in capital assets	995,488	978,862	16,626	1.7%
Unrestricted	280,572	281,437	(865)	0.3%
<b>Total net assets</b>	<b>\$1,276,060</b>	<b>\$1,260,299</b>	<b>\$15,761</b>	<b>1.2%</b>

Net assets may serve as a useful indicator of financial position. As noted earlier, District assets exceeded liabilities by \$1,276,060,248 as of December 31, 2008, of which \$995,487,741 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 2008, net assets increased by \$15,761,347. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$3,367,536.
- Receivables from Federal and State agencies increased by \$1,224,991.
- Capital assets increased by \$8,089,504 due mainly to Easterly interceptor hydraulic improvements, Southerly/Westerly interceptors relining, replacement, and hydraulics, aeration tank rehabs, and plant improvements.
- Total debt decreased by a net amount of \$8,527,992. Additions of \$29,206,394 were for WPCLF loans and reductions of \$37,502,945 were for repayment of debt principal on General Obligation Bonds, OWDA loan, and WPCLF loans.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Condensed Statements of Net Assets

December 31,

(In Thousands)

	2007	2006	Change	
			Amount	%
<u>Assets</u>				
Current assets	\$184,294	\$190,479	(\$6,185)	(3.3%)
Capital assets, net	1,485,694	1,452,542	18,882	1.3%
Other noncurrent assets	222,811	107,266	115,545	107.8%
<b>Total assets</b>	<b>1,892,799</b>	<b>1,750,287</b>	<b>128,242</b>	<b>7.3%</b>
<u>Liabilities</u>				
Current liabilities	60,134	59,142	992	1.7%
Long-term debt	572,366	451,208	121,158	26.9%
<b>Total liabilities</b>	<b>632,500</b>	<b>510,350</b>	<b>122,150</b>	<b>24.0%</b>
<u>Net assets</u>				
Invested in capital assets, restated	978,862	980,197	(1,335)	(.14%)
Unrestricted	281,437	259,740	21,696	8.4%
<b>Total net assets</b>	<b>\$1,260,299</b>	<b>\$1,239,937</b>	<b>\$20,361</b>	<b>1.6%</b>

Net assets may serve as a useful indicator of financial position. The District's assets exceeded liabilities by \$1,260,298,901 as of December 31, 2007, of which \$978,861,950 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 2007, net assets increased by \$20,361,381. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$6,474,194.
- Receivables from Federal and State agencies decreased by \$7,159,267.
- Construction funds in the capital project account increased by \$104,405,279.
- Capital assets increased by \$33,151,137 due mainly to construction of the wastewater treatment and conveyance system.
- Total debt increased by a net amount of \$121,486,540. Additions of \$152,563,181 were for issuance of Wastewater Improvement Revenue Bonds for various construction projects. Reductions were \$31,076,641 for repayment of debt principal.

# 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)

	2008	2007	Change	
			Amount	%
<b><u>Operating revenue</u></b>				
Sewer service fees				
Billing Agents				
City of Cleveland	\$137,760	\$135,186	\$2,574	1.9%
Other Billing Agents	9,845	10,036	(191)	(1.9%)
Total Billing Agents	147,605	145,222	2,383	1.6%
Direct billed sewer service fees	13,832	13,063	769	5.9%
Total sewer service fees	161,437	158,285	3,152	2.0%
Other operating revenue				
Septic tank and municipal sludge fees	549	525	24	4.6%
Miscellaneous	285	245	40	16.3%
Total other operating revenue	834	770	64	8.3%
<b>Total operating revenue</b>	<b>162,271</b>	<b>159,055</b>	<b>3,216</b>	<b>2.0%</b>
<b><u>Non-operating revenue</u></b>				
Interest revenue	11,715	12,417	(702)	(5.7%)
Non-operating grants	1,592	35	1,557	4,448.6%
Increase in fair value of investments	2,332	3,158	(826)	(26.2%)
<b>Total non-operating revenue</b>	<b>15,639</b>	<b>15,610</b>	<b>29</b>	<b>0.2%</b>
<b>Total revenue</b>	<b>177,910</b>	<b>174,665</b>	<b>3,245</b>	<b>1.8%</b>
<b><u>Operating expenses</u></b>				
Salaries & Wages	35,102	33,725	1,377	4.1%
Benefits	11,494	10,732	762	7.1%
Utilities	20,633	18,893	1,740	9.2%
Professional & Contractual	18,727	14,808	3,919	26.5%
Other	5,757	7,047	(1,290)	(18.3%)
Depreciation	44,449	43,261	1,188	2.7%
<b>Total operating expenses</b>	<b>136,162</b>	<b>128,466</b>	<b>7,696</b>	<b>6.0%</b>
<b><u>Non-operating expenses</u></b>				
Interest expense on long-term debt	24,602	24,429	173	0.7%
Non-operating grant expenses	1,204	940	264	28.1%
Loss on disposals of equipment	181	469	(288)	(61.4%)
<b>Total non-operating expenses</b>	<b>25,987</b>	<b>25,838</b>	<b>149</b>	<b>0.6%</b>
<b>Total expenses</b>	<b>\$162,149</b>	<b>\$154,304</b>	<b>\$7,845</b>	<b>5.1%</b>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2008	2007	Change	
			Amount	%
<b>Change in net assets</b>	15,761	20,361	(4,600)	(1.8%)
Net assets at beginning of year	1,260,299	1,239,938	20,361	1.6%
<b>Net assets at end of year</b>	<u>\$1,276,060</u>	<u>\$1,260,299</u>	<u>\$15,761</u>	<u>1.3%</u>

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, 2008:

- Operating revenue increased by \$3,216,640 (2.0%) compared to 2007. The increase was due mainly to higher billing rates in 2008.
- Non-operating revenue increased by \$29,142 (0.18%). Non-operating revenue consists of interest income, non-operating grants, and the change in fair value of investments. Interest income decreased by \$702,589 (5.7%) due to lower interest rates on available balances for investment. The decrease in fair value of investments for 2008 was \$824,991 (26.2%) lower in 2007. This decrease is expected to continue due to the recession. Non-operating grant revenue increased \$1,556,722 (4,448.6%) due to the receipt of funds for Water Resource Sponsorship program in 2008.
- Operating expenses increased \$7,695,986 (6.0%) compared to 2007. Main components of operating expenses increased as follows:
  - Salaries and Wages increased \$1,377,736 (4.1%)
  - Utilities increased \$1,739,589 (9.2%) due to increase usage and higher rates.
  - Professional and Contractual expenses increased \$3,918,742 (26.5%) due mainly to an adjustment to construction in progress account related to costs of studies initially capitalized that needed to be reclass to operating expenses in accordance with GASB Statement No. 51.
- Non-operating expenses increased \$149,829 (0.58%). Interest expense increased by \$173,553 (0.7%). Losses on equipment disposals decreased \$287,912 (61.4%) due mainly to disposals of obsolete equipment parts in 2007. Non-operating grant expense increased \$264,188 (28.1%) due to expenses for West Creek Restoration project.

The following table on the next page summarizes the changes in revenues and expenses for the District between 2007 and 2006.

# 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)

	2007	2006	Change	
			Amount	%
<u>Operating revenue</u>				
Sewer service fees				
Billing Agents				
City of Cleveland	\$135,186	\$123,898	\$11,288	9.1%
Other Billing Agents	10,036	11,835	(1,799)	(15.2%)
Total Billing Agents	145,222	135,733	9,489	7.0%
Direct billed sewer service fees	13,063	13,221	(158)	(1.2%)
Total sewer service fees	158,285	148,954	9,331	6.3%
Other operating revenue				
Septic tank and municipal sludge fees	525	543	(18)	(3.3%)
Miscellaneous	245	657	(412)	(62.7%)
Total other operating revenue	770	1,200	(430)	(35.8%)
<b>Total operating revenue</b>	<b>159,055</b>	<b>150,154</b>	<b>8,901</b>	<b>5.9%</b>
<u>Non-operating revenue</u>				
Interest revenue	12,417	8,646	3,771	43.6%
Non-operating grants	35	0	35	100%
Increase (Decrease) in fair value of investments	3,158	1,775	1,383	77.9%
<b>Total non-operating revenue</b>	<b>15,610</b>	<b>10,421</b>	<b>5,189</b>	<b>49.8%</b>
<b>Total revenue</b>	<b>174,665</b>	<b>160,575</b>	<b>14,090</b>	<b>8.8%</b>
<u>Operating expenses</u>				
Salaries & Wages	33,725	33,022	703	2.1%
Benefits	10,732	11,225	(493)	(4.4%)
Utilities	18,893	17,815	1,078	6.1%
Professional & Contractual	14,808	13,339	1,469	11.1%
Other	7,047	6,918	129	1.9%
Depreciation	43,261	40,093	3,168	7.9%
<b>Total operating expenses</b>	<b>128,466</b>	<b>122,412</b>	<b>6,054</b>	<b>4.9%</b>
<u>Non-operating expenses</u>				
Interest expense on long-term debt	24,429	20,641	3,788	18.4%
Non-operating grant expenses	940	737	203	27.6%
Loss on disposals of equipment	469	4,217	(3,748)	(88.9%)
<b>Total non-operating expenses</b>	<b>25,838</b>	<b>25,595</b>	<b>243</b>	<b>0.1%</b>
<b>Total expenses</b>	<b>\$154,304</b>	<b>\$148,007</b>	<b>\$6,297</b>	<b>4.3%</b>



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

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

	2007	2006	Change	
			Amount	%
<b>Income before contributions</b>	\$20,361	\$12,568	\$7,793	62.0%
Capital contributions	-	6,360	(6,360)	(100%)
<b>Change in net assets</b>	20,361	18,928	1,433	7.6%
Net assets at beginning of year – as restated	1,239,938	1,221,010	18,928	1.5%
<b>Net assets at end of year</b>	<u>\$1,260,299</u>	<u>\$1,239,938</u>	<u>\$20,361</u>	<u>1.6%</u>

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, 2007:

- Operating revenue increased by \$8,900,239 (5.9%) compared to 2006. The increase was due mainly to higher billing rates in 2007.
- Non-operating revenue increased by \$5,189,621 (49.8%). Non-operating revenue consists of interest income and the change in fair value of investments. Interest income increased by \$3,771,952 (43.6%) due to higher balances available for investment. The increase in fair value of investments for 2007 was \$1,382,239 (77.9%) higher than in 2006. This increase is expected to continue to reverse in the future since these investments in obligations of the U.S. Treasury and its agencies are held to maturity.
- Operating expenses increased \$6,054,211 (4.9%) compared to 2006. Main components of operating expenses increased as follows:
  - Utilities increased \$1,078,787 (6.1%) due to increase usage and higher rates.
  - Professional and Contractual expenses increased \$1,469,644 (11.0%) due mainly to higher legal fees relating to regulatory environmental and construction matters and to an adjustment to construction in progress account related to costs of studies initially capitalized that needed to be reclass to operating expenses in accordance with GASB Statement No. 51.
  - Increases in Other Expenses include \$104,163 (7.3%) for Chemicals used in the treatment processes at the Wastewater Treatment Plants; \$31,666 (0.7%) for Materials and Supplies to operate and maintain facilities; and \$899,008 (28.9%) for Repair and Maintenance to buildings, equipment, sewer and roads. The increases were offset by decreases in Other Expenses of \$637,312 (15.0%) and Insurance of 18,365 (1.6%).
- Non-operating expenses increased \$242,055 (0.1%). Interest expense increased by \$3,787,566 (18.3%) due to issuance of Wastewater Improvement Revenue Bond in May 2007. Losses on equipment disposals decreased \$3,748,313 (88.9%) due mainly to disposals of obsolete equipment parts in 2006.

