



Northeast Ohio Regional Sewer District

For the years ended December 2017 and 2016
A political subdivision of the State of Ohio

2017 Comprehensive Annual Financial Report



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Northeast Ohio Regional Sewer District, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 30, 2018

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Northeast Ohio Regional Sewer District

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

- Combined Sewer Area
- Separate Sewer Area

EASTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

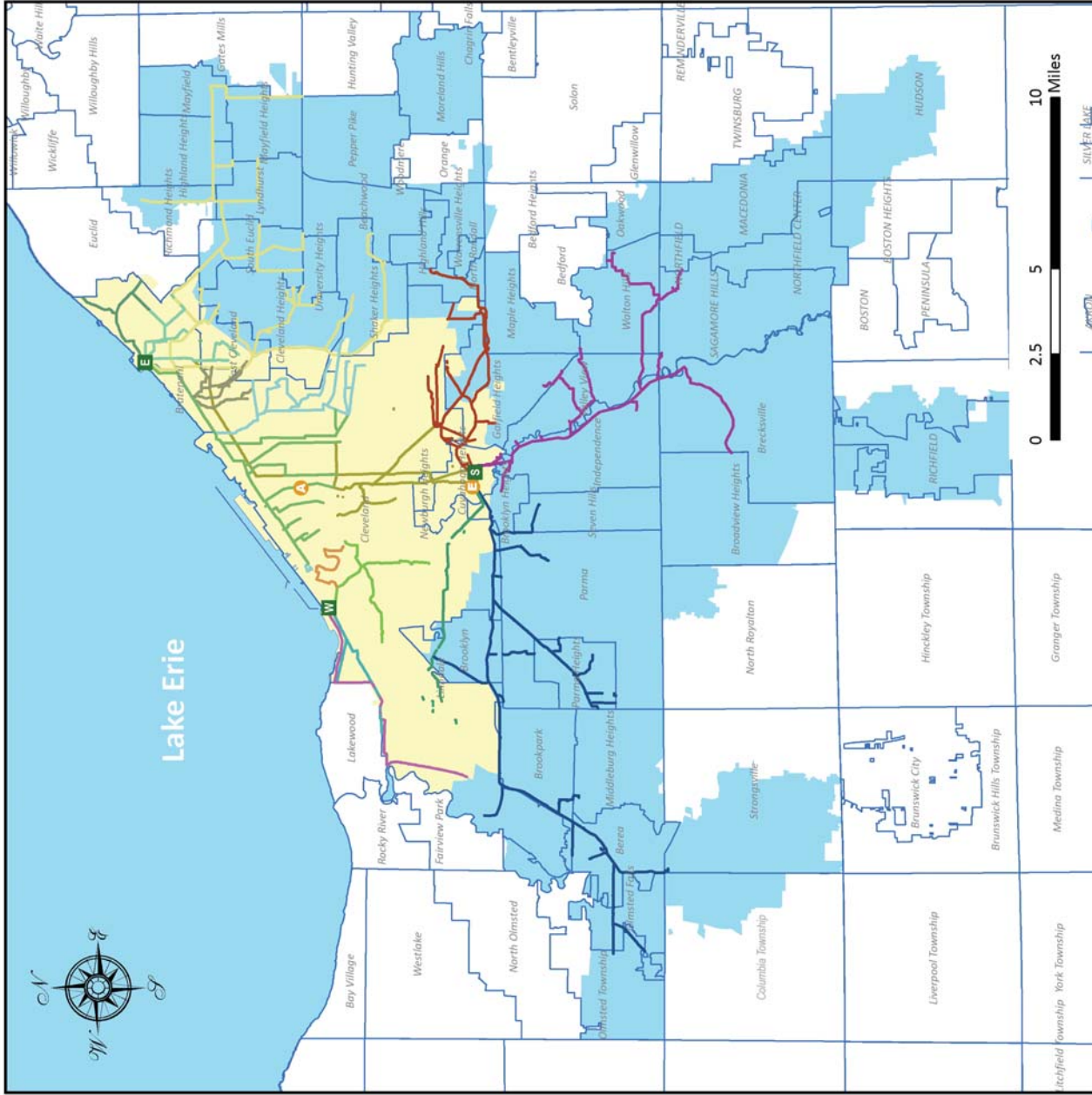
- E. 140th/E. 152nd-Ivanhoe Interceptors
- Easterly Interceptor
- Doan Valley Interceptor
- Dugway Interceptor
- Heights-Hilltop Interceptors & ICRS
- Lakeshore-Nottingham interceptors

SOUTHERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

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

WESTERLY WASTEWATER TREATMENT PLANT INTERCEPTOR SYSTEM

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



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

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Northeast Ohio Regional Sewer District

A Political Subdivision of the State of Ohio

2017 Comprehensive Annual Financial Report
For the Years Ended December 31, 2017 and 2016

Prepared by the Department of Finance

Kenneth J. Duplay, CPA, CMA
Chief Financial Officer



3900 Euclid Avenue
Cleveland, Ohio 44115
(216) 881-6600 • neorsd.org

NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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Introductory section



June 29, 2018

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

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements. These financial statements are required to be presented in conformity with generally accepted accounting principles (GAAP) audited in accordance with standards generally accepted in the United States of America by licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the Northeast Ohio Regional Sewer District for the fiscal years ended December 31, 2017 and 2016.

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

The Northeast Ohio Regional Sewer District's financial statements have been audited by Ciuni and Panichi, Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Northeast Ohio Regional Sewer District for the fiscal years ended December 31, 2017 and 2016, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there is reasonable basis for rendering an unmodified opinion that the Northeast Ohio Regional Sewer District's financial statements for the fiscal years ended December 31, 2017 and 2016 are fairly presented in conformity with GAAP. The Independent Auditor's Report is presented as the first component of the financial section of this report.

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

PROFILE OF THE DISTRICT

General

The District is an independent political subdivision of and organized under the laws of the State of Ohio, specifically Chapter 6119 of the Ohio Revised Code. Originally named the Cleveland Regional Sewer District, it was created in 1972 for the purpose of assuming the operation and management of certain wastewater collection, treatment and disposal facilities serving the Cleveland metropolitan area and previously owned and operated by the City of Cleveland, as well as addressing intercommunity drainage problems, both storm and sanitary.

Service Area

The District's service area includes more than 350 square miles, 330 miles of sewers, and a 420-mile regional stormwater system. The District encompasses nearly all of the City of Cleveland and all or portions of 61 suburban communities in Cuyahoga, Lake, Lorain and Summit Counties. The area contains a residential service population near one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District manages stormwater and treats more wastewater than any other wastewater treatment system in the State of Ohio.

Governance

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

Budgets

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Chief Executive Officer is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of the year to which they apply. Readers should refer to the Schedule of Revenues, Expenses and Changes in Net Position – Budget to Actual on page 68 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 the District the power to raise revenues through taxes on property within its service area. In accordance with Chapter 5705 of the Code, the District does not file an annual Tax Budget because it does not levy any taxes.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

Local Economy

The economic environment in which the District operates is affected by the same events and conditions as the rest of the State of Ohio and the nation. Although the economy is still recovering, the District's revenue is expected to remain relatively stable due to the approval of a rate increase by the Board of Trustees. The region is not dominated by any single industry. Major industries with headquarters or divisions located in the District's service area or in close proximity include automotive manufacturers, industrial equipment, metals, paints and coatings producers, insurance and banking services. Major employers in the area include federal, state, county and municipal government agencies, health care providers, public schools, financial service providers, manufacturers and retail establishments. In recent years there has been a significant shift from manufacturing to a service and information-based economy.

The annual unemployment rate in 2017 (per the Bureau of Labor Statistics) for Cuyahoga County, which is significantly the same as the District's service area, was 4.9%. Cuyahoga County's unemployment rate was the same as the unemployment rate for the State of Ohio and 0.8% higher than the national rate of 4.1%. 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 continue 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 20 years, of approximately \$3 billion in new Combined Sewer Overflow (CSO) controls and wastewater facility improvements.

The District maintains a long-range financing plan for its Operating and Capital budgets. The District's five-year financing plan for the capital budget provides for nearly \$1.5 billion in capital project expenditures from 2018 to 2022, primarily for improvements to our Southerly wastewater treatment plant and our CSO long-term control plan. This includes approximately \$142.4 million for the plants, \$1.0 billion for the CSO projects, \$75.9 million for the collection system and building improvements and \$199.9 million of miscellaneous District-wide improvements and minor capital purchases. Over this five-year period, the District will need to address both regulatory driven capital improvements and rehabilitation driven capital improvements at its three (3) wastewater treatment plants and within its collection system.

In 2016, the District completed a five-year, long-term financial and rate impact model for rates in effect from 2017-2021. The model incorporates specific year by year details to determine the sewer rates over the five-year rate period.

Debt Administration

At year-end, the District had bonded debt outstanding of \$1,030,400,000. The debt, including applicable bond premium costs and discounts, is \$1,084,356,169. The District has also obtained loans through the State of Ohio Water Pollution Control Loan Fund (WPCLF). As of December 31, 2017, the outstanding loan balance was \$515,685,142 for the WPCLF. Outstanding revenue bonds of the District are rated AA+ by Standard & Poor's and Aa1 by Moody's rating agencies. Note 6 to the financial statements include schedules of debt outstanding and future debt service requirements.

In 2007, the District issued \$126,055,000 Wastewater Improvement Revenue Bonds, Series 2007, for the purpose of providing funds for the acquisition, construction and improvement of water resource projects, funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and paying certain costs of issuance of the Series 2007 Bonds. This information should be read in conjunction with Note 6 to the financial statements.

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

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

In 2014, the District issued \$419,030,000 of Wastewater Improvement Revenue and Refunding Bonds, Series 2014. The Wastewater Improvement Revenue and Refunding Bonds, Series 2014 Bonds were comprised of \$350,570,000 (2014A) for new bonds and \$68,460,000 (2014B) to refund a portion of the 2007 Wastewater Improvement Revenue Bonds previously issued. The Wastewater Improvement Revenue and Refunding Bonds, Series 2014 were issued for the purpose of providing funds for the acquisition, construction and improvement of wastewater facilities or water management facilities, constituting Water Resource Projects. This information should be read in conjunction with Note 6 to the financial statements.

In 2016, the District issued \$25,015,000 of Wastewater Improvement Revenue Refunding Bonds, Series 2016. The Series 2016 Bonds were comprised of \$25,015,000 to refund a portion of the 2007 Wastewater Improvement Revenue Bonds previously issued. The Refunding Bonds, Series 2016 were issued to advance refund the outstanding Series 2007 Bonds and achieve uniform debt service savings. This information should be read in conjunction with Note 6 to the financial statements.

In 2017, the District issued \$241,595,000 of Wastewater Improvement Revenue Refunding Bonds, Series 2017. The Series 2017 Bonds were comprised of \$241,595,000 to refund a portion of the 2013 Wastewater Improvement Revenue Bonds previously issued. The Refunding Bonds, Series 2017 were issued to advance refund the outstanding Series 2013 Bonds and achieve uniform debt service savings. This information should be read in conjunction with Note 6 to the financial statements.

MAJOR INITIATIVES

For the Year

2017 Awards

During 2017, the District received awards for 2016 plant performance from the National Association of Clean Water Agencies (NACWA). NACWA honored all three of our Wastewater Treatment Plants (WWTP's) for excellent performance in 2016.

The Southerly Plant earned Peak Performance Silver awards that recognizes facilities with no more than five violations per calendar year. The Easterly and Westerly Plants earned Peak Performance Gold awards that recognizes facilities with no permit violations for the entire calendar year. Awards for 2017 performance have not been announced as of the date of this report.

During 2017, the Government Finance Officers Association of the United States and Canada (GFOA) presented the Distinguished Budget Presentation Award to the District for the eleventh time for its 2017 Budget.

Business Opportunity Program

The Office of Contract Compliance was formed in 2008. After receiving the recommendations from the Disparity Study in 2010, the Business Opportunity Program (BOP) was created which allows Minority Business Enterprise (MBE), Women Business Enterprise (WBE) and Small Business Enterprise (SBE) goals to be placed on projects. The Office of Contract Compliance monitors payments, prevailing wages and provides outreach services for certified firms. The BOP is designed to contribute to the economic health and vitality of the region by providing a greater opportunity to conduct business with the District, resulting in job and business growth for the local business community. Bringing new companies into the District's procurement process enhances the competitive bidding process which helps deliver the greatest value. The District awarded over \$43 million worth of business to MBE/WBE/SBE on construction, engineering and stormwater projects in 2017. The total number of certified firms in 2017 was 469. Also, payments made to small firms were indirect or direct in the areas of goods, professional services, construction and engineering.

Supplier Registration

In November 2013, the Purchasing Department implemented the new Oracle eBusiness Suite which included Purchasing, Sourcing and the iSupplier online registration system. Suppliers will benefit from a more streamlined purchasing process that involves electronic communication. They will be able to view all purchase order activity for their company, provide quotes and see awarded quotes, create invoices and track payment status using iSupplier. The system tracks product and services provided by the registered supplier for future quoting opportunities and suppliers interested in participating in the Business Opportunity Program. The District currently has over 5,680 registered suppliers.

Human Resources Programs

The mission of the Human Resources (HR) Department is to contribute to the success of the District by creating an engaging and satisfying environment where our most valuable resource – our workforce – flourishes. In an effort to be nationally recognized for implementing HR strategies that promote the District as an Employer of Choice, we must deploy top-notch programs that:

- Enhance workforce effectiveness and proactively anticipate changing needs
- Enhance HR service delivery
- Maintain legal and organizational compliance
- Attract top talent through proactive and innovative recruitment strategies
- Embrace diversity and encourage inclusion

2017 program highlights/successes are as follows:

Enhance workforce effectiveness and proactively anticipate changing needs

- As of the close of 2017, the District successfully trained 3,007 participants covering 263 different jobs. This means each employee completed an average of 15.78 hours of training.
- Developed & delivered two (2) types of management training programs: "Managers New to District" and "Peer-to-Supervisor". Realized over \$130,000 by creating and delivering in-house computer-based training (CBT) modules
- We encourage our employees to pursue life-long learning for professional and personal development through the Tuition Assistance Program (TAP). We see this as a mutually-beneficial recruitment and retention tool. Fifty (50) employees participated in 2017 where reimbursement totaled over \$232,000.
- Increased participation in wellness programs, activities targeting chronic conditions and health issues plaguing diverse groups. During 2017, 1,317 attendees participated in wellness activities – 109% of 2017 goal.
- Enhanced workforce planning by implementing managerial/technical career paths within the Information Technology (IT) department.

Enhance HR service delivery

- The District made the decision to move to a fully integrated HRMS to include HR, Payroll, and Timekeeping in one system; this project is being implemented in 2018.
- We continually seek external validation of our compensation practices to confirm our wage competitiveness. It was confirmed in 2017 that our practices align with the job market.

Maintain legal and organizational compliance

- Due diligence is exercised to ensure compliance with policies, laws and collective bargaining agreements. The District began negotiations within the collective bargaining process for two (2) union contract (AFSCME and IUOE) renewals.
- District-wide ethics training was delivered to educate the workforce and maintain a positive and productive working environment.

Attract top talent through proactive and innovative recruitment strategies

- Our talent acquisition and workforce planning team deploy various strategies to attract top talent to the District. We realized a cost savings of approximately \$396,532 using internal expertise.
- Eighty-seven (87) positions filled through the hiring and selection process, from thirty-two (32) different sources with an average time-to-fill of fifty-five (55) days in 2017.

Embrace diversity and encourage inclusion

- The District's Diversity and Inclusion (D&I) Team continued to address the initiatives as set forth in the Diversity Strategic Plan – initiatives with both an internal and external focus.
 - Externally, the Business Opportunity Program (BOP) provides procurement opportunities to minority-owned, women-owned and small business enterprises.
 - Internally, the District developed and began implementing the 3rd triennial Diversity & Inclusion Strategic Plan. Additionally, we had 1,450 attendees participate in District-sponsored D&I events.

Awards and recognition

Awards and recognition cultivate a culture of appreciation. The District's internal program awarded 22 employees and 19 teams for their contributions. In addition, one (1) employee received Annual Spirit Awards for consistently demonstrating professionalism and promoting a positive workplace environment. External awards and recognition for 2017 include:

- The Cleveland Plain Dealer Top Workplace Award 2017
- NorthCoast 99 Workplace 2017
- Commission on Economic Inclusion
- Hall of Fame for Workplace Diversity for the first time for 2017
- Who's Who in Black Cleveland (3) employees
- Crain's Archer Award two (2) employees
- YWCA Woman of Professional Excellence
- YWCA Outstanding Young Professional Award
- HR Awards (sponsored by ERC and CSHRM)

CSO Long-Term Control Plan

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

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

In 2017, the District commenced the construction of the Doan Valley Storage Tunnel, the third of seven large-scale tunnels to be constructed under the Consent Decree. The design of the fourth large-scale tunnel, the Westerly Storage Tunnel and associated pump station, was completed in 2017 and the construction of the tunnel is scheduled to commence in May 2018. This tunnel system when complete will have the capacity to store 36 million gallons of combined sewage for treatment at the District's Westerly Wastewater Treatment Plant controlling approximately 300 million gallons of CSO in a typical year. Additionally, the District continued to advance the construction of its second large-scale tunnel, the Dugway Storage Tunnel. This tunnel along with previously completed Euclid Creek tunnel will have the capacity to store 117 million gallons of combined sewage for treatment at the District's Easterly Wastewater Treatment Plant controlling approximately 1 billion gallons of CSO in a typical year. The fifth large-scale tunnel, the Shoreline Storage Tunnel, is scheduled to commence design in 2018. Ultimately, the District will construct seven tunnels under its Consent Decree, which range from two to five miles in length, up to 300 feet underground and up to 24 feet in diameter. The tunnels are similar to the previously constructed Mill Creek Tunnel, a structure that has the capacity to store 75 million gallons of combined sewage until it can be treated at the District's Southerly Wastewater Treatment Plant.

Some of the other major CSO projects the District is advancing under its Consent Decree outside of the storage tunnels include the expansion of the Easterly WWTP secondary treatment capacity to provide full treatment to an additional 700 million gallons of wet weather flow in a typical year. The construction of the expansion was completed in 2017 and the system became fully operational in early 2018. Additionally, the design of upgrades to the existing Westerly CSO Treatment Facility (CSOTF) with chemically enhanced high rate treatment and disinfection (CEHRT) for further treatment of CSO 002, the third largest of the District's CSOs, advanced in 2017.

The District plan also includes a commitment to a minimum of \$42 million in green infrastructure projects to reduce a minimum of 44 million gallons of wet weather CSO flows beyond those captured by the tunnel systems. In total, nine (9) green infrastructure projects will be constructed. Many of the projects, which are required to be constructed by 2019, are fully operational or under construction. The last three (3) projects commenced construction in 2017.

Asset Management

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

Capital Planning:

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

Maintenance Activities:

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

Regional Stormwater Management Program

The District's founding Court Order required the District to "develop a detailed integrated capital improvement plan for regional management of wastewater collection and storm drainage to identify a capital improvement program for the solution of all intercommunity drainage problems (both storm and sanitary) in the District." The District initially focused on the sanitary sewage portion of this mandate, investing over \$3 billion since its inception on a wide variety sanitary sewage-related project. To address the regional stormwater portion of this mandate, the District procured services in 2007 to assist with the development and implementation of a Regional Stormwater Management Program (the "Stormwater Program"). Tasks related to defining stormwater program roles and responsibilities, funding approaches, resource needs, legal issues, customer service requirements and data/billing issues were addressed, leading to the development of the District's Stormwater Code of Regulations (Title V), which the District's Board of Trustees approved in January 2010.

From 2010-2012, the Stormwater Program was in litigation in the Cuyahoga County Common Pleas Court over issues related to the District's "authority" to implement the program as an Ohio Revised Code 6119 entity, and "fee versus tax" issues related to the District's stormwater fee. The District prevailed in the litigation and began the Stormwater Program in January 2013.

In July 2012, parties opposed to the District's Regional Stormwater Management Program filed an appeal to the 8th Appellate District to seek a halt to the Regional Stormwater Management Program. On September 26, 2013, the Appellate Court halted the District's Regional Stormwater Management Program by a 2 to 1 decision with a strong dissent. The District immediately suspended its program and placed all fees collected into an interest-bearing escrow account pending an appeal to the Supreme Court of Ohio. The District filed its notice of appeal in November 2013, and the Supreme Court accepted the case in February 2014. Oral arguments before the Supreme Court took place on September 9, 2014. In December 2015 the Ohio Supreme Court issued its final opinion that the District has the authority to implement the Regional Stormwater Management Program and collect the impervious surface fee. The District has restarted the Stormwater Program and resumed billing in July of 2016. The anticipated yearly estimated revenue from the Stormwater Program is over \$40 million.

The Stormwater Program is designed to address long-standing regional stormwater flooding, erosion and water quality issues resulting from the incremental increases in stormwater runoff from hard surfaces that make their way into storm sewers and streams. The fees collected from the Stormwater Program are used to fund construction projects to solve regional stream flooding and erosion problems, for operation and maintenance activities to minimize the potential for flooding and erosion and for master planning studies to outline a long-term construction and maintenance program along regional streams. Twenty-five percent (25.0%) of cash collected from each municipality within the service area is returned to the respective member community for funding of local stormwater management projects through the Community Cost Share program (CCS).

Green Infrastructure Grant Program

The Northeast Ohio Regional Sewer District supports the strategic implementation and long-term maintenance of green infrastructure that protects, preserves, enhances, and restores natural hydrologic function. The Green Infrastructure Grant (GIG) Program focus is the funding of green infrastructure projects within the combined sewer area. Green infrastructure refers to stormwater source control measures that store, filter, infiltrate, or evapotranspire stormwater to increase resiliency of infrastructure by reducing stress on wet-weather drainage and collection systems thereby supporting healthy environments and strong communities.

The GIG Program for the combined sewer area is open to member communities, non-profits, and private organizations in the combined sewer area interested in implementing water resource projects that remove stormwater from the combined sewer system and in ensuring the long-term maintenance of these practices. A GIG is awarded through a competitive funding process with final recommendations approved by the District Board of Trustees. The availability of GIG Program funds in any calendar year is at the discretion of the Board of Trustees. This program is presented in the non-operating expenses of the statements of revenues, expenses and changes in net position.

Member Community Infrastructure Program

The Member Community Infrastructure Program (MCIP) is a funding program provided by the Northeast Ohio Regional Sewer District to assist both member communities and other eligible public entities that own, operate and maintain public sewer infrastructure that is tributary to a District wastewater treatment plant, with cost-effective sewer infrastructure projects to address water quality and quantity issues associated with sewer infrastructure that adversely impact human health and the environment. The availability of MCIP Program funds in any calendar year is at the discretion of the Board of Trustees. This program is presented in the non-operating expenses of the statements of revenues, expenses and changes in net position.

The intent of the MCIP is to provide an annual funding opportunity to member communities and eligible public entities for sewer infrastructure repair and rehabilitation that will:

- Continue progress towards environmentally sustainable and healthy communities through protection and improvement of the region's water resources consistent with the vision of the District.
- Support efforts to assist member communities' compliance with the Sewer District's Community Discharge Permit Program.
- Improve function and condition of the local sewer system.
- Identify and remove sources of inflow and infiltration (I/I) from the sewer system. This reduction would preserve the hydraulic capacity of the local and District sewer system and alleviate problems such as basement flooding.

Community Cost-Share Program

The Community Cost-Share Program provides funding to Member Communities for community-specific stormwater management projects that are generally too small to be covered with regional funding under the Stormwater Program. To implement the Community Cost-Share Program, the Northeast Ohio Regional Sewer District has formed a financial account termed "Community Cost-Share Account" for the aggregation and dissemination of funds derived from Stormwater Fees collected in each Member Community. This program is presented in the non-operating expenses of the statements of revenues, expenses and changes in net position.

25% of the total annual Stormwater Fee collected in each Member Community is allocated to the Community Cost-Share Account for each Member Community. The Community Cost-Share Account is under the control of the District, with disbursement of funds to Member Communities through a grant application and reimbursement process.

To access Community Cost-Share Program funds, Member Communities must maintain compliance with *Title V: Stormwater Management Code*. A Community Cost-Share Program Project must clearly promote or implement the goals and objectives of the District set forth in Title V and must be intended to address current, or minimize new, stormwater flooding, erosion, and water quality problems.

Strategic and Operational Action Plan

In early 2016, former Chief Executive Officer Julius Ciaccia, along with the Senior Staff, updated and revised the District's Strategic and Operational Action Plan to chart the organization's direction for the next three years. The Strategic and Operational and Plan covers 2016 through 2018.

Through a series of facilitated work sessions, the Senior Staff re-affirmed the District's mission, vision statement and core values. The Strategic and Operational Action Plan was constructed around four quadrants: Systems; Business; Community; and Customers. All strategic goals were aligned to one of these four quadrants.

The Strategic and Operational Action Plan provides a navigational guide for the District through 2018. In 2017 Kyle Dreyfuss-Wells replaced Mr. Ciaccia as CEO. A new Strategic Plan will be developed in 2018 and implemented in 2019 through 2021. The continually changing environment in which the District operates will require annual review in order for these plans to remain timely and useful. The District continues to understand and meet customer needs, enhance water quality, provide for cost-effective and efficient capital improvements and build on its already strong reputation as a preeminent leader among water agencies.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Northeast Ohio Regional Sewer District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2016. This was the 22nd 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.

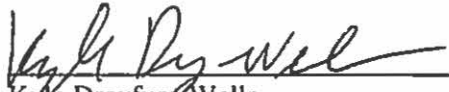
A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Also, for the first time, the GFOA presented an Award for Outstanding Achievement in Popular Annual Financial Reporting to the District for the fiscal year ended December 31, 2016. To receive this Outstanding Achievement Award, a government must publish an easily readable Popular Annual Financial Report meeting many qualifications.

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,



Kyle Dreyfus-Wells
Chief Executive Officer



Kenneth J. Duplay
Chief Financial Officer

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2016 Comprehensive Annual Financial Reporting Award





***2017 Government Finance Officers Association
Distinguished Budget Award***



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Northeast Ohio Regional Sewer District
Ohio**

For the Fiscal Year Beginning

January 1, 2017

Christopher P. Merrill

Executive Director

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
TABLE OF ORGANIZATION
DECEMBER 31, 2017**

BOARD OF TRUSTEES



Darnell Brown
Board President



Ronald D. Sulik
Vice President



Mayor Timothy DeGeeter



Mayor Jack Bacci



Julius Ciaccia



Sharon A. Dumas



Mayor Robert A. Stefanik

OFFICERS



Kyle Dreyfuss-Wells
Chief Executive Officer



Kenneth J. Duplay
Chief Financial Officer
42 employees



James Bunsey
Chief Operating Officer
486 employees



Eric Luckage
Chief Legal Officer
10 employees

DIRECTORS



Devona Marshall
Director of Engineering
and Construction
60 employees



Angela Smith
Director of
Human Resources
27 employees



Francis P. Greenland
Director of
Watershed Programs
106 employees



Constance T. Haqq
Director of Administration
and External Affairs
36 employees



Chandrasekhar Yadati
Director of
Information Technology
31 employees



Francis G. Foley
Director of
Operations and Maintenance
426 employees



Financial section



Independent Auditor's Report

Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the accompanying financial statements of the business-type activities of the Northeast Ohio Regional Sewer District (the "District"), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District, as of December 31, 2017 and 2016, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 16 and the schedules of the District's proportionate share of the net pension asset (liability) and schedules of the District's contributions, and the related notes on pages 64 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Board of Trustees
Northeast Ohio Regional Sewer District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018, 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Ciurri + Panichi, Inc.