Capital contributions decreased in 2007 by \$6,359,637 due to completion of a project funded by the U.S. Environmental Protection Agency in 2006.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Capital Assets

At the end of 2008, the District had \$1,493,782,987 invested in capital assets. This amount represents a net increase of approximately \$8.1 million, or 0.6% over 2007. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

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

	2008	2007	Change	
			Amount	%
Land	\$8,950	\$8,950	\$0	0%
Construction in Progress	194,457	184,276	10,181	5.6%
Interceptor Sewer Lines	776,495	764,732	11,763	1.6%
Buildings, structures and improvements	368,730	377,308	(8,578)	(2.3%)
Sewage treatment and other equipment	145,151	150,427	(5,276)	(3.5%)
Totals	<u>\$1,493,783</u>	<u>\$1,485,693</u>	<u>\$8,090</u>	<u>0.6%</u>

Major additions in 2008, at cost included:

Mill Creek Tunnel	\$1,300
Southerly/Westerly Interceptors Relining, Replacement and Hydraulics	7,579
Southerly Incineration Improvements Design	3,149
Westerly Interceptor Box Culvert	1,521
Easterly Interceptor Hydra Improvements	2,190
Second Stage Aeration Tank Rehab	4,753
Easterly Affluent Screw Pumps Rehab	1,674
Heights/Hilltop Operational Evaluation Project	1,954
Easterly Final Clarifier Rehab	1,206
Southerly Second State Settling Tank Rehab	4,476
Manhole Rehabilitation	1,052
Roof Renovations-Southerly/EMSC/PSTN	1,361
MCI Repair/Vista Branch Design	1,219
Big Creek Improv Trestle #2 Replacement	2,805
Flats East Bank Project	2,439
	<u>\$38,678</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Capital Assets

At the end of 2007, the District had \$1,485,693,483 invested in capital assets. This amount represents a net increase of approximately \$33 million, or 2.3% over 2006. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

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

	2007	2006	Change	
			Amount	%
Land	\$8,950	\$7,404	\$1,546	20.9%
Construction in Progress	184,276	184,581	(305)	(0.16%)
Interceptor Sewer Lines	764,732	732,167	32,565	4.4%
Buildings, structures and improvements	377,308	379,180	(1,872)	(0.5%)
Sewage treatment and other equipment	150,427	149,210	1,217	0.8%
Totals	<u>\$1,485,693</u>	<u>\$1,452,542</u>	<u>\$33,151</u>	<u>2.3%</u>

Major additions in 2007, at cost included:

#### Interceptors:

Land for Euclid Creek/Dugway Tunnels	\$1,546
Easterly District Interceptors Relining & Replacement	5,269
Big Creek Interceptor Rehabilitation	3,631
Broadway Relief Sewer	1,791
Southerly Early Action CSO (Area 2A)	10,660
Southerly Early Action CSO (Area 2C)	4,908
East 90 <sup>th</sup> Street Relief Sewer	7,614
Southerly/Westerly Interceptors Relining, Replacement and Hydraulics	8,778

#### Wastewater Treatment Plants:

Easterly Aerated Channel Piping	3,635
Southerly South Fill Area & Dome	3,661
Southerly Outside Lighting Improvements	2,644
Easterly Final Clarifier Repair	6,233
Southerly Traveling Bridges	7,559
Southerly Interceptor Repair	1,029
	<u>\$68,958</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Management's Discussion and Analysis

### Debt Administration

At December 31, 2008 the District had total debt outstanding of \$595,064,591 compared to \$603,361,142 at December 31, 2007. This represents a decrease of \$8,296,551. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund decreased \$1,182,251; total debt retirements were \$37,502,945. The carrying value of the long-term portion of debt at December 31, 2008 was \$564,606,888 and the fair value of the long-term debt was \$562,806,201.

At December 31, 2007 the District had total debt outstanding of \$603,361,142 compared to \$481,874,602 at December 31, 2006. This represents an increase of \$121,486,540. In 2007, loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$485,093; total debt retirements were \$31,076,641. The carrying value of the long-term portion of debt at December 31, 2007 was \$572,365,514 and the fair value of the long-term debt was \$575,670,008.

This information should be read in conjunction with Note 6 to the audited financial statements for more detailed information on long-term debt.

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

	2008	2007	2006
Revenue Bonds	\$177,985	\$184,905	\$63,525
Ohio Water Development Authority Loans	0	194	573
Water Pollution Control Loans Payable	417,080	418,262	417,777
Total Debt	<u>\$595,065</u>	<u>\$603,361</u>	<u>\$481,875</u>

### Economic Factors

In February, 2007 the District's Board of Trustees approved a schedule of rate increases for the five years 2007 through 2011. Effective March 1, 2007, rates charged to District customers increased 9.7 percent to \$30.85 per mcf for City of Cleveland customers, and 7.7 percent to \$35.10 per mcf for the suburban customers. Effective January 1, 2008, rates charged to District customers increased 9.8 percent to \$33.85 per mcf for City of Cleveland customers, and 7.9 percent to \$37.85 for the suburban customers. The rates are scheduled to increase similarly on January 1 of each year, for years 2007 through 2011.

Increasingly stringent federal regulations and remaining legal obligations are key factors that led to the increases. A rate study of a projected five-year period concluded that the need to finance \$707 million in federally mandated capital projects between 2008 and 2012, combined with the repayment of existing debt service for past projects and an anticipated decrease in billed consumption, necessitated the rate increases.

### 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**

*Protecting Your Health and Environment*

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets

**December 31, 2008 and 2007**

	<u>Assets</u>	
	2008	2007
Current Assets:		
Cash	\$ 13,434	\$ 1,805,559
Short-Term Investments	90,626,168	95,169,222
Sewage Service Fees Receivable, less allowance for doubtful accounts of \$13,963,000 in 2008 and \$9,400,000 in 2007 (Note 4)	76,653,169	73,285,633
Receivables from Federal and State Agencies	8,622,563	7,397,572
Inventory, Prepaid Expenses and Other	6,725,448	6,636,284
Total Current Assets	182,640,782	184,294,270
Noncurrent Assets:		
Capital Assets:		
Interceptor Sewer Lines	923,044,031	898,665,823
Buildings, Structures and Improvements	686,213,505	676,610,685
Sewage Treatment and Other Equipment	337,340,453	330,984,995
	1,946,597,989	1,906,261,503
Less Accumulated Depreciation	656,222,329	613,794,602
	1,290,375,660	1,292,466,901
Land	8,950,592	8,950,592
Construction in Progress	194,456,735	184,275,990
Net Capital Assets	1,493,782,987	1,485,693,483
Unamortized Deferred Debt Expense	1,322,707	1,488,330
Construction Funds (Note 2)	202,284,064	202,249,010
Revenue Bond Debt Service Deposit (Note 2)	19,071,849	19,073,332
Total Noncurrent Assets	1,716,461,607	1,708,504,155
Total Assets	\$ 1,899,102,389	\$ 1,892,798,425

Continued

The accompanying notes are an integral part of these statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Statements of Net Assets (Continued)

December 31, 2008 and 2007

	<u>Liabilities and Net Assets</u>	
	<u>2008</u>	<u>2007</u>
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 6,264,524	\$ 5,306,472
Construction Contracts and Retainages Payable	5,422,307	5,663,033
Accrued Interest	9,710,075	10,276,467
Other Accrued Liabilities	3,973,336	5,053,661
Current Maturities of Long-Term Debt (Note 6)	33,065,011	33,834,377
Total Current Liabilities	<u>58,435,253</u>	<u>60,134,010</u>
Noncurrent Liabilities:		
Long-Term Debt, Net of Current Maturities (Note 6)	<u>564,606,888</u>	<u>572,365,514</u>
Total Liabilities	<u>623,042,141</u>	<u>632,499,524</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	995,487,741	978,861,950
Unrestricted	<u>280,572,507</u>	<u>281,436,951</u>
Total Net Assets	<u>\$ 1,276,060,248</u>	<u>\$ 1,260,298,901</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, 2008 and 2007

	2008	2007
Operating Revenues:		
Billing Agents	\$ 147,605,404	\$ 145,221,599
Direct Billed	13,832,074	13,062,958
Other	833,463	769,744
Total Operating Revenues	162,270,941	159,054,301
Operating Expenses:		
Salaries and Wages	35,102,015	33,724,279
Fringe Benefits	11,493,925	10,732,240
Utilities	20,632,885	18,893,296
Professional and Contractual Services	18,727,176	14,808,434
Other	5,757,037	7,046,216
Depreciation	44,448,564	43,261,151
Total Operating Expenses	136,161,602	128,465,616
Operating Income	26,109,339	30,588,685
Non-Operating Revenues (Expenses):		
Interest Income	11,714,888	12,417,477
Increase in Fair Value of Investments, Net	2,332,208	3,157,199
Non-Operating Grant Revenue	1,592,151	35,430
Non-Operating Grant Expense	(1,204,204)	(940,016)
Loss on Disposals of Equipment	(180,689)	(468,601)
Interest on Long-Term Debt	(24,602,346)	(24,428,793)
Total Non-Operating Expenses	(10,347,992)	(10,227,304)
Change in Net Assets	15,761,347	20,361,381
Net Assets at Beginning of Year – as restated (Note 12)	1,260,298,901	1,239,937,520
Net Assets at End of Year	\$ 1,276,060,248	\$ 1,260,298,901

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, 2008 and 2007**

	2008	2007
Cash Flows from Operating Activities:		
Cash Received From Customers	\$ 158,903,407	\$ 152,580,108
Cash Payments to Suppliers for Goods and Services	(44,201,854)	(40,692,177)
Cash Payments to Employees for Services	(47,722,625)	(44,730,288)
Net Cash Provided by Operating Activities	66,978,928	67,157,643
Cash Flows from Investing Activities:		
Purchase of Investments	(524,843,818)	(647,179,078)
Proceeds from Maturities of Investments	531,289,526	541,304,767
Interest on Investments	12,239,357	11,383,540
Net Cash Provided by (Used in) Investing Activities	18,685,065	(94,490,771)
Cash Flows from Capital and Related Financing Activities:		
Principal Payments on Long-Term Debt	(36,034,517)	(31,076,641)
Interest Payments on Long-Term Debt	(26,388,361)	(22,701,828)
Proceeds from Issuance of Series 2007 Bonds	-	129,126,599
Payments related to Deferred Debt Expenses	-	(1,246,240)
Proceeds from Water Pollution Control Loans	28,435,570	33,249,219
Acquisition and Construction of Capital Assets	(52,959,485)	(80,497,525)
Grant Payments	(1,204,204)	(940,016)
Grants Received	694,879	238,388
Net Cash (Used in) Provided by Capital and Related Financing Activities	(87,456,118)	26,151,956
Net Decrease in Cash	(1,792,125)	(1,181,172)
Cash at Beginning of Year	1,805,559	2,986,731
Cash at End of Year	\$ 13,434	\$ 1,805,559

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, 2008 and 2007**

	2008	2007
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 26,109,339	\$ 30,588,685
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	44,448,564	43,261,151
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(3,367,536)	(6,474,194)
Inventory and Prepaid Expenses	(89,164)	(215,045)
Accounts Payable and Other Accrued Liabilities	(122,275)	(2,954)
Total Adjustments	40,869,589	36,568,958
Net Cash Provided by Operating Activities	\$ 66,978,928	\$ 67,157,643
 <b>Supplemental Schedule of Non-Cash Investing, Capital and Related Financing Activities:</b>		
Long-Term Debt Recorded for Receivables from State Agencies in Connection with Water Pollution Control Loans	\$ 8,428,196	\$ 7,268,639
Long-Term Debt Increased (Decreased) due to Accrued Construction Interest and Recorded Receivables and Principal Adjustment	\$ (1,470,497)	\$ (6,741,037)
Capital Assets Increased due to Capitalized Costs, Recorded Accounts Payable, and Asset Reclassifications	\$ 206,387	\$ 3,579,713
Increase in Fair Value of Investments, Net	\$ 2,332,208	\$ 3,157,199

The accompanying notes are an integral part of these statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### 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 59 suburban communities.

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

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

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

### Note 2: Summary of Significant Accounting Policies

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

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

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.

#### **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, 2008 and 2007

### 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 2008 and 2007. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities and Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on the respective statement of net assets date.

#### E. Short-term Investments

Short-term investments consist of 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, net of the current portion, at December 31, 2008 were \$564,606,888 and \$562,806,201, respectively. The carrying value and estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2007 were \$572,365,514 and \$575,670,008, respectively.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### 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, 2008 and 2007, 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 2005 Wastewater Improvement Revenue Refunding Bonds and the 2007 Wastewater Improvement Revenue Bonds.

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

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2008 and 2007 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 \$13,963,000 at December 31, 2008 and \$9,400,000 at December 31, 2007.

#### **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, 2008 and 2007

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

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

Capital assets which include property, plant, equipment, and infrastructure assets (e.g. sewer lines and similar items) are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Northeast Ohio Regional Sewer District maintains a capitalization threshold of \$5,000. Major renewals and betterments are capitalized; the costs of normal improvements and repairs that do not add to the value of the assets or materially extend an asset's life are 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. Unamortized Financing Costs**

The unamortized financing costs include insurance, consulting and attorney fees incurred in connection with the revenue bond obligations. These amounts are being amortized on the straight-line method over the lives of the revenue bonds. Bond premiums, discounts and deferred loss are being amortized on the interest method over the lives of the revenue bonds. Amortization amounted to \$65,818 for 2008 and \$14,177 for 2007.

#### **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 2008 or 2007.

#### **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 \$6,228,927 in 2008 and \$3,534,763 in 2007. 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, 2008 and 2007

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

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

Non-operating revenues and expenses are all revenues and expenses not meeting the definition of operating revenues and expenses. Non-operating revenues and expenses include revenues and expenses from 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, 2008 and 2007 are unbilled sewage service fees of \$24,384,894 and \$22,590,076, respectively.

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

It is the District's intention that all expenses, including interest incurred in connection with financing the constructions of new facilities, be recovered on a current basis. The annual budget process is governed by a number of factors, including a covenant in the 2005 Wastewater Improvement Revenue Refunding Bond Resolution and the 2007 Wastewater Improvement Revenue 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. Management made certain estimates for billing adjustments that occurred in 2008.

#### **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 2007 financial statements in order to conform to the 2008 presentation.



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### Note 3: Deposits and Investments

#### Deposits

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The District's practice is to place deposits with commercial banks and savings and loan associations within its service area. At December 31, 2008, the carrying amount of the District's deposits, including certificates of deposit of \$31,429,455, was \$31,442,184 and the bank balance was \$34,066,698. Of the bank balance, \$750,000 was covered by Federal depository insurance and \$33,316,698 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. At December 31, 2007, the carrying amount of the District's deposits, including certificates of deposit of \$11,486,852, was \$13,289,959 and the bank balance was \$14,911,490. Of the bank balance, \$400,000 was covered by Federal depository insurance and \$14,511,490 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. In the event of default by the pledging financial institution, the District may make written demand upon the Federal Reserve Bank of Boston, Massachusetts for surrender of the collateral.

#### Investments

The District's investment policies are currently governed by its 2007 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 2005 and 2007 Series Bonds.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2008 and 2007**

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

At December 31, 2008 the District's investment balances and maturities were as follows:

Investment Type	Fair Value	% of Total	Maturities (in Years)	
			Less than 1	1 Through 5
State Treasury Asset Reserve of Ohio	\$ 79,849,326	29%	\$ 79,849,326	\$ -
Federal Home Loan Bank	61,985,596	22%	25,781,338	36,204,258
Federal Home Loan Mortgage Corporation	51,418,767	18%	41,152,072	10,266,695
Federal National Mortgage Association	46,106,806	16%	20,243,031	25,863,775
Federal Farm Credit Bank	15,480,040	6%	10,290,363	5,189,677
Forward Delivery Agreement	8,051,394	3%	8,051,394	-
Guaranteed Investment Contracts	7,173,079	3%	-	7,173,079
JP Morgan Chase GTD TLGP	6,640,947	2%	-	6,640,947
U.S. Treasury Bills	3,846,779	1%	3,846,779	-
JP Morgan US Money Market	597	0%	597	-
	<u>\$ 280,553,331</u>		<u>\$ 189,214,900</u>	<u>\$ 91,338,431</u>

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

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy authorizes investments in obligations of the U.S. Treasury, U.S. agencies and instrumentalities, interest-bearing demand or time deposits, State Treasury Asset Reserve of Ohio ("STAR Ohio"), money market mutual funds, repurchase agreements, and in certain situations, pre-funded municipal obligations, general obligations of any state and other fixed income securities. Repurchase transactions are not to exceed one year and must be collateralized by obligations of the U.S. Government or its agencies which are held by a third party custodian. Star Ohio is an investment pool created pursuant to Ohio statutes and is managed by the Treasurer of the State of Ohio. As of December 31, 2008, the District's investment in U.S. instrumentalities (Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, Federal Farm Credit Bank, Guaranteed Investment Contracts) were all rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. The investments in Star Ohio, and Bank of New York were rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

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

**Custodial Credit Risk:** Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the requirements of State Law, it is the policy of the District to require full collateralization of all investments other than obligations of U.S. Government, its agencies and instrumentalities. The District's investment in U.S. agencies with fair values totaling \$181,632,156 has maturities of \$97,466,804 in less than one year and \$84,165,352 within two years. U.S. agencies are held in the account of National City Bank ("Trustee"), at the Federal Reserve Bank of Cleveland. The District's securities associated with the principal and interest payment of bond proceeds in the amount of \$19,071,849 are held in the account of Bank of New York under the Master Trust Agreement. Assets held by the Trustee as a custodial agent are considered legally separate from the other assets of Trustee.

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

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

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

A summary of the billing and collection transactions between the City and the District for 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 54,237,994	\$ 48,779,516
Amounts billed to District customers by the City during the year	146,159,999	135,638,495
Cash collected from District customers by the City and remitted to the District during the year	(133,410,654)	(126,722,187)
Write off of inactive accounts	(1,665,928)	(2,111,416)
Cash collected directly by the District on invoices rendered by the City and other adjustments	<u>(5,527,118)</u>	<u>(1,346,414)</u>
Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts	\$ <u>59,794,293</u>	\$ <u>54,237,994</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 2008 and 2007 were \$5,159,946 and \$4,694,291, respectively.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2008 and 2007**

### Note 5: Capital Assets and Depreciation

Capital Asset Activity for the year ended December 31, 2008 was as follows:

	<u>Restated Balance December 31, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer</u>	<u>Balance December 31, 2008</u>
<b>Non-depreciable:</b>					
Land	\$ 8,950,592	\$ -	\$ -	\$ -	\$ 8,950,592
Construction in Progress	<u>184,275,990</u>	<u>51,615,565</u>	<u>-</u>	<u>(41,434,820)</u>	<u>194,456,735</u>
	<u>193,226,582</u>	<u>51,615,565</u>	<u>-</u>	<u>(41,434,820)</u>	<u>203,407,327</u>
<b>Depreciable:</b>					
Interceptor Sewer Lines	898,665,823	-	-	24,378,208	923,044,031
Buildings, Structures & Improvements	676,610,685	443,066	(117,053)	9,276,807	686,213,505
Sewage Treatment & Other Equipment	<u>330,984,995</u>	<u>694,467</u>	<u>(2,118,814)</u>	<u>7,779,805</u>	<u>337,340,453</u>
	<u>1,906,261,503</u>	<u>1,137,533</u>	<u>(2,235,867)</u>	<u>41,434,820</u>	<u>1,946,597,989</u>
Total at Historical Cost	<u>2,099,488,085</u>	<u>52,753,098</u>	<u>(2,235,867)</u>	<u>-</u>	<u>2,150,005,316</u>
<b>Less Accumulated Depreciation For:</b>					
Interceptor Sewer Lines	(133,933,946)	(12,615,420)	-	-	(146,549,366)
Buildings, Structures & Improvements	(299,302,459)	(18,208,103)	27,061	-	(317,483,501)
Sewage Treatment & Other Equipment	(180,558,197)	(13,625,041)	1,993,776	-	(192,189,462)
Total Accumulated Depreciation	<u>(613,794,602)</u>	<u>(44,448,564)</u>	<u>2,020,837</u>	<u>-</u>	<u>(656,222,329)</u>
Capital Assets, Net	<u>\$ 1,485,693,483</u>	<u>\$ 8,304,534</u>	<u>\$ (215,030)</u>	<u>\$ -</u>	<u>\$ 1,493,782,987</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 44,448,564</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2008 and 2007**

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

Capital Asset Activity for the year ended December 31, 2007 was as follows:

	<u>Restated Balance December 31, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfer</u>	<u>Restated Balance December 31, 2007</u>
Non-depreciable:					
Land	\$ 7,404,102	\$ -	\$ -	\$ 1,546,490	\$ 8,950,592
Construction in Progress	184,580,875	75,644,162	-	(75,949,047)	184,275,990
	<u>191,984,977</u>	<u>75,644,162</u>	<u>-</u>	<u>(74,402,557)</u>	<u>193,226,582</u>
Depreciable:					
Interceptor Sewer Lines	854,146,016	-	(171,039)	44,690,846	898,665,823
Buildings, Structures & Improvements	660,884,971	188,190	(278,759)	15,816,283	676,610,685
Sewage Treatment & Other Equipment	320,637,401	1,085,460	(4,633,294)	13,895,428	330,984,995
	<u>1,835,668,388</u>	<u>1,273,650</u>	<u>(5,083,092)</u>	<u>74,402,557</u>	<u>1,906,261,503</u>
Total at Historical Cost	<u>2,027,653,365</u>	<u>76,917,812</u>	<u>(5,083,092)</u>	<u>-</u>	<u>2,099,488,085</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(121,978,840)	(12,015,969)	60,863	-	(133,933,946)
Buildings, Structures & Improvements	(281,705,018)	(17,750,760)	153,319	-	(299,302,459)
Sewage Treatment & Other Equipment	(171,427,161)	(13,494,422)	4,363,386	-	(180,558,197)
Total Accumulated Depreciation	<u>(575,111,019)</u>	<u>(43,261,151)</u>	<u>4,577,568</u>	<u>-</u>	<u>(613,794,602)</u>
Capital Assets, Net	<u>\$ 1,452,542,346</u>	<u>\$ 33,656,661</u>	<u>\$ (505,524)</u>	<u>\$ -</u>	<u>\$ 1,485,693,483</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 43,261,151</u>			

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2008 and 2007**

**Note 6: Long-Term Obligations**

A summary of long-term debt outstanding at December 31, 2008 and 2007 follows:

	Interest Rate	2008	2007
Wastewater Improvement Revenue Refunding Bonds, Series 2005:			
Serial Bonds Maturing 2008 through 2016	4.00%-5.00%	\$ 53,985,000	\$ 58,850,000
Wastewater Improvement Revenue Bonds, Series 2007:			
Serial Bonds Maturing 2008 through 2037	3.75%-5.00%	124,000,000	126,055,000
Ohio Water Development Authority Loans Payable Annually Through 2008	5.25%	-	194,300
Water Pollution Control Loans Payable Through 2029	3.20%-5.20%	417,079,591	418,261,842
Total Debt		595,064,591	603,361,142
Less Current Maturities		33,065,011	33,834,377
Bond Premium, Net		2,607,308	2,838,749
Total Long-Term Debt		\$ 564,606,888	\$ 572,365,514

Wastewater Improvement Revenue Refunding Bonds, Series 2005

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

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

#### Wastewater Improvement Revenue Bonds, Series 2007

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

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

#### 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 2005 and 2007 Series Bonds and are payable from the revenues of the District, after payment of operating and maintenance costs and are secured by a pledge of and lien on such net revenues. The repayment period commences on a fixed date established by each agreement. Repayments have begun on all agreements.

#### Water Pollution Control Loans

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



# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

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

The repayment period for each loan commences no later than the first January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. The District is required to submit final eligible project costs within one year of the project completion date at which time the final loan amount is determined and semi-annual payment amounts are adjusted to reflect such costs. The District had 49 SRF loan awards related to projects, 4 of which were not complete as of December 31, 2008. 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, 2008 follow:

<u>Completion or Expected Completion Year of Projects</u>	<u>Number of Projects</u>	<u>Current Amount Including Accrued Construction Period Interest</u>	<u>Additional Available Borrowings Including Construction Period Interest</u>
1993 – 2008	45	\$ 398,087,300	\$ 41,632,733
2009	3	17,723,511	19,645,246
2010	1	1,268,780	5,194,996
		<u>\$ 417,079,591</u>	<u>\$ 66,472,975</u>

### Defeasance Transactions

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

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

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

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

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

In 2005, the District issued \$68,980,000 in Wastewater Improvement Revenue Refunding Bonds, Series 2005 to advance refund and defease the series 1995 Wastewater Improvement Refunding Bonds of \$64,165,000. The net proceeds were used to purchase direct obligations of the U.S. government. Those securities were deposited in an irrevocable trust with an escrow agent. The securities and fixed earnings from the securities are sufficient to provide for all future debt service payments on the series 1995 wastewater improvement bonds. As a result, the 1995 wastewater improvement bonds are considered defeased. As of December 31, 2008, \$50,135,000 of the defeased debt remained outstanding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$3,413,626. This difference, reported in the accompanying financial statement as a deduction from long-term debt, is being charged to operations through the year 2016 using the weighted average method. The unamortized balance of the deferral totaled \$1,436,410 at December 31, 2008 and \$1,845,562 at December 31, 2007. The Series 2005 Bonds are not subject to redemption at the option of the District prior to their stated maturity.