Cleveland, Ohio
June 29, 2018

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NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

The following discussion provides a summary overview of the financial activities of the Northeast Ohio Regional Sewer District (the "District") for the years ended December 31, 2017 and 2016. This information should be read in conjunction with the letter of transmittal and basic financial statements included in this report.

Financial Highlights

- Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,489,368,235.
- Net position increased by \$63,012,693.
- Net investment in capital assets increased by \$116,401,234.
- Unrestricted net position decreased by \$53,388,541.
- Retirements of debt principal were \$283,947,895, of which, \$224,805,000 was for the defeasance of a portion of 2013 bonds.
- Operating revenues increased by \$30,843,603.
- Operating expenses increased by \$33,587,823.

Overview of the Financial Statements

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

The statements of net position present the District's financial position and report the resources owned by the District (assets and deferred outflows of resources) and obligations owed by the District (liabilities and deferred inflows of resources) and District net position (the difference between assets, and deferred outflows of resources, and liabilities and deferred inflows of resources). The statements of revenues, expenses and changes in net position present a summary of how the District's net position changed during the year. Revenues are reported when earned and expenses are reported when incurred. The statements of cash flow provide information about the District's cash receipts and disbursements during the year. It summarizes net changes in cash resulting from operating, investing and financing activities. The notes to the basic financial statements provide additional information that is essential for a full understanding of the financial statements.

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

The following tables provide a summary of the District's financial position and operations for 2017 and 2016, respectively. Certain amounts may vary slightly due to differences caused by rounding to thousands.

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Management's Discussion and Analysis

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

	2017	2016	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 441,374	\$ 452,073	\$ (10,699)	(2.4%)
Capital Assets, Net	2,673,938	2,517,872	156,066	6.2%
Other Noncurrent Assets	67,437	137,102	(69,665)	(50.8%)
Total Assets	3,182,749	3,107,047	75,702	2.4%
<u>Deferred Outflows of Resources</u>				
Pension	31,550	22,394	9,156	40.9%
Deferred Charge on Refunding	16,698	-	16,698	100.0%
Total Deferred Outflows of Resources	48,248	22,394	25,854	115.5%
Total Assets and Deferred Outflows of Resources	3,230,997	3,129,441	101,556	3.2%
<u>Liabilities</u>				
Current Liabilities	104,354	103,799	555	0.5%
Long-Term Debt	1,558,547	1,537,926	20,621	1.3%
Net Pension Liability	77,659	58,226	19,433	33.4%
Other Long-Term Liabilities	400	1,400	(1,000)	(71.4%)
Total Liabilities	1,740,960	1,701,351	39,609	2.3%
<u>Deferred Inflows of Resources</u>				
Pension	668	1,734	(1,066)	(61.48%)
<u>Net Position</u>				
Net Investment in Capital Assets	1,107,066	990,665	116,401	11.7%
Unrestricted	382,302	435,691	(53,389)	(12.3%)
Total Net Position	\$ 1,489,368	\$ 1,426,356	\$ 63,012	4.4%

The District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of these financial statements will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefit

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. In addition, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

The District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,489,368,235 as of December 31, 2017, of which \$1,107,066,113 is for net investment in capital assets.

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

During 2017, net position increased by \$63,012,693. The majority of this increase was due to the following:

- Sewage and stormwater service fees receivable from customers decreased by \$16,432,920 due to Cleveland Water Billing Agent changing its billing cycle from quarterly billing to monthly billing as of January 1, 2017.
- Net capital assets increased by \$156,065,254 due to construction in progress and additions to the wastewater treatment and conveyance systems.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

- Total long-term obligations increased by new debt incurred in the amount of \$320,587,336. Additions of \$241,595,000 were for 2017 wastewater revenue refunding bonds, \$59,559,242 were for WPCLF and \$19,433,094 for net pension liability – OPERS. The reductions of \$283,947,895 were for the repayment of debt principal on revenue bonds and WPCLF, and \$224,805,000 were for the defeasance of a portion of 2013 bonds.
- The District's net pension liability to pension increased \$19,433,094; however, this increase in liability was offset by increases to deferred outflows of resources related to pension of \$9,156,939 and net pension asset of \$66,376 and a decrease in deferred inflows of resources of \$1,065,468.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016.

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

	2016	2015	Change	
			Amount	%
<u>Assets</u>				
Current Assets	\$ 452,073	\$ 530,427	\$ (78,354)	(14.8%)
Capital Assets, Net	2,517,872	2,367,996	149,876	6.3%
Other Noncurrent Assets	137,102	161,390	(24,288)	(15.0%)
Total Assets	3,107,047	3,059,813	47,234	1.5%
<u>Deferred Outflows of Resources</u>				
Pension	22,394	8,988	13,406	149.2%
Deferred Charge on Refunding	-	53	(53)	(100.0%)
Total Deferred Outflows of Resources	22,394	9,041	13,353	147.7%
Total Assets and Deferred Outflows of Resources	3,129,441	3,068,854	60,587	2.0%
<u>Liabilities</u>				
Current Liabilities	103,799	103,588	211	0.2%
Long-Term Debt	1,537,926	1,564,757	(26,831)	(1.7%)
Net Pension Liability	58,226	40,528	17,698	43.7%
Other Long-Term Liabilities	1,400	1,300	100	7.7%
Total Liabilities	1,701,351	1,710,173	(8,822)	(0.5%)
<u>Deferred Inflows of Resources</u>				
Pension	1,734	775	959	123.7%
<u>Net Position</u>				
Net Investment in Capital Assets	990,665	786,650	204,015	25.9%
Unrestricted	435,691	571,256	(135,565)	(23.7%)
Total Net Position	\$ 1,426,356	\$ 1,357,906	\$ 68,450	5.0%

During 2016, net position increased by \$68,449,357. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$11,327,099 due to the increase in sewer rates and an increase in billed consumption. In July 2016, the District resumed billing for Stormwater Program resulting in an increase of \$13,995,179 in stormwater service fees.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

- Net capital assets increased by \$149,876,473 due mainly to construction in progress and additions to the wastewater treatment and conveyance systems.
- Total long-term obligations increased by new debt incurred in the amount of \$71,612,493. Additions of \$25,015,000 were for 2016 wastewater revenue refunding bonds, \$28,899,633 were for WPCLF and \$17,697,860 for net pension liability – OPERS. The reductions of \$76,369,115 were for the repayment of debt principal on revenue bonds and WPCLF.
- The District's net pension liability and deferred inflows of resources related to pension increased \$17,697,860 and \$958,782, respectively; however, these increases were offset by increases to deferred outflows of resources related to pension of \$13,405,975 and in net pension asset of \$52,341.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2017.

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

	2017	2016	Change	
			Amount	%
<u>Operating Revenues, Net</u>				
Sewer and Stormwater Service Fees:				
Billing Agents				
City of Cleveland	\$ 311,617	\$ 275,276	\$ 36,341	13.2%
Other Billing Agents	6,082	17,053	(10,971)	(64.3%)
Total Billing Agents	317,699	292,329	25,370	8.7%
Direct Billed Sewer and Stormwater Service Fees	23,614	18,736	4,878	26.0%
Total Sewer and Stormwater Service Fees	341,313	311,065	30,248	9.7%
Other Operating Revenue:				
Septic Tank and Municipal Sludge Fees	616	608	8	1.3%
Miscellaneous	1,951	1,364	587	43.0%
Total Other Operating Revenue	2,567	1,972	595	30.2%
Total Operating Revenues, Net	343,880	313,037	30,843	9.9%
<u>Non-Operating Revenues</u>				
Interest Revenue	3,833	2,902	931	32.1%
Proceeds from Insurance Claim	7	65	(58)	(89.2%)
Federal Subsidy Revenue	6,473	6,466	7	0.1%
Non-Operating Grant Revenue	207	223	(16)	(7.2%)
(Decrease) Increase in Fair Value of Investments, Net	(518)	495	(1,013)	(204.6%)
Total Non-Operating Revenues	10,002	10,151	(149)	(1.5%)
Total Revenues	\$ 353,882	\$ 323,188	\$ 30,694	9.5%

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Management's Discussion and Analysis

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, (continued)
(In Thousands)

	2017	2016	Change	
			Amount	%
<u>Operating Expenses</u>				
Salaries and Wages	\$ 53,498	\$ 50,469	\$ 3,029	6.0%
Fringe Benefits	29,418	22,578	6,840	30.3%
Utilities	13,602	14,188	(586)	(4.1%)
Professional and Contractual Services	51,715	34,360	17,355	50.5%
Other	4,697	2,638	2,059	78.1%
Depreciation	71,497	66,606	4,891	7.3%
Total Operating Expenses	224,427	190,839	33,588	17.6%
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	58,980	60,318	(1,338)	(2.2%)
Non-Operating Grant Expenses	98	188	(90)	(47.9%)
Green Infrastructure Program	1,319	-	1,319	100.0%
Member Community Infrastructure Community Program	3,119	-	3,119	100.0%
Stormwater Community Cost Share Disbursement	2,626	72	2,554	3547.2%
Loss on Disposals of Equipment	301	3,320	(3,019)	(90.9%)
Total Non-Operating Expenses	66,443	63,898	2,545	4.0%
Total Expenses	290,870	254,737	36,133	14.2%
Income Before Extraordinary Item	63,012	68,451	(5,439)	(7.9%)
Loss - Information Technology Fire	-	(1)	1	(100.0%)
Change in Net Position	63,012	68,450	(5,438)	(7.9%)
Net Position at Beginning of Year	1,426,356	1,357,906	68,450	5.0%
Net Position at End of Year	\$ 1,489,368	\$ 1,426,356	\$ 63,012	4.4%

Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2017 statements report pension expense of \$16,603,025. Consequently, in order to compare 2017 total program expenses to 2016, the following adjustments are needed:

	District's Operating Activities (In Thousands)
Total 2017 operating expenses under GASB 68	\$ 224,427
Pension expense under GASB 68	(16,603)
2017 contractually required contribution	7,191
Adjusted 2017 operating expenses	215,015
Total 2016 operating expenses under GASB 27	188,405
Increase in operating expenses not related to pension	\$ 26,610

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Operating revenues, net consist mainly of user charges for sewage and stormwater service fees. Sewage service fees are based on water consumption and stormwater service fees are based on the square footage of impervious surface area on a parcel of land. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2017:

- Operating revenues increased by \$30,843,603 (9.9%) compared to 2016. The increase was due to higher sewer billing rates in 2017, coupled with an increase in budgeted billed water consumption mostly due to phasing in monthly billing compared to quarterly in previous years. Another important factor that increased operating revenues in 2017 is an increase of \$18 million in stormwater revenue due to a 12-month stormwater billing in 2017 versus half a year in 2016.
- Non-operating revenues decreased by \$148,164 (1.46%). Non-operating revenues consist of interest revenue, the change in fair value of investments, grant revenue, proceeds on insurance claims and Federal subsidy revenue. Interest revenue increased by \$931,324 (32.1%) due to an increase in investments. The fair value of investments for 2017 decreased by \$1,012,724 (204.7%). Non-operating grant revenue decreased by \$16,220 (7.3%) due to the decrease of funds received for Water Resource Sponsorship Programs. Federal subsidy revenue increased by \$6,941 (0.1%).
- Operating expenses increased \$33,587,823 (17.6%) compared to 2016. Main components of operating expenses are as follows:
 - Salary and wages increased \$3,029,217 (6.0%) due to new positions for both the wastewater and stormwater programs and general salary increases.
 - Fringe benefits increased \$6,839,699 (30.3%) due to increase in healthcare and short-term disability claims, increased OPERS and medical expenses.
 - Utilities decreased \$586,150 (4.1%) mainly due to decrease in electricity by \$600,127 (5.6%), due to lower rate per KWH costs in 2017 compared to 2016. Communications decreased by \$87,717 (7.6%) due to an increase in the number of regulators in our outlying areas.
 - Professional and contractual services increased \$17,355,324 (50.5%) due to the Sewer Service Evaluation Study Project (SSEP).
 - Other expenses increased due the net effect of the changes of its subcategory expenses. Solid handling waste removal decreased \$216,472 (12.3%), chemicals decreased \$327,868 (13.7%) due to increase efficiency of the standardization of the polymer process. Materials and supplies decreased \$59,926 (0.7%), judgments and awards decreased \$34,552 (72.1%) due to a decrease in litigation costs. These decreases were offset by the increases in following other expenses: license and fees increased \$206,539 (266.7%), community outreach and education increased \$90,104 (14.6%) due to an increase in community outreach programs, repairs and maintenance increased \$882,658 (38.5%) due to the replacement of media at various odor control facilities, and \$1,734,616 (17.2%) in capitalized payroll.
- Non-operating expenses increased \$2,545,894 (4.0%) due to increases in stormwater community cost share reimbursements, member community and green infrastructure payments. Losses on equipment disposals decreased \$3,018,219 (90.9%) due to decreases in disposals of obsolete equipment in 2017. Non-operating grant expense decreased \$89,935 (47.9%). Interest expense decreased by \$1,337,503 (2.2%).

The following table on the next page summarizes the changes in revenues and expenses for the District between 2016 and 2015.