### 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, 2008 follows:

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2008 and 2007**

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

	Wastewater Improvement Revenue Refunding Bonds Series 2005		Wastewater Improvement Revenue Bonds Series 2007	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2009	5,060,000	2,457,300	2,135,000	5,720,675
2010	5,265,000	2,254,900	2,220,000	5,635,275
2011	5,470,000	2,044,300	2,315,000	5,540,925
2012	5,665,000	1,852,850	2,400,000	5,454,113
2013	5,890,000	1,626,250	2,500,000	5,358,113
2014-2018	26,635,000	3,051,500	14,495,000	24,786,562
2019-2023	-	-	18,250,000	21,029,588
2024-2028	-	-	22,780,000	16,497,675
2029	-	-	56,905,000	13,801,712
<b>Total</b>	<b>\$ 53,985,000</b>	<b>\$ 13,287,100</b>	<b>\$ 124,000,000</b>	<b>\$ 103,824,638</b>

	Water Pollution Control Loans		Future Debt Service Requirements Total	
	Principal	Interest	Principal	Interest
	\$	\$	\$	\$
2009	25,870,011	16,691,108	33,065,011	24,869,083
2010	27,784,502	15,173,237	35,269,502	23,063,412
2011	28,964,155	14,038,075	36,749,155	21,623,300
2012	30,171,246	12,830,984	38,236,246	20,137,947
2013	30,511,897	11,573,772	38,901,897	18,558,135
2014-2018	135,667,707	40,123,856	176,797,707	67,961,918
2019-2023	99,017,594	16,986,414	117,267,594	38,016,002
2024-2028	38,963,600	2,485,944	61,743,600	18,983,619
2029	128,879	3,805	57,033,879	13,805,517
<b>Total</b>	<b>\$ 417,079,591</b>	<b>\$ 129,907,195</b>	<b>\$ 595,064,591</b>	<b>\$ 247,018,933</b>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

**December 31, 2008 and 2007**

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

Bond premium, loss on defeasance activity for the year:

<u>December 31, 2008</u>	<u>Beginning Balance</u>	<u>Amortized</u>	<u>Refunded</u>	<u>Issued</u>	<u>Ending Balance</u>
Bond Premium – 2005	\$ 1,760,571	\$ (391,409)	\$ -	\$ -	\$ 1,369,162
Bond Premium – 2007	2,923,740	(249,183)	-	-	2,674,557
Loss on Refunding, Series 2005	<u>(1,845,562)</u>	409,151	-	-	<u>(1,436,411)</u>
Total	<u>\$ 2,838,749</u>	<u>\$ (231,441)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,607,308</u>
<u>December 31, 2007</u>	<u>Beginning Balance</u>	<u>Amortized</u>	<u>Refunded</u>	<u>Issued</u>	<u>Ending Balance</u>
Bond Premium – 2005	\$ 2,254,763	\$ (494,192)	\$ -	\$ -	\$ 1,760,571
Bond Premium – 2007	-	(147,859)	-	3,071,599	2,923,740
Loss on Refunding, Series 2005	<u>(2,361,470)</u>	515,908	-	-	<u>(1,845,562)</u>
Total	<u>\$ (106,707)</u>	<u>\$ (126,143)</u>	<u>\$ -</u>	<u>\$ 3,071,599</u>	<u>\$ 2,838,749</u>

Long-term debt activity for the year:

<u>December 31, 2008</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due in 2009</u>
Wastewater Improvement Revenue Refunding Bonds Series 2005	\$ 58,850,000	\$ -	\$ (4,865,000)	\$ 53,985,000	\$ 5,060,000
Wastewater Improvement Revenue Bonds Series 2007	126,055,000	-	(2,055,000)	124,000,000	2,135,000
Ohio Water Development Authority Loans	194,300	-	(194,300)	-	-
Water Pollution Control Loans	<u>418,261,842</u>	<u>29,206,394</u>	<u>(30,388,645)</u>	<u>417,079,591</u>	<u>25,870,011</u>
Total Debt	<u>\$ 603,361,142</u>	<u>\$ 29,206,394</u>	<u>\$ (37,502,945)</u>	<u>\$ 595,064,591</u>	<u>\$ 33,065,011</u>
<u>December 31, 2007</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due in 2008</u>
Wastewater Improvement Revenue Refunding Bonds Series 2005	\$ 63,525,000	\$ -	\$ (4,675,000)	\$ 58,850,000	\$ 4,865,000
Wastewater Improvement Revenue Bonds Series 2007	-	126,055,000	-	126,055,000	2,055,000
Ohio Water Development Authority Loans	572,853	-	(378,553)	194,300	194,300
Water Pollution Control Loans	<u>417,776,749</u>	<u>26,508,181</u>	<u>(26,023,088)</u>	<u>418,261,842</u>	<u>26,720,077</u>
Total Debt	<u>\$ 481,874,602</u>	<u>\$ 152,563,181</u>	<u>\$ (31,076,641)</u>	<u>\$ 603,361,142</u>	<u>\$ 33,834,377</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### Note 7: Pension Plans

#### Ohio Public Employees Retirement System

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

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. District members were required to contribute 10.0% of their annual covered salary to fund pension obligations in 2008. The 2008 employer contribution rate for the District was 14.0% of covered payroll. The District’s contributions to the OPERS for the years ended December 31, 2008, 2007 and 2006 were \$4,971,551, \$4,813,753 and \$4,616,399, respectively, which are the required contributions for each year. Total required employer contributions for all plans are equal to 100% of employer charges and should be extracted from the employer’s records.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### Note 8: 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 maintains a cost-sharing, multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. For the District's employer units, the 2008 contribution rate was 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for District employer units. Active members do not make contributions to the OPEB plan.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### **Note 8: Postemployment Benefits (continued)**

#### Ohio Public Employees Retirement System (continued)

OPERS' Post Employment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008, the employer contribution allocated to the health care plan was 7.0% of covered payroll. During 2008 the District's portion that was used to fund health care was \$2,485,776 or 7.0% of covered payroll; during 2007 the District's portion was \$1,911,599, representing 5.5% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

### **Note 9: Deferred Compensation Plans**

Under a deferred compensation program, the District offers two plans created in accordance with Internal Revenue Code Section 457 ("IRC 457"). Eligible employees of the District may elect to participate in either the ING Life Insurance and Annuity Company (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, 2008 and 2007, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### Note 10: Risk Management

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

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

	<u>Beginning Balance</u>	<u>Claims Paid</u>	<u>Increase in Estimate</u>	<u>Ending Balance</u>
2008	\$ 47,472	\$ -	\$ 122,261	\$ 169,733
2007	87,007	(44,273)	4,738	47,472

Estimated liabilities are not material with respect to the financial position of the District. The claims liability is included in other accrued liabilities in the accompanying statements of net assets. The District's insurance reserve as of December 31, 2008 and 2007 was \$20,995,667 and \$20,192,611, respectively, and is included in short-term investments on the District's balance sheet.

### Note 11: Commitments and Contingencies

The District has a major capital improvement and expansion program. At December 31, 2008, the District has outstanding commitments for contracts in progress of approximately \$124,000,000. Funding for future expenditures will be provided primarily from borrowings and District equity.

The District has approximately \$11,000,000 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

## Notes to Financial Statements

December 31, 2008 and 2007

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

In June 2007, the Board of Trustees approved to enter into a long-term partnership with the Cleveland Metroparks to support construction of the Watershed Stewardship Center at the West Creek Reservation with a capital investment of \$3,000,000 with naming rights of the building. As part of the agreement, the District would also provide in-kind services of \$250,000 in staff support and program support. The first of three equal installments of \$1,000,000 will be due within 45 days of the Cleveland Metroparks entering into a contract with its selected firm for the construction of the facility and each installment after that due within 12 months. As of December 31, 2008, Cleveland Metroparks has not entered into contract with its selected firm.

### Note 12: Change in Governmental Accounting Principles and Restatement of Net Assets

#### A. Restatement of Net Assets – Change in Accounting Principles

During 2008, the District implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". GASB Statement No. 51 establishes accounting and financial reporting standards for intangible assets to reduce the inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. Prior to January 1, 2008, the District's policy was to capitalize certain internally generated intangible assets that were expected to be part of a future capital project. GASB Statement No. 51 established a specified-conditions approach to recognized intangible assets that are internally generated. Based on the provisions of GASB Statement No. 51, the District determined that \$14,269,386 of previously capitalized internally generated assets did not meet the specified conditions approach. As such, net assets as of December 31, 2006 have decreased by \$14,269,386 to reflect the implementation of GASB Statement No. 51. The effects of the implementation for the year ended December 31, 2007 were not material to the financial statements and have been included in the restatement as of December 31, 2006. The following table reconciles net assets at December 31, 2006, as previously reported, to the restated amount.

		Invested In Capital Assets, Net of Related Debt	Unrestricted	Total
December 31, 2006 as previously reported	\$	994,466,605	\$ 259,740,301	\$ 1,254,206,906
Implementation of GASB Statement No. 51		(14,269,386)	-	(14,269,386)
December 31, 2006 as restated	\$	980,197,219	\$ 259,740,301	\$ 1,239,937,520

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### Note 12: Change in Governmental Accounting Principles and Restatement of Net Assets (continued)

#### B. Change in Accounting Principles

During 2008, the District implemented GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address current or potential detrimental effects of existing pollution by participating in remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not affect the presentation of the financial statements of the District.

During 2008, the District implemented GASB Statement No. 50, "Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27". GASB Statement No. 50 revises the financial reporting requirements for pension plans and employers that provide pension plans. The required disclosures are included in Note 7 to the financial statements.

In November 2007, the GASB issued Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments". This statement establishes standards for accounting and financial reporting for land and other real estate held as investments by endowments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2008. The District has not determined the impact, if any, that this statement will have on its financial statements or disclosures.

In June 2008, the GASB issued Statement No. 53, "Accounting for Financial Reporting for Derivative Instruments". This statement provides guidance regarding the accounting and reporting of derivative instruments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The District has not determined the impact, if any, that this statement will have on its financial statements or disclosures.

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

During 2008, the District implemented FASB Statement No. 157 "Fair Value Measurements". The required disclosures are included in Note 13 to the financial statements.

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

## Notes to Financial Statements

December 31, 2008 and 2007

### Note 13: Fair Value Measurements

SFAS 157 defines fair value as the exit price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a framework for measuring fair value by creating a hierarchy of valuation inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information, which has been internally developed.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In accordance with FASB Staff Position (FSP) 157-2 the District has elected to not apply the provision of SFAS 157 to non-financial assets and liabilities, except for those items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis.

Financial assets consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>12/31/2008</u>
Savings account (Star Ohio)	\$ 79,849,326	\$ -	\$ -	\$ 79,849,326
Certificates on deposit	31,429,455	-	-	31,429,455
Fixed income securities	7,173,079	-	-	7,173,079
U.S. Government Obligations	<u>193,530,221</u>	<u>-</u>	<u>-</u>	<u>193,530,221</u>
	<u>\$ 311,982,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 311,982,081</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
User Charges:				
Billed	\$ 167,298,635	\$ 167,298,635	\$ 157,608,482	\$ (9,690,153)
Unbilled	-	-	3,828,996	3,828,996
Other Revenues	<u>2,207,217</u>	<u>2,207,217</u>	<u>833,463</u>	<u>(1,373,754)</u>
 Total Revenues	 <u>169,505,852</u>	 <u>169,505,852</u>	 <u>162,270,941</u>	 <u>(7,234,911)</u>
 <u>Expenses:</u>				
Salaries and Wages	36,298,076	36,298,076	35,102,015	1,196,061
Benefits	11,709,540	11,709,540	11,493,925	215,615
Power	10,654,010	10,654,010	11,101,067	(447,057)
Materials and Supplies	4,401,097	4,401,097	4,261,239	139,858
Collection Fees	6,000,000	6,000,000	5,435,973	564,027
Gas	7,577,800	7,577,800	7,801,361	(223,561)
Chemicals	1,679,329	1,679,329	1,268,036	411,293
Repairs and Maintenance	3,692,159	3,692,159	3,036,704	655,455
Solids Handling	2,663,426	2,663,426	861,768	1,801,658
Water	1,223,568	1,223,568	1,021,701	201,867
Professional Services	5,343,750	5,343,750	8,991,475	(3,647,725)
Insurance	1,105,000	1,105,000	1,097,763	7,237
Judgments and Awards	100,000	100,000	18,812	81,188
Other Operating Expenses	3,829,043	3,829,043	3,739,637	89,406
Capitalized Construction Costs	(3,494,734)	(3,494,734)	(3,518,438)	23,704
Depreciation	<u>46,000,000</u>	<u>46,000,000</u>	<u>44,448,564</u>	<u>1,551,436</u>
 Total Operating Expenses	 <u>138,782,064</u>	 <u>138,782,064</u>	 <u>136,161,602</u>	 <u>2,620,462</u>
 Excess of Revenues Over Operating Expenses	 <u>\$ 30,723,788</u>	 <u>\$ 30,723,788</u>	 <u>\$ 26,109,339</u>	 <u>\$ (4,614,449)</u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2008

Reconciliation to Change in Net Assets:

Excess of Revenues Over Operating Expenses	\$	26,109,339
Non-Operating Grants Revenue		1,592,151
Interest Revenue		11,714,888
Increase in Fair Value of Investments		2,332,208
Loss on Disposals of Equipment		(180,689)
Interest Expense on Long-Term Debt		(24,602,346)
Non-Operating Grant Expense		<u>(1,204,204)</u>
Change in Net Assets		15,761,347
Net Assets at Beginning of Year		<u>1,260,298,901</u>
Net Assets at End of Year	\$	<u><u>1,276,060,248</u></u>

# NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2008

### Notes to Supplementary Information

December 31, 2008

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

##### Budgetary Basis of Accounting

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

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

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

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

	2008	2007
Excess of revenue over operating expenses – operating budget basis	\$ 26,109,339	\$ 30,624,115
Non-operating grant revenue	1,592,151	-
Interest income	11,714,888	12,417,477
Increase in fair value of investments	2,332,208	3,157,199
Loss on disposals of equipment	(180,689)	(468,601)
Interest on long-term debt	(24,602,346)	(24,428,793)
Non-operating grant expense	(1,204,204)	(940,016)
Change in net assets	\$ <u>15,761,347</u>	\$ <u>20,361,381</u>

## STATISTICAL SECTION (UNAUDITED)

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

<b>Contents</b>	<b>Page</b>
Financial Trends <i>These schedules contain trend information to help the reader understand the District’s financial performance and well-being and how they have changed over time.</i>	50
Revenue Capacity <i>These schedules contain information to help the reader assess the District’s most significant revenue source, user charges.</i>	54
Debt Capacity <i>These schedules present information to help the reader assess the affordability of the District’s current levels of outstanding debt and the District’s ability to issue additional debt in the future.</i>	62
Demographic and Economic Information <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the District’s financial activities take place.</i>	64
Operating Information <i>These schedules contain service and infrastructure data to help the reader understand how the information in the District’s financial report relates to the services the District provides and the activities it performs.</i>	66
Continuing Disclosure Requirements <i>These schedules are required by Continuing Disclosure Agreement with respect to outstanding Revenue Bonds. They contain information pertinent to each of the categories above.</i>	74

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







**Northeast Ohio Regional  
Sewer District**

*Protecting Your Health and Environment*

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Invested in Capital Assets, Net of Related Debt	\$ 706,493,459	\$ 732,269,677	\$ 758,721,984	\$ 799,299,807
Unrestricted	<u>320,854,881</u>	<u>351,462,956</u>	<u>369,576,559</u>	<u>370,368,464</u>
Total	<u><u>\$ 1,027,348,340</u></u>	<u><u>\$ 1,083,732,633</u></u>	<u><u>\$ 1,128,298,543</u></u>	<u><u>\$ 1,169,668,271</u></u>

Note:

1999 through 2000 restated to comply with GASB 34. Amounts previously reported as equity are presented here as net assets. 1999 through 2007 restated to comply with GASB 51. Refer to Note 12.

Source: District accounting records.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 836,065,355	\$ 899,552,635	\$ 937,597,258	\$ 980,197,219	\$ 978,861,950	\$ 995,487,741
<u>357,871,693</u>	<u>307,707,118</u>	<u>285,112,392</u>	<u>259,740,301</u>	<u>281,436,951</u>	<u>280,572,507</u>
<u><u>\$1,193,937,048</u></u>	<u><u>\$1,207,259,753</u></u>	<u><u>\$1,222,709,650</u></u>	<u><u>\$1,239,937,520</u></u>	<u><u>\$1,260,298,901</u></u>	<u><u>\$1,276,060,248</u></u>

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Operating Revenues</u>				
Billing Agents (1)	\$ 123,039,220	\$ 120,663,929	\$ 124,027,444	\$ 119,515,859
Direct Billed	8,846,646	9,727,725	9,780,118	10,277,561
Other (6)	744,600	939,179	805,196	964,619
Total Operating Revenues (2)	<u>132,630,466</u>	<u>131,330,833</u>	<u>134,612,758</u>	<u>130,758,039</u>
<u>Operating Expenses</u>				
Salaries & Wages (3)	23,662,565	23,892,150	24,647,491	25,977,019
Fringe Benefits	6,746,180	7,197,179	6,774,095	7,790,909
Utilities	12,768,339	13,931,089	15,454,158	13,865,509
Professional & Contractual	10,364,307	10,431,643	10,759,907	10,793,057
Other (6)	3,416,809	4,441,829	5,096,634	3,625,200
Depreciation (3)	29,028,480	30,320,517	31,495,906	29,749,276
Total Operating Expenses	<u>85,986,680</u>	<u>90,214,407</u>	<u>94,228,191</u>	<u>91,800,970</u>
Operating Income	46,643,786	41,116,426	40,384,567	38,957,069
<u>Non-Operating Revenues (Expenses)</u>				
Interest Income	14,996,659	15,980,457	18,580,276	14,247,954
Increase (Decrease) in Fair Value of Investments	(4,806,082)	7,125,918	3,331,519	5,457,490
Non-Operating Grant Revenue (6)	-	-	-	-
Non-Operating Grant Expenses (6)	-	-	-	-
Loss on Disposals of Equipment	(219,656)	(74,682)	(768,357)	(1,317,155)
Interest on Long-Term Debt	(17,166,184)	(16,486,676)	(17,443,676)	(18,283,691)
Total Non-Operating Revenues(Expenses)	<u>(7,195,263)</u>	<u>6,545,017</u>	<u>3,699,762</u>	<u>104,598</u>
Capital Contributions (4)	<u>3,486,439</u>	<u>9,600,873</u>	<u>3,377,953</u>	<u>5,253,943</u>
Change in Net Assets (5)	<u>\$ 42,934,962</u>	<u>\$ 57,262,316</u>	<u>\$ 47,462,282</u>	<u>\$ 44,315,610</u>

(1) 1999 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. Decreases are due primarily to lower billed consumption.

(3) 2002 restated for December 31, 2002 prior period adjustments. Depreciation decreased \$2,639,240 from the amount originally reported, and accrued payroll expenses increased by \$144,800.

(4) Beginning in 2001 contributions for construction grants are reported as revenue in accordance with GASB 33. Prior to that date contributions were recorded as direct additions to equity.

(5) 1999 through 2000 restated to comply with GASB 34 to present former equity amounts as net assets.

(6) Commencing in 2007 Reclassified Non-Operating Grant Revenue and Expenses.

Source: District accounting records.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 117,755,171	\$ 122,078,222	\$ 131,938,350	\$ 135,732,973	\$ 145,221,599	\$ 147,605,404
11,504,702	11,442,284	12,623,945	13,220,817	13,062,958	13,832,074
615,506	762,782	734,253	1,200,272	769,744	833,463
<u>129,875,379</u>	<u>134,283,288</u>	<u>145,296,548</u>	<u>150,154,062</u>	<u>159,054,301</u>	<u>162,270,941</u>
27,542,022	29,127,972	31,283,367	33,021,551	33,724,279	35,102,015
8,521,645	9,916,038	10,944,618	11,225,384	10,732,240	11,493,925
14,517,622	15,053,259	17,595,315	17,814,509	18,893,296	20,632,885
11,731,572	12,272,328	13,389,541	13,338,790	14,808,434	18,727,176
4,019,822	4,439,180	5,566,881	6,917,693	7,046,216	5,757,037
34,167,297	35,668,913	35,968,351	40,093,478	43,261,151	44,448,564
<u>100,499,980</u>	<u>106,477,690</u>	<u>114,748,073</u>	<u>122,411,405</u>	<u>128,465,616</u>	<u>136,161,602</u>
29,375,399	27,805,598	30,548,475	27,742,657	30,588,685	26,109,339
12,267,626	11,264,860	8,816,261	8,645,525	12,417,477	11,714,888
(5,709,818)	(6,662,611)	(3,190,247)	1,774,960	3,157,199	2,332,208
-	-	-	-	35,430	1,592,151
-	-	-	(737,214)	(940,016)	(1,204,204)
(123,555)	(1,025,183)	(776,203)	(4,216,914)	(468,601)	(180,689)
<u>(19,289,590)</u>	<u>(19,352,880)</u>	<u>(19,821,947)</u>	<u>(20,641,227)</u>	<u>(24,428,793)</u>	<u>(24,602,346)</u>
<u>(12,855,337)</u>	<u>(15,775,814)</u>	<u>(14,972,136)</u>	<u>(15,174,870)</u>	<u>(10,227,304)</u>	<u>(10,347,992)</u>
<u>9,402,297</u>	<u>1,703,878</u>	<u>45,133</u>	<u>6,359,637</u>	<u>-</u>	<u>-</u>
<u>\$ 25,922,359</u>	<u>\$ 13,733,662</u>	<u>\$ 15,621,472</u>	<u>\$ 18,927,424</u>	<u>\$ 20,361,381</u>	<u>\$ 15,761,347</u>

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Operating Revenues</u>				
Sewer Service Fees				
City of Cleveland Billing Agent (1)	\$ 113,013,275	\$ 110,749,258	\$ 113,591,867	\$ 109,416,694
Other Billing Agents	10,025,945	9,914,671	10,435,577	10,099,165
Other Sewer Service Fees	8,846,646	9,727,725	9,780,118	10,277,561
Other Operating Revenue	<u>744,600</u>	<u>939,179</u>	<u>805,196</u>	<u>964,619</u>
Total Operating Revenue (2)	132,630,466	131,330,833	134,612,758	130,758,039
<u>Non-Operating Revenues</u>				
Interest Income	14,996,659	15,980,457	18,580,276	14,247,954
Increase (Decrease) in Fair Value of Investments	(4,806,082)	7,125,918	3,331,519	5,457,490
Non-Operating Grant Revenue (4)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenues (4)	10,190,577	23,106,375	21,911,795	19,705,444
Capital Contributions (3)	<u>-</u>	<u>-</u>	<u>3,377,953</u>	<u>5,253,943</u>
Total Revenues	<u><u>\$ 142,821,043</u></u>	<u><u>\$ 154,437,208</u></u>	<u><u>\$ 159,902,506</u></u>	<u><u>\$ 155,717,426</u></u>

(1) 1999 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.  
1999 restatement corrected in 2006.

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

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

(4) Commencing in 2007 Reclassified Non-Operating Grant Revenue.

Source: District accounting records.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$107,662,424	\$110,815,131	\$120,578,807	\$123,897,778	\$135,185,688	\$137,760,081
10,092,747	11,263,091	11,359,543	11,835,195	10,035,911	9,845,323
11,504,702	11,442,284	12,623,945	13,220,817	13,062,958	13,832,074
<u>615,506</u>	<u>762,782</u>	<u>734,253</u>	<u>1,200,272</u>	<u>769,744</u>	<u>833,463</u>
129,875,379	134,283,288	145,296,548	150,154,062	159,054,301	162,270,941
12,267,626	11,264,860	8,816,261	8,645,525	12,417,477	11,714,888
(5,709,818)	(6,662,611)	(3,190,247)	1,774,960	3,157,199	2,332,208
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,430</u>	<u>1,592,151</u>
6,557,808	4,602,249	5,626,014	10,420,485	15,610,106	15,639,247
<u>9,402,297</u>	<u>1,703,878</u>	<u>45,133</u>	<u>6,359,637</u>	<u>-</u>	<u>-</u>
<u><u>\$145,835,484</u></u>	<u><u>\$140,589,415</u></u>	<u><u>\$150,967,695</u></u>	<u><u>\$166,934,184</u></u>	<u><u>\$174,664,407</u></u>	<u><u>\$177,910,188</u></u>

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Salaries and Wages	\$ 23,662,565	\$ 23,892,150	\$ 24,647,491	\$ 25,977,019
Benefits	6,746,180	7,197,179	6,774,095	7,790,909
Power	9,126,719	8,953,181	9,267,991	9,147,231
Materials and Supplies	3,261,897	4,677,056	3,375,647	3,383,852
Collection Fees	4,947,264	5,002,072	5,110,654	4,977,231
Gas	2,391,660	3,601,449	4,926,932	3,805,104
Chemicals	944,648	742,727	765,279	742,794
Repairs and Maintenance	2,004,747	1,722,806	3,641,665	2,435,869
Solids Handling	1,373,228	1,439,390	1,495,717	1,181,476
Water	871,216	954,713	831,926	500,030
Professional Services	1,990,640	1,426,942	1,484,679	2,097,685
Insurance	583,644	864,156	819,952	908,484
All Other Expenses (3)	2,176,672	2,473,286	2,686,842	2,668,495
Capitalized Construction Costs	(3,122,880)	(3,053,217)	(3,096,585)	(3,564,485)
Depreciation	<u>29,028,480</u>	<u>30,320,517</u>	<u>31,495,906</u>	<u>29,749,276</u>
Total Operating Expenses	<u>\$ 85,986,680</u>	<u>\$ 90,214,407</u>	<u>\$ 94,228,191</u>	<u>\$ 91,800,970</u>

- (1) 2002 restated for December 31, 2002 prior period adjustments. Depreciation decreased \$2,639,240 from the amount originally reported, and accrued payroll expenses increased by \$144,800.
- (2) Years 1999 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.
- (3) Commencing in 2007 Reclassified Non-Operating Grant Expenses.

Source : District accounting records.