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Management's Discussion and Analysis

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, (continued)
(In Thousands)

	2016	2015	Change	
			Amount	%
<u>Operating Revenues, Net</u>				
Sewer and Stormwater Service Fees				
Billing Agents				
City of Cleveland	\$ 275,276	\$ 242,171	\$ 33,105	13.7%
Other Billing Agents	17,053	15,824	1,229	7.8%
Total Billing Agents	292,329	257,995	34,334	13.3%
Direct Billed Sewer and Stormwater Service Fees	18,736	17,007	1,729	10.2%
Total Sewer and Stormwater Service Fees	311,065	275,002	36,063	13.1%
Other Operating Revenue				
Septic Tank and Municipal Sludge Fees	608	501	107	21.4%
Miscellaneous	1,364	4,927	(3,563)	(72.3%)
Total Other Operating Revenue	1,972	5,428	(3,456)	(63.7%)
Total Operating Revenues, Net	313,037	280,430	32,607	11.6%
<u>Non-Operating Revenues</u>				
Interest Revenue	2,902	2,526	376	14.9%
Proceeds from Insurance Claim	65	-	65	100.0%
Federal Subsidy Revenue	6,466	6,469	(3)	(0.0%)
Non-Operating Grant Revenue	223	1,383	(1,160)	(83.9%)
Increase (Decrease) in Fair Value of Investments, Net	495	(1,173)	1,668	142.2%
Total Non-Operating Revenues	10,151	9,205	946	10.3%
Total Revenues	323,188	289,635	33,553	11.6%
<u>Operating Expenses</u>				
Salaries and Wages	50,469	47,918	2,551	5.3%
Fringe Benefits	22,578	14,563	8,015	55.0%
Utilities	14,188	16,284	(2,096)	(12.9%)
Professional and Contractual Services	34,360	21,988	12,372	56.3%
Other	2,638	3,726	(1,088)	(29.2%)
Depreciation	66,606	62,826	3,780	6.0%
Total Operating Expenses	190,839	167,305	23,534	14.1%
<u>Non-Operating Expenses</u>				
Interest Expense on Long-Term Debt	60,318	62,617	(2,299)	(3.7%)
Non-Operating Grant Expenses	188	708	(520)	(73.4%)
Stormwater Community Cost Share Disbursement	72	-	72	100.0%
Loss on Disposals of Equipment	3,320	4,323	(1,003)	(23.2%)
Total Non-Operating Expenses	63,898	67,648	(3,750)	(5.5%)
Total Expenses	254,737	234,953	19,784	8.4%
Income Before Extraordinary Item	68,451	54,682	13,769	25.2%
Loss - Information Technology Fire	(1)	(180)	179	(99.4%)
Change in Net Position	68,450	54,502	13,948	25.6%
Net Position at Beginning of Year	1,357,906	1,303,404	54,502	4.2%
Net Position at End of Year	\$ 1,426,356	\$ 1,357,906	68,450	5.0%

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2016 statements report pension expense of \$8,917,575. Consequently, in order to compare 2016 total program expenses to 2015, the following adjustments are needed:

	District's Operating Activities (In Thousands)
Total 2016 operating expenses under GASB 68	\$ 190,839
Pension expense under GASB 68	(8,918)
2016 contractually required contribution	6,484
Adjusted 2016 operating expenses	188,405
Total 2015 operating expenses under GASB 27	167,305
Increase in operating expenses not related to pension	\$ 21,100

Operating revenues, net consist mainly of user charges for sewage and stormwater service fees. Sewage service fees are based on water consumption and stormwater service fees are based on the square footage of impervious surface area on a parcel of land. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2016:

- Operating revenues increased by \$32,606,678 (11.6%) compared to 2015. The increase was due to higher sewer billing rates in 2016, coupled with a lower decrease than expected in budgeted billed water consumption. Another important factor that increased operating revenues in 2016 is the restart of billing in July 2016 for Stormwater Program, which generated an increase of \$5.5 million compared to stormwater revenue recognized in 2015.
- Non-operating revenues increased by \$944,270 (10.3%). Non-operating revenues consist of interest revenue, the change in fair value of investments, grant revenue, proceeds on insurance claims and Federal subsidy revenue. Interest revenue increased by \$375,711 (14.9%) due to an increase in investments. The fair value of investments for 2016 increased by \$1,667,854 (142.2 %). Non-operating grant revenue decreased by \$1,160,422 (83.8%) due to the decrease of funds received for Water Resource Sponsorship Programs. Federal subsidy revenue decreased by \$3,470 (0.1%).
- Operating expenses increased \$23,533,604 (14.1%) compared to 2015. Main components of operating expenses are as follows:
 - Salary and wages increased \$2,550,594 (5.3%) due to new positions for both the wastewater and stormwater programs and general salary increases.
 - Fringe benefits increased \$8,015,417 (55.0%) due to increase in healthcare and short-term disability claims, increased OPERs and medical expenses.
 - Utilities decreased \$2,096,609 (12.9%) mainly due to decreases in power cost by \$1,419,989 (11.8%) and gas by \$503,815 (27.8%) due to climatic weather uses experienced in 2016.
 - Professional and contractual services increased \$12,371,450 (56.3%) due to the Sewer Service Evaluation Study Project (SSES).
 - Other Expenses decreased due the net effect of the changes of its subcategory expenses: Communications decreased by \$265,038 (18.7%), Chemicals decreased \$474,871 (16.6%), License and Fees decreased \$253,860 (76.6%), Community Outreach and Education decreased \$204,894 (24.9%), and Repairs and Maintenance decreased \$864,302 (27.4%). These decreases were offset by the increases in following other expenses: Solid handling waste removal increased \$592,657 (50.6%), Judgments and Awards increased \$35,508 (285.3%) due to an increase in litigation costs, \$1,144,090 (20.2%) in Materials and Supplies, \$67,703 (91.0%) in Reimbursable Expenses and \$1,314,538 (15.0%) in Capitalized Payroll.

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Management's Discussion and Analysis

- Non-operating expenses decreased \$3,751,231 (5.5%). Losses on equipment disposals decreased \$1,004,496 (23.2%) due to decreases in disposals of obsolete equipment in 2016. Non-operating grant expense decreased \$519,741 (73.5%). Interest expense decreased by \$2,299,184 (3.7%).

Capital Assets

At the end of 2017, the District invested \$2,673,937,628 in net capital assets. This amount represents a net increase of approximately \$156 million, or 6.2% over 2016. Refer to Notes 2 and 5 of the audited financial statements for more detailed information on capital assets.

Capital Assets at December 31, 2017 and 2016
(Net of Depreciation, in Thousands)

	2017	2016	Change	
			Amount	%
Land	\$ 25,112	\$ 22,896	\$ 2,216	9.7%
Construction in Progress	744,323	632,850	111,473	17.6%
Interceptor Sewer Lines	1,014,772	1,002,867	11,905	1.2%
Buildings, Structures and Improvements and Equipment	547,118	532,147	14,971	2.8%
Sewage Treatment and Other Equipment	338,029	322,344	15,685	4.9%
Right to Use-Intangible	4,584	4,768	(184)	(3.9%)
Total	<u>\$ 2,673,938</u>	<u>\$ 2,517,872</u>	<u>\$ 156,066</u>	<u>6.2%</u>

	Amount
Major Additions Placed into Service in 2017, at Cost Included:	
Southerly First Stage Settling Improvements	\$ 41,236
Southerly Low Voltage Equipment Replacement	15,094
Mary Street Pump Station Upgrade	12,556
Westerly Ferric Chloride Tanks	10,299
Collection System Asset Renewal Phase 1	7,985
Green Ambassador - Urban Agriculture	5,902
Shaw Brook Culvert Rehabilitation	1,036
Westerly Primary Effluent Pumps Rehabilitation	828
Westerly CSOTF Piping Repairs	580
EMSC Fire Protection and Fire Alarm Improvements	390
	<u>\$ 95,906</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis

Capital Assets

At the end of 2016, the District invested \$2,517,872,374 in net capital assets. This amount represents a net increase of approximately \$150 million, or 6.3% over 2015. Refer to Notes 2 and 5 of the audited financial statements for more detailed information on capital assets.

Capital Assets at December 31, 2016 and 2015 (Net of Depreciation, in Thousands)

	2016	2015	Change	
			Amount	%
Land	\$ 22,896	\$ 20,024	\$ 2,872	14.3%
Construction in Progress	632,850	586,146	46,704	8.0%
Interceptor Sewer Lines	1,002,867	980,720	22,147	2.3%
Buildings, Structures and Improvements and Equipment	532,147	458,264	73,883	16.1%
Sewage Treatment and Other Equipment	322,344	317,891	4,453	1.4%
Right to Use-Intangible	4,768	4,951	(183)	(3.7%)
Total	<u>\$ 2,517,872</u>	<u>\$ 2,367,996</u>	<u>\$ 149,876</u>	<u>6.3%</u>

	Amount
Major Additions Placed into Service in 2016, at Cost Included:	
Easterly Sustained Secondary Capacity Improvements	\$ 76,388
Dugway West Interceptor Relief Sewer (Remaining Introductions)	23,174
Southerly MACT Compliance and Operations Improvements	17,694
Euclid Creek Pump Station Relief Sewer	12,973
Easterly Chemical Storage & Feed Facility (Building)	6,948
Fairhill MLK Green Infrastructure	5,770
Southerly First Stage Settling Improvements (Grease Building)	3,798
Chevrolet Boulevard Detention Basin	2,895
Fairmount Boulevard Relief Sewer	2,539
District LED Light Upgrade	1,954
Easterly Primary Settling Tanks #9-12 Rehabilitations	1,627
	<u>\$ 155,760</u>

Debt Administration

At December 31, 2017, the District had total debt outstanding of \$1,600,041,313. This represents an increase of \$11,549,664 for total debt from 2016 due to the issuance of new advance refunding bonds. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$24,836,347; total debt retirements were \$283,947,895, of which \$224,805,000 was for the defeasance of a portion of 2013 bonds. The carrying value of the long-term portion of debt at December 31, 2017 was \$1,558,546,647 and the fair value of the long-term debt was \$1,766,852,187.

At December 31, 2016, the District had total debt outstanding of \$1,588,491,649. This represents a decrease of \$29,344,564 for total debt due to retirement of debt compared to 2015. Loans from the Ohio Water Development Authority Water Pollution Control Loan Fund decreased \$6,939,482; total debt retirements were \$76,369,115. The carrying value of the long-term portion of debt at December 31, 2016 was \$1,537,925,632 and the fair value of the long-term debt was \$1,731,520,769.

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Management's Discussion and Analysis

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)

	2017	2016	2015
Revenue Bonds	\$ 1,084,356	\$ 1,097,643	\$ 1,120,058
Water Pollution Loans Payable	515,685	490,849	497,778
Total Debt	\$ 1,600,041	\$ 1,588,492	\$ 1,617,836

Economic Factors

In August 2016, the Board of Trustees approved rate increases scheduled for the years 2017 through 2021. During 2017, the District's billing cycle was changed from quarterly billing to monthly billing. Effective January 1, 2017, rates charged to customers increased approximately 8.3% for customers in the City of Cleveland and for the suburban customers. In addition to the current volumetric discount rates for the Homestead Program and affordability programs, the District has expanded the discount by applying it to the Fixed Cost Recovery Charge starting in 2017. Effective January 1, 2017, rates charged to District customers increased to \$83.10 per mcf for City of Cleveland customers, and to \$84.60 per mcf for the suburban customers. Also, effective January 1, 2017, the fixed fee was increased to \$3.60 per month for regular customers and \$2.15 per month for Homestead/Affordability customers. In June 2011, the District's Board of Trustees approved a schedule of rate increases for the five years 2012 through 2016. Increasingly stringent federal regulations and remaining legal obligations are key factors that led to these rate increases. A rate study of a projected five-year period concluded that the need to finance \$1 billion in federally mandated capital projects between 2012 and 2016, combined with the repayment of existing debt service for past projects and an anticipated decrease in billed consumption, necessitated the rate increases. Also, effective January 1, 2016, the fixed fee was increased to \$7.20 per quarter for all customers. Effective January 1, 2016, rates charged to District customers increased 12.1% to \$78.05 per mcf for City of Cleveland customers, and 11.3% to \$79.85 per mcf for the suburban customers. Also, effective January 1, 2016, the fixed fee was increased to \$7.20 per quarter for all customers.

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 Chief Financial Officer, Northeast Ohio Regional Sewer District, 3900 Euclid Avenue, Cleveland, Ohio 44115, by telephone at (216) 881-6600, or at www.neorsd.org.



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Cleveland, Ohio 44115
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NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Position

December 31, 2017 and 2016

	Assets	
	2017	2016
Current Assets:		
Cash	\$ 4,060,452	\$ 10,925,322
Stormwater Cash	36,875,893	21,884,150
Bond Proceeds Investments	-	40,066,793
Short-Term Investments	255,886,803	223,254,924
Sewage Service Fees Receivable, Less Allowance for Doubtful Accounts of \$27,300,000 in 2017 and \$25,500,000 in 2016	104,893,798	120,986,879
Stormwater Service Fees Receivable, Less Allowance for Doubtful Accounts of \$568,000 in 2017 and \$623,000 in 2016	13,544,368	13,884,207
Receivables from Federal, State and Other Agencies	18,198,160	13,332,664
Inventory, Prepaid Expenses and Other	7,914,718	7,737,479
Total Current Assets	441,374,192	452,072,418
Noncurrent Assets:		
Capital Assets:		
Interceptor Sewer Lines	1,301,560,873	1,269,612,727
Buildings, Structures and Improvements and Equipment	1,054,276,986	1,011,058,624
Sewage Treatment and Other Equipment	607,418,695	572,374,578
Right to Use - Intangible	5,505,574	5,505,574
	2,968,762,128	2,858,551,503
Less: Accumulated Depreciation	(1,064,259,757)	(996,425,841)
	1,904,502,371	1,862,125,662
Land	25,112,079	22,896,345
Construction in Progress	744,323,178	632,850,367
Net Capital Assets	2,673,937,628	2,517,872,374
Long-Term Investments	50,639,714	109,099,783
Revenue Bond Debt Service Deposit - restricted	16,472,039	27,743,677
Net Pension Asset	324,913	258,537
Total Noncurrent Assets	2,741,374,294	2,654,974,371
Total Assets	3,182,748,486	3,107,046,789
Deferred Outflows of Resources:		
Pension	31,550,612	22,393,673
Deferred Charge on Bond Refunding	16,697,759	-
Total Deferred Outflows of Resources	48,248,371	22,393,673
Total Assets and Deferred Outflows of Resources	\$ 3,230,996,857	\$ 3,129,440,462

Continued

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Position (Continued)