2003	2004	2005	2006	2007	2008
\$ 27,542,022	\$ 29,127,972	\$ 31,283,367	\$ 33,021,551	\$ 33,724,279	\$ 35,102,015
8,521,645	9,916,038	10,944,618	11,225,384	10,732,240	11,493,925
9,370,436	9,230,045	9,612,943	9,698,130	10,087,278	11,101,067
3,599,091	3,981,807	4,136,824	4,467,163	4,498,829	4,261,239
5,598,772	4,977,801	5,344,377	5,577,407	5,558,472	5,435,973
3,587,102	4,085,469	6,311,146	6,411,117	7,094,373	7,801,361
777,478	735,715	1,156,059	1,419,372	1,523,535	1,268,036
2,505,875	2,287,614	2,649,356	3,109,610	4,008,618	3,036,704
782,822	989,915	1,665,083	1,282,171	1,462,056	861,768
1,128,576	1,242,143	1,101,448	1,036,930	1,070,362	1,021,701
2,488,843	3,132,075	3,228,625	3,346,075	4,469,991	8,991,475
1,005,164	1,087,302	1,138,447	1,139,139	1,120,774	1,097,763
2,857,775	3,301,927	3,432,862	4,262,270	3,624,958	3,758,449
(3,432,918)	(3,287,046)	(3,225,433)	(3,678,392)	(3,771,300)	(3,518,438)
34,167,297	35,668,913	35,968,351	40,093,478	43,261,151	44,448,564
<u>\$ 100,499,980</u>	<u>\$ 106,477,690</u>	<u>\$ 114,748,073</u>	<u>\$ 122,411,405</u>	<u>\$ 128,465,616</u>	<u>\$ 136,161,602</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
COMMUNITIES SERVED BY THE DISTRICT AND  
ESTIMATED POPULATION SERVED  
DECEMBER 31, 2008**

<u>Municipality</u>	Estimated Service <u>Population (1)</u>	<u>Municipality</u>	Estimated Service <u>Population (1)</u>
<b>SUBDISTRICT 1</b>			
Cleveland	437,047		
<b>SUBDISTRICT 2</b>			
Bath Township	- (3)	Mayfield Village	3,335
Beachwood	13,611	Middleburg Heights	16,149
Bedford	- (3)	Newburgh Heights	2,427
Bedford Heights	- (3)	North Randall	810
Berea	18,494	North Royalton	6,409 (2)
Boston Heights	578 (4)	Northfield	3,810
Bratenahl	1,289	Northfield Center Township	4,380
Brecksville	14,843	Oakwood	3,052 (2)
Broadview Heights	17,869 (2)	Olmsted Falls	8,549 (2)
Brook Park	18,994	Olmsted Township	6,753 (2)
Brooklyn	11,218	Orange	544 (2)
Brooklyn Heights	1,645	Parma	81,480
Cleveland Heights	46,159	Parma Heights	21,448
Columbia Township	939 (3)	Pepper Pike	2,156 (2)
Cuyahoga Heights	497	Richfield Village	3,267 (2)
East Cleveland	20,324	Richfield Township	1,102 (4)
Euclid	1,967 (2)	Richmond Heights	3,694 (2)
Garfield Heights	29,009	Sagamore Hills Township	7,942
Gates Mills	320 (2)	Seven Hills	11,550
Glenwillow	- (4)	Shaker Heights	27,250
Highland Heights	9,981	Solon	162 (2)
Highland Hills	1,244	South Euclid	22,697
Hudson	9,231 (2)	Strongsville	27,713 (2)
Independence	7,636	Twinsburg	- (3)
Lakewood	- (3)	Twinsburg Township	203 (2)
Linndale	99	University Heights	13,155
Lyndhurst	14,201	Valley View	2,181
Macedonia	8,192	Walton Hills	2,383
Maple Heights	24,604	Warrensville Heights	14,107
Mayfield Heights	18,487	Willoughby Hills	- (3)
		Total Subdistrict 2	<u>590,139</u>
<b>Total estimated service population</b>			<b><u><u>1,027,186</u></u></b>

- (1) Based on 2000 U.S. Census Block Data as presented in the Northeast Ohio Areawide Coordinating Agency (NOACA) using the NEORS D Service Area Boundary.
- (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, 2008  
and NINE YEARS PRIOR**

	2008			PERCENTAGE OF
	CONSUMPTION	AMOUNT	RANK	OPERATING
	MCF (1)	BILLED		REVENUE
<b><u>SUBDISTRICT 1</u></b>				
Cuyahoga Metropolitan Housing Agency (2)	86,337.2	\$3,889,068	1	2.3%
University Hospitals (2)	41,748.2	\$1,857,670	2	1.1%
Cleveland Clinic (2)	40,208.8	1,816,683	4	1.1%
Mittal Steel (ISG Cleveland)	27,473.9	1,251,904	5	0.8%
City of Cleveland Water Filtration Plants	28,362.5	1,240,935	6	0.7%
Cleveland Board of Education	26,376.3	1,178,062	8	0.7%
Cuyahoga County (2)	21,458.5	974,237	9	0.6%
Case Western Reserve University	21,074.8	961,903	10	0.6%
Metro Health Medical Centers	18,960.3	848,258	12	0.5%
Ferro Corporation (2)	17,914.9	782,439	13	0.5%
Dominion Cleveland Thermal Energy	15,184.0	705,874	15	0.4%
Cleveland State University (2)	10,786.1	502,674	16	0.3%
Veterans Administration Hospitals (2)	8,355.5	367,737	17	0.2%
Inland Waters of Ohio	4,800.8	299,419	19	0.2%
Property Management Rental	6,630.3	298,996	20	0.2%
Columbus Road Realty	6,546.3	285,268	21	0.2%
Holiday Inn (2)	6,709.4	274,241	22	0.2%
General Electric Company	4,771.8	206,349	26	0.1%
LTV Steel	-	-	-	-
Synthetic Products	-	-	-	-
Sherwin Williams Company	-	-	-	-
Pure Tech Systems / Research Oil Company	-	-	-	-
Clean Harbors of Cleveland Inc.	-	-	-	-
Mt Sinai Medical Center	-	-	-	-
Longwood Apartments Inc.	-	-	-	-
RT Development	-	-	-	-
Total Subdistrict 1	393,699.6	\$17,741,717		10.7%
<b><u>SUBDISTRICT 2</u></b>				
Ford Motor Corporation	50,905.1	\$1,823,571	3	1.1%
Aluminum Corporation of America	31,952.4	1,204,973	7	0.7%
NASA John H Glenn Research Center	23,774.1	899,633	11	0.5%
Forest City Management (2)	18,182.1	736,551	14	0.4%
Eaton Estates/ Nagy Park	9,275.9	344,754	18	0.2%
K & D Group	6,707.9	248,945	23	0.1%
Fairhill Towers LLC (Zehman & Wolfe Management)	5,597.5	218,730	24	0.1%
The Pearl Management Company	5,384.0	201,822	25	0.1%
General Motors Corporation	-	-	-	-
Total Subdistrict 2	151,779.0	\$5,678,979		3.4%
Grand Total	545,478.6	\$23,420,696		14.1%

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

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

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

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

1999

CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
143,706.0	\$ 3,687,520	1	2.8%
25,797.5	585,395	10	0.4%
59,517.4	1,452,251	3	1.1%
29,979.9	514,691	9	0.4%
39,966.1	1,252,310	5	0.9%
34,138.3	864,217	7	0.6%
22,790.9	542,148	11	0.4%
30,499.2	782,745	8	0.6%
24,895.6	604,064	9	0.5%
16,722.1	425,848	15	0.3%
24,233.0	495,525	13	0.4%
13,314.3	301,228	18	0.2%
14,598.2	287,119	21	0.2%
13,739.7	267,471	18	0.2%
-	-	-	-
16,818.7	310,224	14	0.2%
12,680.2	217,883	22	0.2%
7,944.5	207,070	25	0.2%
65,704.9	1,755,106	2	1.3%
20,189.6	521,766	12	0.4%
11,608.8	296,711	20	0.2%
4,791.5	283,512	22	0.2%
5,186.5	251,532	23	0.2%
9,195.1	211,547	24	0.2%
12,117.7	310,372	17	0.2%
7,885.9	202,041		0.2%
<u>668,021.6</u>	<u>\$ 16,630,296</u>		<u>12.5%</u>
50,091.6	\$ 1,227,244	6	0.9%
52,143.4	1,274,875	4	1.0%
12,902.2	300,598	19	0.2%
17,253.0	363,218	14	0.3%
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
17,244.6	321,220	16	0.2%
<u>149,634.8</u>	<u>\$ 3,487,155</u>		<u>2.6%</u>
<u>817,656.4</u>	<u>\$ 20,117,451</u>		<u>15.1%</u>

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Debt by Type, In Thousands</b>				
Revenue Bond Issues				
\$97,830 Series 1995	\$ 86,525	\$ 83,220	\$ 79,775	\$ 76,175
\$68,280 Series 2005 (A)	-	-	-	-
\$126,055 Series 2007 (B)	-	-	-	-
Total Revenue Bonds	<u>86,525</u>	<u>83,220</u>	<u>79,775</u>	<u>76,175</u>
Ohio Water Development Authority Loans	12,059	8,244	4,580	1,907
Water Pollution Control Loans	247,869	267,148	296,459	329,332
Other	<u>45</u>	<u>28</u>	<u>13</u>	<u>-</u>
 Total All Debt	 <u>\$ 346,498</u>	 <u>\$ 358,640</u>	 <u>\$ 380,827</u>	 <u>\$ 407,414</u>
 <b>Number of Customer Accounts (1)</b>	 322,163	 319,608	 326,146	 325,022
 <b>Outstanding Debt Per Customer Account</b>	 \$ 1,076	 \$ 1,122	 \$ 1,168	 \$ 1,253

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

Historical Number of Customer Accounts (see pages 74 & 75)	306,270	304,517	310,600	308,809
Less Master Meter Communities	(4)	(4)	(4)	(4)
Add estimated number of customers in Master Meter Communities	<u>15,897</u>	<u>15,095</u>	<u>15,550</u>	<u>16,217</u>
Number of Customer Accounts	<u>322,163</u>	<u>319,608</u>	<u>326,146</u>	<u>325,022</u>

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

Note: This schedule should be read in conjunction with Note 6 to the Audited Financial Statements for December 31, 2008.

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

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

Source: District accounting records.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 72,415	\$ 68,415	\$ -	\$ -	\$ -	\$ -
-	-	68,280	63,525	58,850	53,985
-	-	-	-	126,055	124,000
<u>72,415</u>	<u>68,415</u>	<u>68,280</u>	<u>63,525</u>	<u>184,905</u>	<u>177,985</u>
1,599	1,274	932	573	194	-
346,073	350,908	387,380	417,777	418,262	417,080
-	-	-	-	-	-
<u>\$ 420,087</u>	<u>\$ 420,597</u>	<u>\$ 456,592</u>	<u>\$ 481,875</u>	<u>\$ 603,361</u>	<u>\$ 595,065</u>
325,292	330,190	328,417	325,389	334,850	329,975
\$ 1,291	\$ 1,274	\$ 1,390	\$ 1,481	\$ 1,802	\$ 1,803
308,197	313,043	312,093	308,769	318,515	311,938
(4)	(4)	(4)	(4)	(4)	(3)
<u>17,099</u>	<u>17,151</u>	<u>16,328</u>	<u>16,624</u>	<u>16,339</u>	<u>18,040</u>
<u>325,292</u>	<u>330,190</u>	<u>328,417</u>	<u>325,389</u>	<u>334,850</u>	<u>329,975</u>

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

Year	Estimated Population Served (1)	Cuyahoga County		
		Unemployment Rate (2)	Total Personal Income (000's) (3)	Per Capita Personal Income (3)
1999	1,067,516	4.6%	\$ 43,153,567	\$ 30,829
2000	1,031,336	4.5%	45,276,523	32,522
2001	1,085,204	4.5%	45,282,921	32,753
2002	1,085,204	6.7%	45,703,641	33,322
2003	1,085,071	6.8%	45,655,393	33,590
2004	1,085,071	6.3%	47,818,353	35,521
2005	1,041,392	6.1%	49,335,286	37,082
2006	1,032,670	5.5%	51,236,686	39,134
2007	1,027,184	6.1%	52,893,000	40,838
2008	1,026,500	6.8%	n/a	n/a

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

(2) Sources are District administrative records, County of Cuyahoga, Ohio Comprehensive Annual Financial Report for 2005 and U.S. Department of Labor/Bureau of Labor Statistics. Cuyahoga County is significantly the same as the District's service area.

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

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



**NORTHEAST OHIO REGIONAL SEWER DISTRICT  
PRINCIPAL EMPLOYERS OF CUYAHOGA COUNTY, OHIO  
AS OF DECEMBER 31, 2008  
and NINE YEARS PRIOR**

Employer Name (1)	2008			1999		
	Number of Employees (1)	Rank (1)	Percentage of Total County Employment (2)	Number of Employees (1)	Rank (1)	Percentage of Total County Employment (2)
	FTE* 12-31-2008			FTE* 12-31-1999		
Cleveland Clinic Health System	32,415	1	5.17%	19,458	1	2.99%
U.S. Office of Personnel Management	13,101	2	2.09%	10,721	2	1.65%
University Hospitals	10,904	3	1.74%	9,793	4	1.51%
Cuyahoga County	9,566	4	1.53%	9,952	3	1.53%
Group Management Services Inc.	9,486	5	1.51%	-	-	-
Progressive Corp.	9,057	6	1.45%	-	-	-
Summa Health System	8,923	7	1.42%	-	-	-
Giant Eagle, Inc.	8,800	8	1.40%	-	-	-
United State Postal Service	8,032	9	1.28%	6,628	8	1.02%
City of Cleveland	7,950	10	1.27%	8,632	5	1.33%
Cleveland Municipal School District	-	-	-	8,477	6	1.30%
Key Corp	-	-	-	6,992	7	1.08%
Ford Motor Company	-	-	-	6,532	9	1.01%
LTV Corporation	-	-	-	5,684	10	0.87%
Total	118,234		18.87%	92,869		14.29%
Total Cuyahoga County Employment (2)			626,700			649,900

\* Full-Time Equivalent.