December 31, 2017 and 2016

Liabilities and Net Position

	2017	2016
Liabilities:		
Current Liabilities:		
Accounts Payable	\$ 9,610,948	\$ 8,783,147
Construction Contracts and Retainages Payable	31,264,318	24,260,341
Accrued Interest Payable	12,525,635	13,181,147
Other Accrued Liabilities	9,458,968	7,008,822
Current Maturities of Long-Term Debt	41,494,666	50,566,017
Total Current Liabilities	104,354,535	103,799,474
Noncurrent Liabilities:		
Long-Term Debt	1,558,546,647	1,537,925,632
Net Pension Liability	77,659,205	58,226,111
Other Accrued Long-Term Liabilities	400,000	1,400,000
Total Noncurrent Liabilities	1,636,605,852	1,597,551,743
Total Liabilities	1,740,960,387	1,701,351,217
Deferred Inflows of Resources:		
Pension	668,235	1,733,703
Net Position:		
Net Investment in Capital Assets	1,107,066,113	990,664,879
Unrestricted	382,302,122	435,690,663
Total Net Position	\$ 1,489,368,235	\$ 1,426,355,542

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues - Sewage:		
Billing Agents	\$ 273,964,177	\$ 266,840,893
Direct Billed	22,848,020	17,970,171
Other	2,567,476	1,972,379
Total Operating Revenues - Sewage	299,379,673	286,783,443
Operating Revenues - Stormwater:		
Billing Agents	43,734,464	25,487,614
Direct Billed	766,301	765,778
Total Operating Revenues - Stormwater	44,500,765	26,253,392
Total District's Operating Revenues, Net	343,880,438	313,036,835
Operating Expenses - Sewage:		
Salaries and Wages	52,144,371	49,878,369
Fringe Benefits	29,221,894	22,495,670
Utilities	13,601,569	14,187,719
Professional and Contractual Services	32,211,644	29,842,682
Other	4,575,795	2,587,719
Depreciation	71,496,416	66,605,940
Total Operating Expenses - Sewage	203,251,689	185,598,099
Operating Expenses - Stormwater:		
Salaries and Wages	1,353,653	590,438
Fringe Benefits	196,233	82,758
Professional and Contractual Services	19,503,698	4,517,336
Other	121,598	50,417
Total Operating Expenses - Stormwater	21,175,182	5,240,949
Total District's Operating Expenses	224,426,871	190,839,048
Operating Income	119,453,567	122,197,787
Non-Operating Revenues (Expenses):		
Interest Revenue	3,833,084	2,901,760
(Decrease) Increase in Fair Value of Investments, Net	(518,063)	494,661
Non-Operating Grant Revenue	206,905	223,125
Non-Operating Grant Expenses	(97,733)	(187,668)
Proceeds on Insurance Claims	7,112	64,597
Green Infrastructure Program	(1,318,460)	-
Member Community Infrastructure Program	(3,118,863)	-
Stormwater Community Cost Share Disbursement	(2,626,418)	(72,190)
Loss on Disposals of Equipment	(301,070)	(3,319,289)
Interest Expense on Long-Term Debt	(58,980,224)	(60,317,727)
Federal Subsidy Revenue	6,472,856	6,465,915
Total Non-Operating Revenues (Expenses), Net	(56,440,874)	(53,746,816)
Income Before Loss in Extraordinary Event	63,012,693	68,450,971
Loss - Information Technology Fire	-	(1,614)
Change in Net Position	63,012,693	68,449,357
Net Position at Beginning of Year	1,426,355,542	1,357,906,185
Net Position at End of Year	\$ 1,489,368,235	\$ 1,426,355,542

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flow

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Cash Received From Customers	\$ 360,729,513	\$ 287,714,557
Cash Payments to Suppliers for Goods and Services	(71,990,159)	(47,841,519)
Cash Payments to Employees for Services	(72,321,695)	(70,753,895)
Net Cash Provided by Operating Activities	216,417,659	169,119,143
Cash Flows From Investing Activities		
Purchases of Investments	(475,588,848)	(481,172,918)
Proceeds from Maturities of Investments	551,823,449	616,547,678
Interest on Investments	4,076,427	2,959,053
Net Cash Provided by Investing Activities	80,311,028	138,333,813
Cash Flows From Non-Capital Financing Activities		
Grant Payments	(206,905)	(2,064,637)
Grants Received	206,905	484,143
Net Cash Used by Non-Capital Financing Activities	-	(1,580,494)
Cash Flows From Capital and Related Financing Activities		
Principal Payments on Long-Term Debt	(51,622,896)	(52,669,115)
Interest Payments on Long-Term Debt	(70,385,541)	(47,922,782)
Proceeds from Issuance of Series 2017 and 2016 Refunding Bonds	241,595,000	25,015,000
Premium on 2017 Refunding Bonds	20,147,075	-
Defeasance of Series of 2013 and 2007 Bonds	(224,805,000)	(23,700,000)
Bond Issuance Costs on Refunding	(471,422)	(184,250)
Underwriter Discount Fees	(1,064,154)	(167,031)
Defeasance of Premium	(19,959,597)	(476,769)
Deferred Charge on Refunding	(11,374,724)	-
Defeasance of Accrued Interest	(4,057,300)	(456,963)
Proceeds from Water Pollution Control Loans	54,214,576	22,094,899
Proceeds on Insurance Claims	7,112	64,597
Proceeds on Sale of Capital Assets	96,580	134,899
Acquisition and Construction of Capital Assets	(220,921,523)	(217,727,830)
Net Cash Used by Capital and Related Financing Activities	(288,601,814)	(295,995,345)
Net Increase in Cash, Stormwater Cash and Bond Proceeds Cash	8,126,873	9,877,117
Cash at Beginning of Year	10,925,322	1,301,077
Stormwater Cash at Beginning of Year	21,884,150	20,940,156
Bond Proceeds Cash at Beginning of Year	-	691,122
Cash at End of Year	\$ 40,936,345	\$ 32,809,472

Continued

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT
Statements of Cash Flow (Continued)
For the Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to Cash Provided By Operating Activities:		
Operating Income	\$ 119,453,567	\$ 122,197,787
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	71,496,416	66,605,940
Allowance for Doubtful Accounts	(1,745,000)	3,023,000
Changes in Operating Assets and Liabilities:		
Accounts Receivable	18,594,075	(28,345,278)
Deferred Outflows of Resources - Pension	(9,156,939)	(13,405,975)
Deferred Inflows of Resources - Pension	(1,065,468)	958,782
Net Pension Asset	(66,376)	(52,341)
Net Pension Liability	19,433,094	17,697,860
Inventory and Prepaid Expenses	(177,239)	(135,981)
Accounts Payable and Other Accrued Liabilities	(348,471)	575,349
Total Adjustments	96,964,092	46,921,356
Net Cash Provided by Operating Activities	\$ 216,417,659	\$ 169,119,143

Supplemental Schedule of Non-Cash Investing, Capital and Relating Financing Activities

Long-Term Debt Recorded for Receivables from State Agencies in Connection with Water Pollution Control Loans	\$ (5,281,651)	\$ 5,395,019
Long-Term Debt Increased due to Accrued Construction Interest in Connection with Water Pollution Control Loans	\$ 1,210,714	\$ 1,739,113
Long-Term Debt Decreased due to Accrued Construction Principal Adjustment in Connection with Water Pollution Control Loans	\$ (1,147,698)	\$ (164,699)
Amounts paid toward bond defeasance from funds escrowed in prior years	\$ (7,520,000)	\$ -
Build America Bonds Subsidy Adjustment	\$ (468,544)	\$ (475,486)
Capital Assets Increased due to Capitalized Costs, Recorded Accounts Payable and Asset Reclassifications	\$ 6,637,753	\$ 2,208,614
(Decrease) Increase in Fair Value of Investments, Net	\$ (518,063)	\$ 494,661
Amortization of Bond Premium	\$ (5,844,161)	\$ (6,860,095)

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 1: Reporting Entity

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

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

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

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

Note 2: Summary of Significant Accounting Policies

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (continued)

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

Basis of Presentation

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

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

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

Measurement Focus

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

Basis of Accounting

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

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (continued)

Cash Equivalents and Investments

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

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

STAR Ohio, is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but the District has adopted Governmental Accounting Standards Board (GASB), Statement No.79, *Certain External Investment Pools and Pool Participants*. The District measures their investment in STAR Ohio at amortized cost.

For the years ended December 31, 2017 and 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Short-Term Investments

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

Fair Value of Financial Instruments

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.

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Long-Term Debt

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2017 was \$1,766,852,187. The estimated fair value of the District's long-term debt, net of the current portion, at December 31, 2016 was \$1,731,520,769.

Long-Term Investments and Restricted Accounts

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

Long-Term Investments

At December 31, 2017 and 2016, these funds consisted of U.S. Treasury Securities and obligations of Federal agencies. They may be 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 2007 Series Wastewater Improvement Revenue Bonds, the 2010 Series Wastewater Improvement Revenue Bonds, the 2013 Series Wastewater Improvement Revenue Bonds, the 2014 Series Wastewater Improvement Revenue Bonds, 2014 Wastewater Improvement Revenue Refunding Bonds, the 2016 Series Wastewater Improvement Revenue Refunding Bonds and the 2017 Series Wastewater Improvement Revenue Refunding Bonds.

Revenue Bond Debt Service Deposit

These amounts represent advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2017 and 2016 consisted of direct obligations of the United States Government, money market funds plus accrued interest.

Sewage and Stormwater Service Fees Receivable

Sewage and stormwater service fees receivable are shown net of an allowance for uncollectibles. The allowance is based on aged accounts receivable, historical collection rates, economic trends, and current year operating revenues. The allowance amounts are \$27,868,000 and \$26,123,000 at December 31, 2017 and 2016, respectively.

Inventory

Inventory consists of materials and supplies not yet placed into service that are valued at weighted average cost. The cost of inventory items is recognized as an expense when used.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

Bond Premiums

Bond premiums are deferred and amortized over the term of the bonds using the effective-interest method. Unamortized bond premiums are presented as an increase of the carrying amount of the bonds payable reported on the statements of net position.

Bond Discounts

Bond discounts are amortized over the term of the bonds using effective-interest method. Unamortized bond discounts are presented as a reduction to the face amount of the bonds reported on the statements of net position.

Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the District, deferred outflows of resources are reported on the governmental-wide statement of net position for pension and deferred charge on refunding. The deferred outflows of resources related to pension are explained in Note 7. On the District financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective-interest method and is presented as deferred outflows of resources on the statements of net position.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the District, deferred inflows of resources include pension. Deferred inflows of resources related to pension are reported on the government-wide statements of net position and explained in Note 7.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Capital Contributions

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

Net Position

In the District financial statements, net position is categorized into three categories. The first is net investment in capital assets, reduced by accumulated depreciation and any outstanding debt incurred to acquire, construct or improve those assets excluding unexpended bond proceeds, restricted or unrestricted. This category represents net investment in property, plant, equipment and infrastructure. The second category is restricted, which represents assets restricted by requirements of revenue bonds, other externally imposed constraints, or by legislation, in excess of the related liabilities payable from restricted assets. The third category; unrestricted portion of net position, consists of all assets that do not meet the definition of either of the other two categories of net position. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The District did not have any restricted net position at December 31, 2017 and 2016.

The District's Board of Trustees adopted a reserve policy in July 2009 that annually designates amounts of the District's unrestricted net position as Board-designated for specific purposes. Such amounts are not restricted and may be designated for other purposes or eliminated at the discretion of the Board of Trustees. A summary of reserve amounts that have been designated by the Board of Trustees at December 31, 2017 and 2016 follows:

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (continued)

	<u>2017</u>	<u>2016</u>
General Operating Reserve	\$ 33,521,572	\$ 33,521,572
Debt Service Reserve	16,472,036	27,743,677
Equipment Repair and Replacement Reserve	56,965,379	56,433,342
Insurance Reserve	21,771,932	22,418,833
Rate Stabilization Account	18,000,000	18,000,000
Capital Project Account	173,654,286	203,732,670

During 2017, The General Operating Reserve stayed the same compared to 2016. The Debt Service Reserve decreased by \$11,271,641 due to the last payment of the Series 2007 bonds. The Equipment Repair and Replacement Reserve increased \$532,037 due to interest revenue. The Insurance Reserve had a net decrease of \$646,901 due to insurance premiums and claims paid in excess of the interest earned. The Rate Stabilization account stayed the same compared to 2016. The Capital project account decreased by \$30,078,384 due to increases in project expenditures in excess of transfers from the operating account.

During 2016, the General Operating Reserve had a net increase of \$7,738,829 due to decreases in transfers to the Capital Project Account. The Debt Service Reserve decreased by \$8,055,844 due to the decrease in total annual debt service. The Equipment Repair and Replacement Reserve increased \$484,357 due to interest revenue. The Insurance Reserve had a net decrease of \$350,559 due to insurance claims paid in excess of the interest earned. Rate stabilization stayed the same compared to 2015. Capital project account increased by \$38,012,672 due to increases in bond proceeds and transfers from the operating account.

Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment and stormwater services. Operating revenues consist of user charges for sewage and stormwater service fees. Sewage service fees are based on water consumption and stormwater service fees are based on the square footage of impervious surface area on a parcel of land. Operating revenues are shown net of bad debt expense of \$4,118,014 in 2017 and \$8,305,176 in 2016. Operating expenses include the cost of these sewer and stormwater services, including administrative expenses and depreciation on capital assets.

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

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, 2017 and 2016 are unbilled sewage service fees of \$23,531,297 and \$38,212,133; respectively. Included in stormwater service fees receivable at December 31, 2017 and 2016 are unbilled stormwater service fees of \$2,236,310 and \$4,832,878; respectively.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (continued)

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

In August 2016, the Board of Trustees approved rate increases scheduled for the years 2017 through 2021. Effective January 1, 2017, rates charged to customers increased approximately 8.5% for customers in the City of Cleveland, and 8.0% for the suburban customers. In addition to the current volumetric discount rates for the Homestead Program and Affordability programs, the District has expanded the discount by applying it to the Fixed Cost Recovery Charge starting in 2017.