(1) Sources are *Crain's Cleveland Business*, December 2008 and March 8, 1999.

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

(2) Sources of total employment for Cuyahoga County, Ohio are District administrative records, Cuyahoga County, Ohio Comprehensive Annual Financial Report for 2005, and U.S. Department of Labor, Bureau of Labor Statistics.

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b><u>TREATMENT PLANT FLOW</u></b>				
<b>Billions of gallons of sewage treated per plant:</b>				
Easterly	38.0	40.9	36.7	37.3
Southerly	40.0	39.2	38.9	37.2
Westerly	11.4	12.0	11.1	10.4
Total	<u>89.4</u>	<u>92.1</u>	<u>86.7</u>	<u>84.9</u>
<b>Total sewage treated, in MCFs (1)</b>	<u>11,951,872</u>	<u>12,312,834</u>	<u>11,590,909</u>	<u>11,350,267</u>
<b>MCFs billed, total District</b>	<u>5,785,288</u>	<u>5,600,215</u>	<u>5,342,696</u> (3)	<u>5,191,506</u>
<b><u>STAFFING LEVELS</u></b>				
<b>Number of employees:</b>				
Plant Operations & Maintenance	435	420	400	382
Engineering	46	45	48	54
Finance	38	35	35	48
Human Resources (2, 5)	-	-	-	41
Information Technology (2)	-	-	-	19
District Administration	66	73	76	20
Legal	9	9	10	9
Communications & Community Relations	-	-	-	-
Watershed Programs (6)	-	-	-	-
Total	<u>594</u>	<u>582</u>	<u>569</u>	<u>573</u>
<b>Budgeted employees, total District</b>	<u>620</u>	<u>625</u>	<u>595</u>	<u>634</u>

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

(2) Reclassified from District Administration beginning in 2002.

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

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

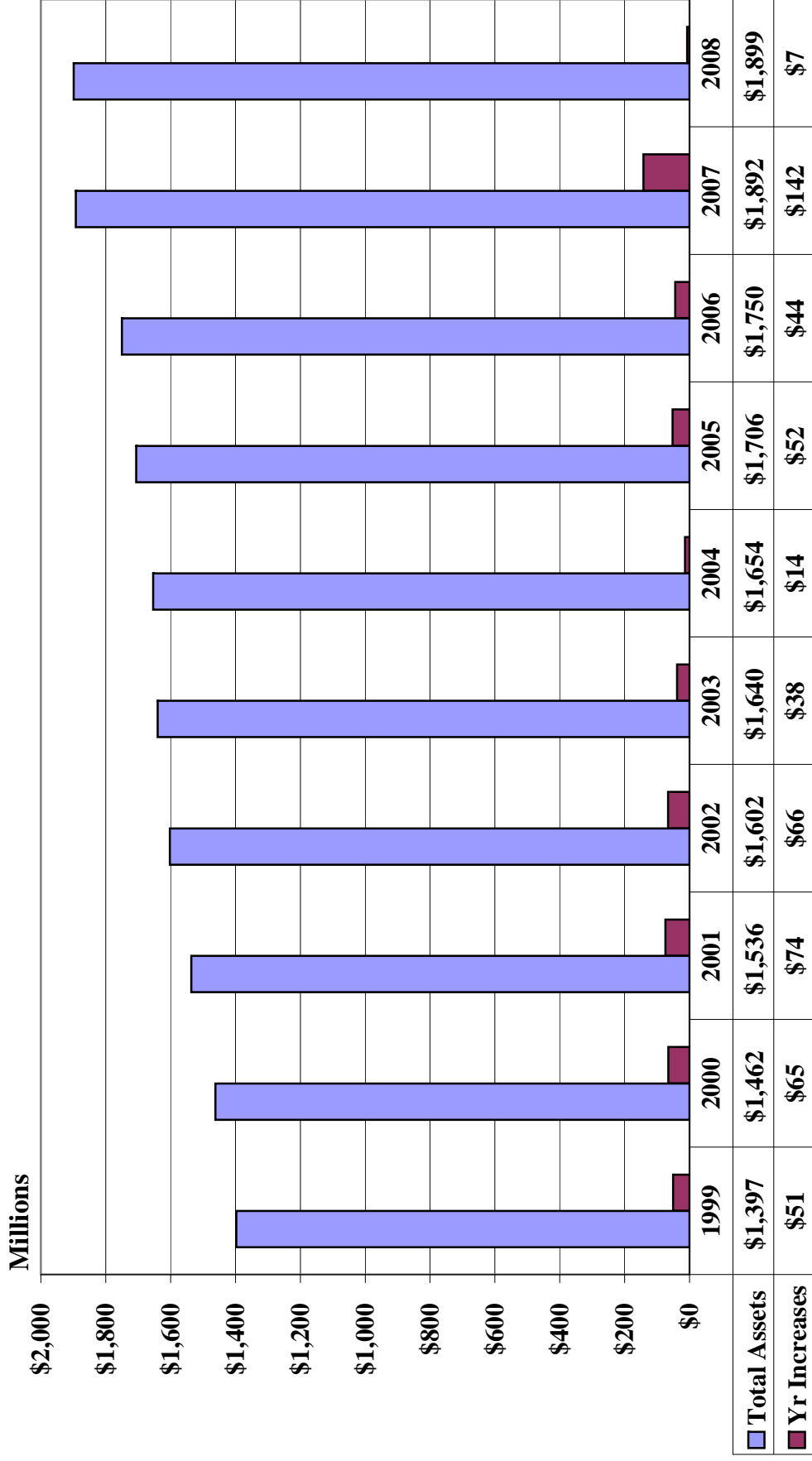
(5) Safety and Security reclassified from Human Resources to District Administration beginning in 2005.

(6) Watershed Programs reclassified from Plant Operations & Maintenance

Source: Various District records.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
40.4	40.6	38.4	34.4	35.3	36.1
43.1	44.2	46.6	45.8	45.3	43.8
11.0	10.5	10.4	9.6	10.0	10.8
<u>94.5</u>	<u>95.3</u>	<u>95.4</u>	<u>89.8</u>	<u>90.6</u>	<u>90.7</u>
<u>12,633,690</u>	<u>12,740,642</u>	<u>12,754,011</u>	<u>12,005,348</u>	<u>12,112,299</u>	<u>12,125,668</u>
<u>5,094,136</u>	<u>4,930,817</u>	<u>4,969,948</u> (4)	<u>4,745,269</u>	<u>4,756,809</u>	<u>4,624,305</u>
383	404	412	404	396	363
61	66	66	70	65	57
49	50	49	50	42	47
44	47	21	17	15	14
20	18	19	20	21	19
18	17	43	44	56	46
8	8	9	8	8	14
-	-	4	7	8	16
-	-	-	-	-	58
<u>583</u>	<u>610</u>	<u>623</u>	<u>620</u>	<u>611</u>	<u>634</u>
<u>637</u>	<u>677</u>	<u>672</u>	<u>676</u>	<u>662</u>	<u>660</u>

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





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

	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Number of Buildings</b>			
<u>Operations</u>			
Southerly Plant	36	36	36
Easterly Plant	17	17	17
Westerly Plant	17	16	16
Outlying Pump Buildings	6	6	6
<b>Total Operations</b>	<u>76</u>	<u>75</u>	<u>75</u>
<u>Administration</u>			
District Administration	2	2	2
Environmental Maintenance and Services Center	3	4	4
<b>Total Offices</b>	<u>5</u>	<u>6</u>	<u>6</u>
<b>Total Buildings</b>	<u><u>81</u></u>	<u><u>81</u></u>	<u><u>81</u></u>
<b>Miles of Interceptor Sewers Installed Annually*</b>	<u>2.88</u>	<u>3.25</u>	<u>3.18</u>
<b>Number of Outlying Systems</b>			
<u>Sewage Collection System</u>			
Interceptor Sewers & Tunnels	20	20	20
Inter-Community Relief Sewers	13	13	17
Automated Regulators	29	29	29
Pumping Stations	7	7	7
Force Mains	2	3	3
<b>Total Sewage Collection System</b>	<u>71</u>	<u>72</u>	<u>76</u>
<u>Support Facilities</u>			
Floatables Control Sites	0	5	5
Biofilter Odor Control Sites	5	5	5
Rain Gauge Sites	25	25	25
Lakeview Dam	1	1	1
<b>Total Support Facilities</b>	<u>31</u>	<u>36</u>	<u>36</u>
<b>Total Outlying Systems</b>	<u><u>102</u></u>	<u><u>108</u></u>	<u><u>112</u></u>
<b>Acres of Land</b>			
<u>Operations</u>			
Southerly Plant	311.2	311.2	311.2
Easterly Plant	77.7	77.7	77.7
Westerly Plant	13.4	13.4	14.5
<u>Administration</u>			
District Administration	1.5	1.5	1.5
Environmental Maintenance and Services Center	14.7	14.7	14.7
<b>Total Acres, Operations and Administration</b>	<u><u>418.5</u></u>	<u><u>418.5</u></u>	<u><u>419.6</u></u>

\*Total interceptor sewers are in excess of 200 miles.

Source: District accounting and engineering records.

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
36	36	35	36	36	36	38
16	18	18	18	18	18	18
17	17	17	17	16	16	16
<u>6</u>	<u>6</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
<u>75</u>	<u>77</u>	<u>75</u>	<u>76</u>	<u>75</u>	<u>75</u>	<u>77</u>
2	2	1	1	1	1	1
4	4	4	4	4	4	4
<u>6</u>	<u>6</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
<u>81</u>	<u>83</u>	<u>80</u>	<u>81</u>	<u>80</u>	<u>80</u>	<u>82</u>
<u>0</u>	<u>3.75</u>	<u>0.53</u>	<u>5.04</u>	<u>3.52</u>	<u>0.89</u>	<u>0.99</u>
21	21	21	21	21	21	21
17	17	18	21	24	24	24
27	27	25	25	25	25	25
7	7	6	6	6	6	6
<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
<u>75</u>	<u>75</u>	<u>73</u>	<u>76</u>	<u>79</u>	<u>79</u>	<u>79</u>
5	5	5	10	10	10	10
5	5	7	8	8	8	8
25	25	25	25	25	25	25
<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
<u>36</u>	<u>36</u>	<u>38</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>
<u>111</u>	<u>111</u>	<u>111</u>	<u>120</u>	<u>123</u>	<u>123</u>	<u>123</u>
311.2	311.2	311.2	311.2	311.2	311.2	311.2
77.7	77.7	77.7	77.7	77.7	77.7	77.7
14.5	14.5	14.5	14.5	14.5	14.5	14.5
1.5	1.5	2.6	2.6	2.6	2.6	2.6
<u>14.7</u>	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>	<u>14.7</u>
<u>419.6</u>	<u>419.6</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>	<u>420.7</u>





## CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Subdistrict 1</u>				
Cleveland (1)	136,234	132,801	136,332	133,611
<u>Subdistrict 2</u>				
Master Meter - Suburbs (2)	4	4	4	4
Direct Service - Suburbs (1)	<u>170,032</u>	<u>171,712</u>	<u>174,264</u>	<u>175,194</u>
Subtotal	<u>170,036</u>	<u>171,716</u>	<u>174,268</u>	<u>175,198</u>
Total Customers	<u><u>306,270</u></u>	<u><u>304,517</u></u>	<u><u>310,600</u></u>	<u><u>308,809</u></u>

(1) 2000 through 2006 exclude inactive accounts.

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

Source: District accounting records.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
132,541	137,746	133,054	129,428	130,616	128,143
4	4	4	4	4	3
<u>175,652</u>	<u>175,293</u>	<u>179,035</u>	<u>179,337</u>	<u>187,895</u>	<u>183,792</u>
<u>175,656</u>	<u>175,297</u>	<u>179,039</u>	<u>179,341</u>	<u>187,899</u>	<u>183,795</u>
<u><u>308,197</u></u>	<u><u>313,043</u></u>	<u><u>312,093</u></u>	<u><u>308,769</u></u>	<u><u>318,515</u></u>	<u><u>311,938</u></u>

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>Subdistrict 1</u>				
Cleveland	2,919,241	2,815,865	2,665,282	(3) 2,662,602
<u>Subdistrict 2</u>				
Direct Service - Suburbs	2,553,481	2,427,096	2,387,609	2,231,962
Master Meter - Suburbs (1)	<u>312,566</u> (2)	<u>357,254</u>	<u>289,805</u>	<u>296,942</u>
Subtotal	<u>2,866,047</u>	<u>2,784,350</u>	<u>2,677,414</u>	<u>2,528,904</u>
Total Service Area	<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>

(1) Consumption of Master Meter Suburbs is presented at 80% of total consumption which is the billing basis. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in SubDistrict 2.