Interest Expense

It is the District's intention that all expenses, including interest incurred in connection with financing the construction of new facilities, be recovered on a current basis. The annual budget process is governed by a number of factors, including a covenant in the 2007 Wastewater Improvement Revenue Bond Resolution, the 2010 Wastewater Improvement Revenue Bond Resolution, the 2013 Wastewater Improvement Revenue Bond Resolution, the 2014 Wastewater Improvement Revenue Bond Resolution, the 2016 Wastewater Improvements Revenue Refunding Bond Resolution and the 2017 Wastewater Improvements Revenue Refunding Bond Resolution which requires that the current year "net revenues" be at least 115.0% of its debt service requirements. As the District does not intend that interest costs be recovered from subsequent years' revenue, it has excluded interest as an allowable cost for future rate-making purposes. Therefore, all interest is expensed but is included as non-operating on the statement of revenues, expenses and changes in net position as incurred.

Use of Estimates

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

Extraordinary Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District Administration and that are either unusual in nature or infrequent in occurrence.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 2: Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through June xx, 2018, the date the financial statements were available to be issued.

Note 3: Deposits and Investments

Deposits

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. The District's practice is to place deposits with commercial banks and savings and loan associations within its service area. At December 31, 2017, the carrying amount of the District's deposits was \$40,936,345 and the bank balance was \$49,766,883. Of the bank balance, \$250,000 was covered by Federal depository insurance and \$49,516,883 was covered by collateral securities held in Federal Reserve pledge accounts in the District's name. At December 31, 2016, the carrying amount of the District's deposits was \$32,809,472 and the bank balance was \$39,219,155. Of the bank balance, \$250,000 was covered by Federal depository insurance and \$38,969,155 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 Series 2017, 2016, 2014, 2013, 2010, and 2007 Wastewater Improvement Revenue Bond Resolution (the "Resolution") as permitted by state statute. The Resolution allows the District to purchase certain instruments, including obligations of the U.S. Treasury, its agencies and instrumentalities, interest-bearing demand or time deposits, repurchase agreements and, in certain situations, pre-refunded municipal obligations, general obligations of any state and other fixed income securities. Repurchase transactions are not to exceed one year and must be collateralized by obligations of the U.S. Government or its agencies which are held by a third-party custodian.

The investments included in the Revenue Bond Debt Service Deposit are governed by the provisions of a trust agreement which provides for interest and principal payments on the 2007, 2010, 2013, 2014, 2016 and 2017 Series Bonds.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 3: Deposits and Investments (continued)

At December 31, 2017, 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
U.S. Treasury Bills	\$ 119,771,207	37%	\$ 104,797,656	\$ 14,973,551
State Treasury Asset Reserve	114,713,258	36%	114,713,258	-
Federal National Mortgage Assoc.	48,705,879	15%	18,026,583	30,679,296
Federal Home Loan Mortgage Corp.	25,029,371	8%	20,042,504	4,986,867
Federal Home Loan Bank	5,007,145	2%	5,007,145	-
Federal Farm Credit Bank	4,996,704	1%	4,996,704	-
Dreyfus Cash Management	1,611,300	1%	1,611,300	-
	<u>\$ 319,834,864</u>		<u>\$ 269,195,150</u>	<u>\$ 50,639,714</u>

At December 31, 2016, 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
U.S. Treasury Bills	\$ 156,730,966	39%	\$ 106,595,454	\$ 50,135,512
State Treasury Asset Reserve	95,650,094	24%	95,650,094	-
Federal Home Loan Mortgage Corp.	60,139,394	15%	40,127,140	20,012,254
Federal National Mortgage Assoc.	54,060,581	14%	25,082,664	28,977,917
Federal Home Loan Bank	15,021,075	4%	10,016,729	5,004,346
Forward Delivery Agreement/FNMA	8,085,662	2%	8,085,662	-
Federal Farm Credit Bank	4,969,754	1%	-	4,969,754
Dreyfus Cash Management	2,254,033	1%	2,254,033	-
	<u>\$ 396,911,559</u>		<u>\$ 287,811,776</u>	<u>\$ 109,099,783</u>

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 3: Deposits and Investments (continued)

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy authorizes investments in obligations of the U.S. Treasury, U.S. agencies and instrumentalities, interest-bearing demand or time deposits, State Treasury Asset Reserve of Ohio ("STAR Ohio"), money market mutual funds, repurchase agreements, and in certain situations, pre-funded municipal obligations, general obligations of any state and other fixed income securities. Repurchase transactions are not to exceed one year and must be collateralized by obligations of the U.S. Government or its agencies which are held by a third-party custodian. STAR Ohio is an investment pool created pursuant to Ohio statutes and is managed by the Treasurer of the State of Ohio. As of December 31, 2017, 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) were all rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. Investments in U.S. Treasury Notes were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. The Investments in STAR Ohio and Bank of New York were rated AAAM by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of a counterparty to a transaction, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the requirements of State Law, it is the policy of the District to require full collateralization of all investments other than obligations of U.S. Government, its agencies and instrumentalities. The District's investment in U.S. agencies with fair values totaling \$83,739,099 has maturities of \$48,072,936 in less than one year and \$35,666,163 within five years. U.S. agencies are held in the accounts of Huntington Bank and PNC National Bank (Trustees), 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 \$16,472,039 are held in the account of Bank of New York under the Master Trust Agreement. Assets held by the Trustee as a custodial agent are considered legally separate from the other assets of Trustee.

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

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 and stormwater charges to most District users. The remaining District's users are invoiced directly by the District or by other billing agents.

Table below includes a summary of sewer and stormwater billing and collection transactions between the City and the District for 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Amounts due from District customers at beginning of year for invoices rendered by the City	\$ 105,571,481	\$ 87,702,750
Amounts billed to District customers by the City during the year	333,952,173	274,848,814
Cash collected from District customers by the City and remitted to the District during the year	(325,280,027)	(251,028,600)
Write off of inactive accounts	(2,364,202)	(5,065,882)
Cash collected directly by the District on invoices rendered by the City and other adjustment	(462,966)	(885,601)
Balance due from customers at end of year, included in service fees receivable before allowance for doubtful accounts	<u>\$ 111,416,459</u>	<u>\$ 105,571,481</u>

Service fees billed by the City are considered delinquent 23 days after the date of the bill. The fees are considered in arrears when they remain unpaid beyond 90 days from the date billed. The District may certify to the Cuyahoga County Fiscal Office any delinquent accounts billed by the City. Such certification will result in the delinquent amounts being placed on the real property tax duplicate for collection as taxes. Failure to pay the property tax and District fees will result in a lien on such property.

Fees paid to the City for billing and collection services in 2017 and 2016 were \$8,382,037 and \$7,509,767, respectively; of which, \$649,404 for 2017 and \$1,321,175 for 2016 are included in accounts payable on the District's statements of net position.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 5: Capital Assets and Depreciation

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Non-depreciable Capital Assets:					
Land	\$ 22,896,345	\$ -	\$ (7,066)	\$ 2,222,800	\$ 25,112,079
Construction in Progress	632,850,367	224,272,434	-	(112,799,623)	744,323,178
Total Non-depreciable Capital Assets	<u>655,746,712</u>	<u>224,272,434</u>	<u>(7,066)</u>	<u>(110,576,823)</u>	<u>769,435,257</u>
Depreciable Capital Assets:					
Interceptor Sewer Lines	1,269,612,727	-	-	31,948,146	1,301,560,873
Buildings, Structures and Improvements and Equip.	1,011,058,624	256,180	(516,857)	43,479,039	1,054,276,986
Sewage Treatment and Other Equipment	572,374,578	3,399,280	(3,504,801)	35,149,638	607,418,695
Right to Use-Intangible (*)	5,505,574	-	-	-	5,505,574
Total Depreciable Capital Assets	<u>2,858,551,503</u>	<u>3,655,460</u>	<u>(4,021,658)</u>	<u>110,576,823</u>	<u>2,968,762,128</u>
Total Historical Cost	<u>3,514,298,215</u>	<u>227,927,894</u>	<u>(4,028,724)</u>	<u>-</u>	<u>3,738,197,385</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(266,745,526)	(20,043,652)	-	-	(286,789,178)
Buildings, Structures and Improvements and Equip.	(478,911,600)	(28,607,063)	359,526	-	(507,159,137)
Sewage Treatment and Other Equipment	(250,030,727)	(22,662,333)	3,302,974	-	(269,390,086)
Right to Use-Intangible (*)	(737,988)	(183,368)	-	-	(921,356)
Total Accumulated Depreciation	<u>(996,425,841)</u>	<u>(71,496,416)</u>	<u>3,662,500</u>	<u>-</u>	<u>(1,064,259,757)</u>
Capital Assets, Net	<u>\$ 2,517,872,374</u>	<u>\$ 156,431,478</u>	<u>\$ (366,224)</u>	<u>\$ -</u>	<u>\$ 2,673,937,628</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 71,496,416</u>			

(*) During 2012, the District acquired an intangible asset due to an agreement with the City of Cleveland Department of Public Utilities Division of Cleveland Public Power. Per this agreement, the District has the right to use the power provided from the Nine Mile Creek substation, which was constructed by the District, but is owned by the City. The construction of the substation was completed in 2012 and capitalized; there were minor subsequent costs in the following years. The asset's original cost basis is \$5,505,574 as of December 31, 2017 and 2016. Below is a schedule of the amounts to be expensed in future years:

Year Ending December 31,	Amortization of Intangible Asset
2018	\$ 183,369
2019	183,369
2020	183,369
2021	183,369
2022	183,369
2023-2027	916,843
2028-2032	916,843
2033-2037	916,843
2038-2042	916,844
	<u>\$ 4,584,218</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 5: Capital Assets and Depreciation (continued)

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
Non-depreciable Capital Assets:					
Land	\$ 20,024,113	\$ -	\$ -	\$ 2,872,232	\$ 22,896,345
Construction in Progress	586,145,438	213,377,719	-	(166,672,790)	632,850,367
Total Non-depreciable Capital Assets	<u>606,169,551</u>	<u>213,377,719</u>	<u>-</u>	<u>(163,800,558)</u>	<u>655,746,712</u>
Depreciable Capital Assets:					
Interceptor Sewer Lines	1,230,471,470	-	-	39,141,257	1,269,612,727
Buildings, Structures and Improvements and Equip.	914,939,632	271,757	(5,444,789)	101,292,024	1,011,058,624
Sewage Treatment and Other Equipment	558,188,055	6,228,018	(15,408,772)	23,367,277	572,374,578
Right to Use-Intangible (*)	5,505,574	-	-	-	5,505,574
Total Depreciable Capital Assets	<u>2,709,104,731</u>	<u>6,499,775</u>	<u>(20,853,561)</u>	<u>163,800,558</u>	<u>2,858,551,503</u>
Total Historical Cost	<u>3,315,274,282</u>	<u>219,877,494</u>	<u>(20,853,561)</u>	<u>-</u>	<u>3,514,298,215</u>
Less Accumulated Depreciation For:					
Interceptor Sewer Lines	(249,751,191)	(16,994,335)	-	-	(266,745,526)
Buildings, Structures and Improvements and Equip.	(456,675,435)	(26,333,899)	4,097,734	-	(478,911,600)
Sewage Treatment and Other Equipment	(240,297,136)	(23,094,337)	13,360,746	-	(250,030,727)
Right to Use-Intangible (*)	(554,619)	(183,369)	-	-	(737,988)
Total Accumulated Depreciation	<u>(947,278,381)</u>	<u>(66,605,940)</u>	<u>17,458,480</u>	<u>-</u>	<u>(996,425,841)</u>
Capital Assets, Net	<u>\$ 2,367,995,901</u>	<u>\$ 153,271,554</u>	<u>\$ (3,395,081)</u>	<u>\$ -</u>	<u>\$ 2,517,872,374</u>
Depreciation Expense Charged to Operating Expenses		<u>\$ 66,605,940</u>			

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations

A summary of long-term debt outstanding at December 31, 2017 follows:

	Interest Rate		2017		2016
Wastewater Improvement Revenue					
Bonds, Series 2007:					
Serial Bonds Maturing 2018 through 2037	3.75%-5.00%	\$	-	\$	7,520,000
Wastewater Improvement Revenue					
Bonds, Series 2010:					
Serial Bonds Maturing 2026 through 2040	5.44%-6.04%		336,930,000		336,930,000
Wastewater Improvement Revenue					
Bonds, Series 2013:					
Serial Bonds Maturing 2020 through 2043	2.00%-5.00%		24,730,000		249,535,000
Wastewater Improvement Revenue					
Bonds, Series 2014A:					
Serial Bonds Maturing 2017 through 2049	3.37%-5.00%		336,570,000		350,570,000
Wastewater Improvement Revenue					
Bonds, Series 2014B:					
Serial Bonds Maturing 2018 through 2033	4.00%-5.00%		68,460,000		68,460,000
Wastewater Improvement Revenue					
Bonds, Series 2016:					
Serial Bonds Maturing 2017 through 2036	3.00%		22,115,000		25,015,000
Wastewater Improvement Revenue					
Bonds, Series 2017:					
Serial Bonds Maturing 2023 through 2043	3.00-5.00%		241,595,000		-
Water Pollution Control Loans Payable					
Through 2051	2.44%-5.20%		515,685,142		490,848,795
Total Debt			1,546,085,142		1,528,878,795
Less Current Maturities			(41,494,666)		(50,566,017)
Bond Premium, Net			53,956,171		59,612,854
Total Long-Term Debt		\$	1,558,546,647	\$	1,537,925,632

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

Wastewater Improvement Revenue Bonds, Series 2007

On May 22, 2007, the District issued \$126,055,000 of Wastewater Improvement Revenue Bonds, Series 2007. The Wastewater Improvement Revenue Bonds, Series 2007 Bonds (the "Series 2007 Bonds") were issued for the purpose of (i) providing funds for the acquisition, construction and improvement of Water Resource Projects, (ii) funding the Debt Service Reserve Requirement for the Series 2007 Bonds, and (iii) paying certain costs of issuance of the Series 2007 Bonds. These bonds are payable from the revenues of the District, after the payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on the monies and investments in the Revenue Bond Debt Service Deposit. The bonds were retired as of December 31, 2017.