(2) 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 2005 and 2001 for consumption adjustment.

Source: District accounting records.

<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
2,495,126	2,379,632	2,370,567	2,209,563	2,217,887	2,127,084
2,287,825	2,241,819	2,288,026 (3)	2,215,147	2,250,184	2,184,458
<u>311,185</u>	<u>309,366</u>	<u>311,109</u>	<u>320,559</u>	<u>288,738</u>	<u>195,815</u>
<u>2,599,010</u>	<u>2,551,185</u>	<u>2,599,135</u>	<u>2,535,706</u>	<u>2,538,922</u>	<u>2,380,273</u>
<u><u>5,094,136</u></u>	<u><u>4,930,817</u></u>	<u><u>4,969,702</u></u>	<u><u>4,745,269</u></u>	<u><u>4,756,809</u></u>	<u><u>4,507,357</u></u>

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Operating Revenue (1)	\$132,631	\$131,331	\$134,613
Non-Operating Revenue	<u>9,971</u>	<u>23,032</u>	<u>21,143</u>
Total Revenues	142,602	154,363	155,756
Operating Expenses (Exclusive of depreciation) (3)	<u>56,958</u>	<u>59,894</u>	<u>62,732</u>
Net Revenues Available for Debt Service	<u>\$ 85,644</u>	<u>\$ 94,469</u>	<u>\$ 93,024</u>
Total Revenue Bond Debt Service (2),(4)	\$7,934	\$7,936	\$ 7,932
Coverage on Revenue Bond Debt Service	10.79	11.90	11.73
Total All Debt Service (2)	\$ 28,331	\$ 34,409	\$ 34,866
Coverage on Total Debt Service	3.02	2.75	2.67

(1) 1998 through 2000 restated for reclassification of bad debt expense as a reduction of revenue. This has no effect on debt service.

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenue Bond Issues and Debt Service			
\$97,830 Series 1995	\$ 7,934	\$ 7,936	\$ 7,932
\$68,280 Series 2005 (A)	-	-	-
\$126,055 Series 2007 (B)	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue Bond Debt Service	7,934	7,936	7,932
OWDA Debt Service	4,643	4,643	4,079
WPCLF Debt Service	<u>15,754</u>	<u>21,830</u>	<u>22,855</u>
Total All Debt Service	<u>\$ 28,331</u>	<u>\$ 34,409</u>	<u>\$ 34,866</u>

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

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

(3) 2002 restated for December 31, 2002 prior period adjustment of \$144,800 accrued payroll.

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

Source: District accounting records.

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$130,758	\$129,875	\$134,283	\$145,297	\$150,154	\$159,055	\$162,271
18,388	6,434	3,577	4,850	10,421	15,610	15,639
<u>149,146</u>	<u>136,309</u>	<u>137,860</u>	<u>150,147</u>	<u>160,575</u>	<u>174,665</u>	<u>177,910</u>
<u>62,052</u>	<u>66,333</u>	<u>70,808</u>	<u>78,780</u>	<u>82,319</u>	<u>85,205</u>	<u>91,713</u>
<u>\$ 87,094</u>	<u>\$ 69,976</u>	<u>\$ 67,052</u>	<u>\$ 71,367</u>	<u>\$ 78,256</u>	<u>\$ 89,460</u>	<u>\$ 86,197</u>
\$ 7,934	\$ 7,930	\$ 7,935	\$ 7,935	\$ 7,490	\$ 10,174	\$ 15,375
10.98	8.82	8.45	8.99	10.45	8.79	5.61
\$ 35,984	\$ 35,886	\$ 42,029	\$ 42,552	\$ 44,257	\$ 54,905	\$ 58,140
2.42	1.95	1.60	1.68	1.77	1.63	1.48

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
\$ 7,934	\$ 7,930	\$ 7,935	\$ 7,935	\$ -	\$ -	\$ -
-	-	-	-	7,490	7,514	7,517
-	-	-	-	-	2,660	7,858
<u>7,934</u>	<u>7,930</u>	<u>7,935</u>	<u>7,935</u>	<u>7,490</u>	<u>10,174</u>	<u>15,375</u>
3,136	408	409	409	409	409	204
24,914	27,548	33,685	34,208	36,358	44,322	42,561
<u>\$ 35,984</u>	<u>\$ 35,886</u>	<u>\$ 42,029</u>	<u>\$ 42,552</u>	<u>\$ 44,257</u>	<u>\$ 54,905</u>	<u>\$ 58,140</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
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
2005	26.20	7.4	17.70	7.6	30.95	5.3	20.80	5.6
2006	28.10	7.3	18.95	7.1	32.60	5.3	21.90	5.3
2007	30.85	9.8	20.75	9.5	35.10	7.7	23.55	7.5
2008	33.85	9.7	22.75	9.6	37.85	7.8	25.40	7.9

(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, 2009 THROUGH 2018  
(In Thousands of Dollars)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b><u>USES OF FUNDS</u></b>				
Sewage Treatment Plant Improvements				
Westerly	\$ 333	\$ 241	\$ 486	\$ 1,775
Southerly	56,172	84,136	65,470	58,620
Easterly	10,296	18,075	21,229	28,828
Sub-Total	<u>66,801</u>	<u>102,452</u>	<u>87,185</u>	<u>89,223</u>
Interceptors/Rehabilitation	23,213	25,689	19,577	21,475
Combined Sewer Overflow Control Program	34,946	40,632	89,205	126,111
Storm Water	-	23,000	23,000	23,000
Information Technology & Other				
Minor Equipment	7,056	8,704	6,565	2,270
TOTAL	<u>\$ 132,016</u>	<u>\$ 200,477</u>	<u>\$ 225,532</u>	<u>\$ 262,079</u>
<b><u>SOURCES OF FUNDS</u></b>				
WPCLF Loans (1)	\$ 100,000	\$ 75,000	\$ 75,000	\$ 75,000
Net Bond Proceeds	32,016	102,477	127,532	161,079
Internally Generated Funds	-	23,000	23,000	26,000
TOTAL	<u>\$ 132,016</u>	<u>\$ 200,477</u>	<u>\$ 225,532</u>	<u>\$ 262,079</u>

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

Source: District accounting records.

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>TOTAL</u>
\$ 2,957	\$ 2,399	\$ 2,151	\$ 3,882	\$ 8,372	\$ 8,372	\$ 30,968
21,585	22,664	40,670	54,267	45,948	16,342	465,874
38,664	34,464	6,552	3,224	3,216	1,507	166,055
<u>63,206</u>	<u>59,527</u>	<u>49,373</u>	<u>61,373</u>	<u>57,536</u>	<u>26,221</u>	<u>662,897</u>
19,891	4,999	5,094	6,069	6,052	4,545	136,604
119,659	128,406	97,326	105,089	125,868	78,551	945,793
23,000	23,000	23,000	23,000	23,000	23,000	207,000
1,746	5,600	5,600	5,600	5,600	5,600	54,341
<u>\$ 227,502</u>	<u>\$ 221,532</u>	<u>\$ 180,393</u>	<u>\$ 201,131</u>	<u>\$ 218,056</u>	<u>\$ 137,917</u>	<u>\$2,006,635</u>
\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 775,000
117,502	101,532	55,751	78,086	93,056	12,917	881,948
35,000	45,000	49,642	48,045	50,000	50,000	349,687
<u>\$ 227,502</u>	<u>\$ 221,532</u>	<u>\$ 180,393</u>	<u>\$ 201,131</u>	<u>\$ 218,056</u>	<u>\$ 137,917</u>	<u>\$2,006,635</u>



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# **Northeast Ohio Regional Sewer District**

**Single Audit Reports  
December 31, 2008**

# Northeast Ohio Regional Sewer District

For The Year Ended December 31, 2008

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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, 2008, and have issued our report thereon dated December 14, 2009, wherein we noted that the District adopted *GASB Statement Nos. 49, No. 50, and No. 51 and SFAS No. 157*. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we considered a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District’s financial statements that is more than inconsequential will not be prevented or detected by the District’s internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting: 2008-1.



Board of Trustees  
Northeast Ohio Regional Sewer District

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District, in a separate letter dated December 14, 2009.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, Management, the 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  
December 14, 2009

**Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133**

Board of Trustees  
Northeast Ohio Regional Sewer District

**Compliance**

We have audited the compliance of the Northeast Ohio Regional Sewer District (“the District”) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. The District’s major federal program is identified in the summary of auditors’ results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

**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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over compliance.

Board of Trustees  
Northeast Ohio Regional Sewer District

A *control deficiency* in an District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the District as of and for the year ended December 31, 2008, and have issued our report thereon dated December 14, 2009, wherein we noted that the District adopted *GASB Statement Nos. 49, No. 50, and No. 51 and SFAS No. 157*. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, Management, the 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.

*Ciani & Panichi, Inc.*

Cleveland, Ohio  
December 14, 2009

# Northeast Ohio Regional Sewer District

## Schedule of Expenditures of Federal Awards

**For The Year Ended December 31, 2008**

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<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: Pass-Through Program from Ohio Environmental Protection Agency: Capitalization Grants for State Revolving Funds	66.458	CS391126-18 CS391972-07 CS392381-01 CS392460-01 CS392586-01 CS391972-08 CS392638-01 CS391867-03 CS392702-01 CS391126-19 CS392793-01 CS392194-02 CS392463-01 CS392794-01	\$ 6,498,563 13,401,924 35,133 193,441 836,913 83,934 95,882 150,932 27,026 16,600 1,400,057 751,523 5,776,380 <u>1,267,129</u>
Total Expenditures of Federal Awards			\$ <u>30,535,437</u>

The accompanying notes are an integral part of this schedule.

# **Northeast Ohio Regional Sewer District**

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

### **For The Year Ended December 31, 2008**

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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, 2008

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### 1. Summary of Auditors' Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Was there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	Yes
(d)(I)(iii)	Was there any material noncompliance reported at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other significant control deficiencies 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 Program	Capitalization Grants for State Revolving Funds (CFDA No. 66.458)
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$ 916,063 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	Yes

# Northeast Ohio Regional Sewer District

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

**December 31, 2008**

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### **2. Findings Related To the Financial Statements Required To Be Reported in Accordance With GAGAS**

#### **2008-1 Oversight of District's Primary Billing Agent - Significant Deficiency**

The majority of the District's sewerage fee revenue is billed by the City of Cleveland – Division of Water ("DOW"). As a result, the District relies heavily on the accuracy, timeliness, and completeness of the DOW's billing and meter reading processes to ensure the proper accounting for revenue and receivables is reflected within the District's records. In previous SAS 70 audits, the City of Cleveland had minimal instances where the internal control processes were found to be not operating effectively. During 2008, it was noted in the City of Cleveland's SAS 70 and annual financial statement audits (Schedule of Findings), the DOW experienced instances in which the controls over billing and meter reading did not operate as designed. These instances were primarily related to estimated bills and out-of-order accounts. Since the District utilizes the DOW as its primary billing agent and it relies on the information provided by the DOW, these instances of processes not operating effectively had a direct effect on the revenue and receivable amounts recorded by the District. During 2008, the District assumed the DOW's internal processes were operating effectively and therefore did not attempt to detect or quantify the inaccuracies in the billing estimates provided by the City of Cleveland. The District has subsequently determined that billing adjustments issued by the DOW subsequent to December 31, 2008 were not material to the overall financial statements as whole.

We recommend that the District develop procedures to provide a higher level of oversight and monitoring over the information and reports provided by the City of Cleveland. These procedures should include increasing the level of financial analysis and analytical procedures over the City of Cleveland submitted information, which should provide a mechanism to identify unusual billing trends and adjustments. The District should inquire and request explanations for any unusual trends or adjustments. By implementing processes over the submitted data, this will help ensure the revenue activity of the District is accurately reflected, thereby increasing the reliability of the financial data at year-end.

#### ***Management's Response***

The District will implement additional procedures to analyze the City of Cleveland monthly reports and follow-up on unusual revenue or billing adjustment trends. The Finance Department will be responsible for developing the procedures. The Finance Department has been active in the City of Cleveland's implementation of its new billing system, which is expected to reduce the level of adjustments and increase accuracy in billings.

### **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, 2008**

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The December 31, 2008 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, 2008**

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The December 31, 2007 audit reported no audit findings as defined in OMB Circular A-133, Section .510. Therefore, there are no prior findings on which to report.





Mary Taylor, CPA  
Auditor of State

**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  
FEBRUARY 18, 2010**