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

On November 17, 2010, the District issued \$336,930,000 of Wastewater Improvement Revenue Bonds, Series 2010 (the "Series 2010 Bonds") as Federally Taxable - "Build America Bonds" for purposes consistent with the American Recovery and Reinvestment Act of 2009 (the "Recovery Act") and to receive a cash subsidy from the United States Treasury in connection therewith (the "Direct Payment"). Pursuant to the Recovery Act, the District is entitled to receive Direct Payments rebating a portion of the interest on the Build America Bonds from the United States Treasury equal to 35.0% of the interest payable on the Series 2010 Bonds. The Series 2010 Bonds were issued for the purpose of (i) providing funds for the acquisition, construction and improvement of wastewater facilities or water management facilities, constituting Water Resource Projects, including without limitation, the financing of 24 months of capitalized interest and (ii) paying the costs of issuance of the Series 2010 Bonds. These bonds are payable from the revenues of the District, after the payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on the monies and investments in the Revenue Bond Debt Service Deposit.

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

Build America Bonds Subsidy

Under the Build America Bonds agreement, the District is to receive 35.0% of the Bond interest as the Build America Bonds Subsidy. The subsidy payments amount received in 2017 was \$6,472,856, which is a reduction of \$468,544 due to the recent sequester by Congress. The subsidy payment for 2018 also has been reduced by 6.60% in the amount of \$458,132 and all future subsidy payments have been reduced by 6.60% based on 2017 reductions. Future payments may also be reduced by Congress on an annual basis. Below is a schedule of the amounts expected to be received in future years:

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

Year Ending December 31,	Subsidy Amount
2018	\$ 6,483,268
2019	6,483,268
2020	6,483,268
2021	6,483,268
2022	6,483,268
2023-2027	32,388,965
2028-2032	29,107,541
2033-2037	20,042,585
2038-2040	4,635,717
	<u>\$ 118,591,148</u>

Wastewater Improvement Revenue Bonds, Series 2013

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

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

Wastewater Improvement Revenue (2014A) and Refunding (2014B) Bonds, Series 2014

On December 18, 2014, the District issued \$419,030,000 of Wastewater Improvement Revenue and Refunding Bonds, Series 2014. The Wastewater Improvement Revenue and Refunding Bonds, Series 2014 Bonds (the "Series 2014 Bonds") were comprised of \$350,570,000 (2014A) for new bonds and \$68,460,000 (2014B) to refund a portion of the 2007 Wastewater Improvement Revenue Bonds previously issued on May 22, 2007. The Wastewater Improvement Revenue and Refunding Bonds, Series 2014 Bonds were issued for the purpose of (i) providing funds for the acquisition, construction and improvement of Water Resource Projects, (ii) paying certain costs of issuance of the Series 2014 Bonds and (iii) to refund a portion of 2007 Bonds. These bonds are payable from the revenues of the District, after the payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

Wastewater Improvement Revenue Refunding Bonds, Series 2016

The District issued \$25,015,000 of Wastewater Improvement Revenue Refunding Bonds, Series 2016 (the “2016 Series Bonds”), in connection with the advance refunding of its Wastewater Improvement Revenue Bonds, Series 2007 (the “2007 Series Bonds”). The 2016 Series Bonds are payable from the revenues of the District, after payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on monies and investments comprising the Revenue Bond Debt Service Deposit.

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

Wastewater Improvement Revenue Refunding Bonds, Series 2017

On September 20, 2017, the District issued \$241,595,000 of Wastewater Improvement Revenue Refunding Bonds, Series 2017 (the “2017 Series Bonds”), in connection with the advance refunding of its Wastewater Improvement Revenue Bonds, Series 2013 (the “2013 Series Bonds”). The 2017 Series Bonds are payable from the revenues of the District, after payment of operating and maintenance costs. The bonds are secured by a pledge of and lien on such net revenues. Revenues include all revenues (with certain exceptions) derived by the District from its ownership and operation of the System, which comprises its wastewater collection and wastewater treatment and disposal facilities. The bonds are additionally secured by a pledge of and lien on monies and investments comprising the Revenue Bond Debt Service Deposit.

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

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. 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 2007, 2010, 2013, 2014, 2016 and 2017 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 the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

Water Pollution Control Loans (continued)

The repayment period for each loan commences no later than the first January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. The District is required to submit final eligible project costs within one year of the project completion date at which time the final loan amount is determined, and semi-annual payment amounts are adjusted to reflect such costs. The District had a SRF loan award related to a project which was not complete as of December 31, 2017. Loans related to completed construction projects are being repaid in semi-annual payments of principal and interest over a period of up to twenty-three years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2017 follow:

Completion or Expected Completion Year of Projects	Number of Projects	Current Amount Including Accrued Construction Period Interest	Additional Available Borrowings Including Construction Period Interest
1993 – 2016	41	\$ 402,483,509	\$ 3,224,742
2017 – 2020	9	113,201,633	183,469,006
		\$ 515,685,142	\$ 186,693,748

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

In 2005, the District issued \$68,280,000 in Wastewater Improvement Revenue Refunding bonds, Series 2005 to advance refund and defease the Series 1995 Wastewater Improvement Refunding Bonds of \$64,165,000. 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, 2016, none of the defeased debt remained outstanding. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$3,413,626. This difference, reported in the accompanying statements of net position as a deduction from long-term debt, is being charged to operations through the year 2017 using the weighted average method. There was no unamortized balance of the deferred charge on refunding at December 31, 2016. The Series 2005 Bonds were not subject to redemption at the option of the District prior to their stated maturity.

In 2014, the District issued \$68,460,000 in Wastewater Improvement Revenue Refunding bonds (2014B) to refund a portion of the 2007 Wastewater Improvement Revenue Bonds previously issued on May 22, 2007 of \$72,940,000. 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 refunded portion of the series 2007 wastewater improvement bonds. As a result, that portion of the 2007 series bonds is considered defeased, and the District has removed the liability from its accounts. As the result of refunding, total debt service payments were reduced over the next 18 years by \$6,908,449. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$4,966,923. As of December 31, 2017, \$68,460,000 of the portion of refunded debt remained outstanding. The Series 2007 Bonds were not subject to redemption at the option of the District prior to their stated maturity.

In 2016, the District issued \$25,015,000 in Wastewater Improvement Revenue Refunding bonds, Series 2016 to advance refund and defease the Series 2007 Wastewater Improvement Refunding Bonds of \$23,700,000. 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 2007 wastewater improvement bonds. As a result, that portion of the 2007 wastewater improvement bonds are considered defeased, and the District has removed the liability from its accounts. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$3,203,519. This difference, reported in the accompanying statements of net position as a deduction from long-term debt, is being charged to operations through the year 2016 using the weighted average method. There was no unamortized balance of the deferred charge on refunding at December 31, 2017. As of December 31, 2017, \$22,115,000 of the portion of refunded debt remained outstanding. The Series 2016 Bonds are not subject to redemption at the option of the District prior to their stated maturity.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

In 2017, the District issued \$241,595,000 in Wastewater Improvement Revenue Refunding bonds, Series 2017 to advance refund and defease the Series 2013 Wastewater Improvement Refunding Bonds of \$224,805,000. 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 2013 wastewater improvement bonds. As a result, that portion of the 2013 wastewater improvement bonds are considered defeased, and the District has removed the liability from its accounts. As the result of refunding, total debt service payments were reduced over the next 26 years by \$18,043,899. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt in the amount of \$16,984,749. This difference, reported in the accompanying statements of net position as a deduction from long-term debt, is being charged to operations through the year 2017 using the weighted average method. There was \$16,697,759 unamortized balance of the deferred charge on refunding at December 31, 2017. As of December 31, 2017, \$241,595,000 of the portion of refunded debt remained outstanding. The Series 2017 Bonds maturing before November 15, 2028 are not subject to optional redemption prior to maturity. The Series 2017 Bonds maturing on or after November 15, 2028 shall be subject to redemption prior to maturity at the option of the District in whole or in part, at any time on or after May 15, 2028 from any moneys available therefor, in the maturities designated by the District for redemption, at the redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the date fixed for the redemption.

In 2017, the final outstanding maturity of \$7,520,000 of Wastewater Improvement Revenue bonds, Series 2007, was called and paid with funds that were placed in an escrow account at the time of issuance.

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, 2017 follows:

	Wastewater Improvement Revenue Bonds Series 2010		Wastewater Improvement Revenue Bonds Series 2013	
	Principal	Interest	Principal	Interest
2018	\$ -	\$ 13,349,305	\$ -	\$ 951,850
2019	-	13,349,305	-	951,850
2020	-	13,349,305	4,515,000	951,850
2021	-	13,349,305	3,850,000	801,250
2022	-	13,349,305	1,915,000	666,750
2023-2027	11,360,000	66,690,157	-	2,890,000
2028-2032	73,850,000	59,933,576	5,950,000	2,652,000
2033-2037	135,785,000	41,268,474	8,500,000	340,000
2038-2040	115,935,000	9,545,128	-	-
Total	\$ 336,930,000	\$ 244,183,860	\$ 24,730,000	\$ 10,205,550

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

Future Debt Service Requirements (continued)

	Wastewater Improvement Revenue Bonds Series 2014A		Wastewater Improvement Revenue Bonds Series 2014B	
	Principal	Interest	Principal	Interest
	2018	\$ 3,985,000	\$ 15,500,025	\$ 3,020,000
2019	3,000,000	15,300,775	3,155,000	3,054,213
2020	-	15,150,775	3,225,000	2,986,000
2021	-	15,150,775	3,385,000	2,824,750
2022	-	15,150,775	3,550,000	2,655,500
2023-2027	3,515,000	75,668,125	20,335,000	10,718,550
2028-2032	12,370,000	73,834,625	25,825,000	5,219,500
2033-2037	21,825,000	70,012,350	5,965,000	247,350
2038-2042	38,575,000	63,562,500	-	-
2043-2047	165,150,000	44,249,350	-	-
2048-2049	88,150,000	5,846,400	-	-
Total	\$ 336,570,000	\$ 409,426,475	\$ 68,460,000	\$ 30,911,075

	Wastewater Improvement Revenue Refunding Bonds Series 2016		Wastewater Improvement Revenue Refunding Bonds Series 2017	
	Principal	Interest	Principal	Interest
	2018	\$ 160,000	\$ 663,450	\$ -
2019	165,000	658,650	555,000	9,646,213
2020	170,000	653,700	585,000	9,618,464
2021	175,000	648,600	615,000	9,589,213
2022	180,000	643,350	645,000	9,558,462
2023-2027	1,000,000	3,131,250	18,610,000	46,393,062
2028-2032	1,155,000	2,972,700	27,435,000	40,085,312
2033-2037	19,110,000	1,716,150	50,315,000	33,106,512
2038-2042	-	-	114,515,000	19,355,312
2043-2047	-	-	28,320,000	1,132,800
Total	\$ 22,115,000	\$ 11,087,850	\$ 241,595,000	\$ 188,828,233

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

Future Debt Service Requirements (continued)

	Water Pollution Control Loans		Future Debt Service Requirements Total	
	Principal	Interest	Principal	Interest
2018	\$ 34,329,666	\$ 10,277,259	\$ 41,494,665	\$ 54,289,984
2019	35,945,321	10,633,679	42,820,321	53,594,685
2020	35,253,320	11,146,476	43,748,320	53,856,570
2021	35,403,751	10,521,907	43,428,751	52,885,800
2022	36,105,269	9,675,246	42,395,269	51,699,388
2023-2027	151,077,365	34,166,846	205,897,365	239,657,990
2028-2032	101,314,296	17,401,435	247,899,296	202,099,148
2033-2037	64,135,465	6,128,762	305,635,465	152,819,598
2038-2042	16,634,210	1,042,901	285,659,210	93,505,841
2043-2047	3,117,270	400,594	196,587,270	45,782,744
2048-2051	2,369,209	100,057	90,519,210	5,946,457
Total	\$ 515,685,142	\$ 111,495,162	\$ 1,546,085,142	\$ 1,006,138,205

Bond premium and discount activity for 2017 and 2016 are as follows:

<u>December 31, 2017</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2007	\$ 7,088	\$ (7,088)	\$ -	\$ -	\$ -
Bond Premium, Series 2013	23,500,084	(1,681,868)	(19,959,597)	-	1,858,619
Bond Premium, Series 2014A	27,394,799	(2,291,767)	-	-	25,103,032
Bond Premium, Series 2014B	8,736,888	(1,293,670)	-	-	7,443,218
Bond Discount, Series 2016	(26,005)	3,592	-	-	(22,413)
Bond Premium, Series 2017	-	(573,360)	-	20,147,075	19,573,715
Total	\$ 59,612,854	\$ (5,844,161)	\$ (19,959,597)	\$ 20,147,075	\$ 53,956,171

<u>December 31, 2016</u>	Beginning Balance	Amortized	Refunded	Issued	Ending Balance
Bond Premium, Series 2005	\$ 49,537	\$ (49,537)	\$ -	\$ -	\$ -
Bond Premium, Series 2007	497,761	(13,904)	(476,769)	-	7,088
Bond Premium, Series 2013	25,728,232	(2,228,148)	-	-	23,500,084
Bond Premium, Series 2014A	30,019,923	(2,625,124)	-	-	27,394,799
Bond Premium, Series 2014B	10,207,483	(1,470,595)	-	-	8,736,888
Bond Discount, Series 2016	-	3,982	-	(29,987)	(26,005)
Total	\$ 66,502,936	\$ (6,383,326)	\$ (476,769)	\$ (29,987)	\$ 59,612,854

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

Long-term debt activity for the year is as follows:

<u>December 31, 2017</u>	Beginning Balance	Additions	Reductions	Ending Balance	Due in 2018
Wastewater Improvement Revenue Bonds, Series 2007	\$ 7,520,000	\$ -	\$ (7,520,000)	\$ -	\$ -
Wastewater Improvement Revenue Bonds, Series 2010	336,930,000	-	-	336,930,000	-
Wastewater Improvement Revenue Bonds, Series 2013	249,535,000	-	(224,805,000)	24,730,000	-
Wastewater Improvement Revenue Bonds, Series 2014A	350,570,000	-	(14,000,000)	336,570,000	3,985,000
Wastewater Improvement Revenue Refunding Bonds, Series 2014B	68,460,000	-	-	68,460,000	3,020,000
Wastewater Improvement Revenue Refunding Bonds, Series 2016	25,015,000	-	(2,900,000)	22,115,000	160,000
Wastewater Improvement Revenue Refunding Bonds, Series 2017	-	241,595,000	-	241,595,000	-
Water Pollution Control Loans	490,848,795	59,559,242	(34,722,895)	515,685,142	34,329,666
Net Pension Liability - OPERS	58,226,111	19,433,094	-	77,659,205	-
Total	\$ 1,587,104,906	\$ 320,587,336	\$ (283,947,895)	\$ 1,623,744,347	\$ 41,494,666

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 6: Long-Term Obligations (continued)

Long-term debt activity for the year is as follows (continued):

<u>December 31, 2016</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due in 2017</u>
Wastewater Improvement Revenue Refunding Bonds, Series 2005	\$ 13,950,000	\$ -	\$ (13,950,000)	\$ -	\$ -
Wastewater Improvement Revenue Bonds, Series 2007	34,110,000	-	(26,590,000)	7,520,000	-
Wastewater Improvement Revenue Bonds, Series 2010	336,930,000	-	-	336,930,000	-
Wastewater Improvement Revenue Bonds, Series 2013	249,535,000	-	-	249,535,000	-
Wastewater Improvement Revenue Bonds, Series 2014A	350,570,000	-	-	350,570,000	14,000,000
Wastewater Improvement Revenue Refunding Bonds, Series 2014B	68,460,000	-	-	68,460,000	-
Wastewater Improvement Revenue Refunding Bonds, Series 2016	-	25,015,000	-	25,015,000	2,900,000
Water Pollution Control Loans	497,778,277	28,899,633	(35,829,115)	490,848,795	33,666,017
Net Pension Liability - OPERS	40,528,251	17,697,860	-	58,226,111	-
Total	\$ 1,591,861,528	\$ 71,612,493	\$ (76,369,115)	\$ 1,587,104,906	\$ 50,566,017

Note 7: Pension Plans

Net Pension Liability

The net pension liability reported on the statements of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

Net Pension Liability (continued)

The net pension liability (asset) represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *accrued wages and benefits* on the accrual basis of accounting.

Ohio Public Employees Retirement System (OPERS)

Plan Description - District employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. District employees may elect the member-directed plan and the combined plan, employee members are in OPERS' traditional and combined plans; therefore, the following disclosure focuses on the traditional and combined pension plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earning over a members career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount.

The traditional pension plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary (FAS). Pension benefits are funded by both member and employer contributions and investment earnings on those contributions.

The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three-member groups under the traditional plan (see OPERS CAFR referenced above for additional information). The formulas for 2017 remained the same as 2016.

Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements:	Age and Service Requirements:	Age and Service Requirements:
Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula:	Formula:	Formula:
2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

When a benefit recipient under the traditional plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided on the member's base benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the traditional plan.

The combined plan is a defined benefit plan with elements of a defined contribution plan. Members earn a formula benefit similar to, but at a factor less than the traditional pension plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement, the member may choose a defined contribution distribution that is equal to the member's contributions to the plan and investment earnings (or losses). Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

Benefits in the combined plan consist of both an age-and-service formula benefit (the defined benefit element) and a defined contribution element. Eligibility regarding age and years of service in the combined plan is the same as the traditional pension plan. The subsequent table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three-member groups under the combined pension plan (see OPERS CAFR referenced above for additional information). The 2017 service formula used to compute the benefit remained unchanged from 2016.

The combined plan service benefit formula varies from the traditional plan and is in the table shown below:

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in the other Groups and members hired on or after January 7, 2013
<p>Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit</p> <p>Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30</p>	<p>State and Local State Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit</p> <p>Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30</p>	<p>Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit</p> <p>Formula: 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% years for service years in excess of 35</p>

Members retiring under the combined plan receive a 3 percent COLA on the defined benefit portion of their benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the combined plan.

Funding Policy - applicable to traditional, combined and member-directed plans: The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in the state and local classifications. Members in state and local classifications contributed 10 percent of covered payroll.

The District's 2016/2017 contribution rate remained at 14.0 percent of covered payroll. The portion of employer's contribution allocated to health care was 1.0 percent and 2.0 percent respectively for calendar years 2017 and 2016. The healthcare-redirected employer contribution funding percentage was reduced in 2017. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The District's contractually required contribution was \$7,191,611 for 2017 and \$5,167,208 for 2016. Of these amounts, \$836,339 and \$88,070 are reported as an intergovernmental payable for 2017 and 2016, respectively.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The active member population which consists of members in the traditional and combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

The total pension liability/asset for the measurement periods December 31, 2016 and December 31, 2015 were determined using the following actuarial assumptions that follow and as applied to all periods included in the measurement:

Key Methods and Assumptions Used in Valuation of Total Pension Liability – 2016

<u>Actuarial Information</u>	<u>OPERS Traditional Plan</u>	<u>OPERS Combined Plan</u>
Valuation Date	December 31, 2016	December 31, 2016
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
<u>Actuarial Assumptions:</u>		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increase	3.25-10.05%	3.25-8.25%
COLA:	(includes 3.25% wage inflation)	(includes 3.25% wage inflation)
Pre-Jan 7, 2013 Retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 Retirees	3.00% Simple through 2018 then 2.15% Simple	3.00% Simple through 2018 then 2.15% Simple

Key Methods and Assumptions Used in Valuation of Total Pension Liability – 2015

<u>Actuarial Information</u>	<u>OPERS Traditional Plan</u>	<u>OPERS Combined Plan</u>
Valuation Date	December 31, 2015	December 31, 2015
Experience Study	5-year period ended December 31, 2010	5-year period ended December 31, 2010
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
<u>Actuarial Assumptions:</u>		
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.25%
Projected Salary Increase	4.25-10.05%	3.25-8.25%
COLA:	(includes 3.75% wage inflation)	(includes 3.75% wage inflation)
Pre-Jan 7, 2013 Retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 Retirees	3.00% Simple through 2018 then 2.8% Simple	3.00% Simple through 2018 then 2.8% Simple

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

For the current valuation, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables. The most recent experience study was completed for the five-year period ended December 31, 2015.

For the prior valuation, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used. The prior experience study was completed for the five-year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefits portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the traditional pension plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the member-directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, expressing investment performance, net of investments expense and adjusted for the changing amounts actually invested for the Defined Benefit portfolio is 8.3 percent for 2016. The money-weighted rate of return, net of investment expenses, was 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

The table below displays the Board-approved asset allocation policy for years 2016 and 2015 and the long-term expected real rates of return:

Weighted Average Long-Term Expected Real Rate of Return

Asset Class	2016 Allocation	2016 (Arithmetic)	2015 Allocation	2015 (Arithmetic)
Fixed Income	23.00 %	2.75 %	23.00 %	2.31 %
Domestic Equities	20.70	6.34	20.70	5.84
Real Estate	10.00	4.75	10.00	4.25
Private Equity	10.00	8.97	10.00	9.25
International Equities	18.30	7.95	18.30	7.40
Other investments	<u>18.00</u>	<u>4.92</u>	<u>18.00</u>	<u>4.59</u>
Total	100.00 %	5.66 %	100.00 %	5.27 %

Discount Rate The discount rate used to measure the total pension liability for 2016 and 2015 was 7.5 and 8.0 percent, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Agency's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower or one- percentage-point higher than the current discount rate:

2016 District's Proportionate Share of the Net Pension Liability (Asset)	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's Proportionate Share			
Traditional	\$ 118,641,783	\$ 77,659,205	\$ 43,507,459
Combined	23,351	(324,913)	(595,455)
2015 District's Proportionate Share of the Net Pension Liability (Asset)	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's Proportionate Share			
Traditional	\$ 92,768,419	\$ 58,226,111	\$ 29,090,767
Combined	(5,313)	(258,537)	(462,222)

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

The net pension liability for OPERS as of December 31, 2017 and 2016, was measured as of December 31, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the Agency's share of contributions to the pension plan relative to the contributions of all participating entities. Subsequent payments made during the current fiscal year are accounted for as deferred outflows. The following table reflects the proportionate share of pension expense for the current and prior year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability (asset) for OPERS as of December 31, 2017 was measured as of December 31, 2016, and the total pension liability (asset) used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability (asset) was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional	OPERS Combined	Total
Proportionate Share of the Net Pension Liability (Asset)	\$ 77,659,205	\$ (324,913)	\$ 77,334,292
Proportion Share of the Net Pension Liability (Asset)	0.341986%	0.583779%	
Pension Expense	\$ 16,375,717	\$ 227,308	\$ 16,603,025

The net pension liability (asset) for OPERS as of December 31, 2016 was measured as of December 31, 2015, and the total pension liability (asset) used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability (asset) was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional	OPERS Combined	Total
Proportionate Share of the Net Pension Liability (Asset)	\$ 58,226,111	\$ (258,537)	\$ 57,967,574
Proportionate Share of the Net Pension Liability (Asset)	0.336154%	0.531290%	
Pension Expense	\$ 8,749,479	\$ 168,096	\$ 8,917,575

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	OPERS Traditional	OPERS Combined	Total
Deferred Outflows of Resources			
District contributions subsequent to the measurement date	\$ 6,800,173	\$ 391,438	\$ 7,191,611
Differences between expected and actual experiences	105,261	-	105,261
Changes of assumptions	12,317,701	79,188	12,396,889
Net difference between projected and actual earnings on pension plan investments	11,565,247	79,274	11,644,521
Changes in proportion and differences between District contributions and proportionate share of contributions	212,330	-	212,330
Total Deferred Outflows of Resources	\$ 31,000,712	\$ 549,900	\$ 31,550,612
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 462,189	\$ 166,172	\$ 628,361
Differences in employer contributions and change in proportionate share	7,223	32,651	39,874
Total Deferred Inflows of Resources	\$ 469,412	\$ 198,823	\$ 668,235

\$7,191,611 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31,	OPERS Traditional	OPERS Combined	Total
2018	\$ 9,799,669	\$ 11,318	\$ 9,810,987
2019	10,150,551	11,318	10,161,869
2020	4,119,914	7,888	4,127,802
2021	(339,007)	(20,203)	(359,210)
2022	-	(17,238)	(17,238)
2023-2026	-	(33,444)	(33,444)
Total	\$ 23,731,127	\$ (40,361)	\$ 23,690,766

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 7: Pension Plans (continued)

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional	OPERS Combined	Total
Deferred Outflows of Resources			
District contributions subsequent to the measurement date	\$ 4,904,484	\$ 262,724	\$ 5,167,208
Net difference between projected and actual earnings on pension plan investments	17,114,839	111,626	17,226,465
Total Deferred Outflows of Resources	\$ 22,019,323	\$ 374,350	\$ 22,393,673
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ 1,125,042	\$ 117,973	\$ 1,243,015
Differences in employer contributions and change in proportionate share	462,304	28,384	490,688
Total Deferred Inflows of Resources	\$ 1,587,346	\$ 146,357	\$ 1,733,703

\$5,167,208 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ending December 31, 2017.

Note 8: Post-Employment Benefits

Ohio Public Employees Retirement System

Plan Description

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.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2017, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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. Please see the Plan Statement in the OPERS 2016 CAFR for details.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 8: Post-Employment Benefits (continued)

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0%.

District Contributions

The District’s contributions to fund post-employment health care benefits for all three plans for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Contribution Rate as a % of earnable salaries	<u>2017</u>	Contribution Rate as a % of earnable salaries	<u>2016</u>	Contribution Rate as a % of earnable salaries	<u>2015</u>
By Statutory Authority	14.00%	\$7,749,327	14.00%	\$7,031,605	14.00%	\$6,674,213
Less: Health Care Portion	1.00%	<u>(553,523)</u>	2.00%	<u>(1,004,113)</u>	1.00%	<u>(958,364)</u>
Required-Employer Contribution		<u>\$7,195,804</u>		<u>\$6,027,492</u>		<u>\$5,715,849</u>

For 2017, 88.4% has been contributed with the balance being reported as a payable. The full amount has been contributed for 2016 and 2015.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

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 Voya 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 December 31, 2017, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

Note 10: Risk Management

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

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

	Beginning Balance	Claims Paid	Increase in Estimate	Ending Balance
2017	\$ 99,652	\$ (61,157)	\$ 34,038	\$ 72,533
2016	\$ 124,072	\$ (69,077)	\$ 44,657	\$ 99,652

Estimated liabilities are not material with respect to the financial position of the District. The claims liability is included in other accrued liabilities in the accompanying statements of net position and the balance as of December 31, 2017 is estimated to be paid during the year ending December 31, 2018. The District's insurance reserves as of December 31, 2017 and 2016 were \$21,771,932 and \$22,418,833; respectively and are included in short-term investments on the District's statements of net position.

Employee Health Benefits

The District manages the hospital/medical, dental, vision, prescription and hearing insurance benefits for its employees on a self-insured basis using an accrued liability account that is included in the other accrued liabilities in the accompanying statements of net position. A third-party administrator processes and pays the claims. An excess coverage insurance (stop loss) policy covers claims in excess of \$150,000 per claim, per year.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 10: Risk Management (continued)

The claims liability of \$996,419 reported at December 31, 2017, was estimated by reviewing current claims and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. The balance as of December 31, 2017 is estimated to be paid during the year ending December 31, 2018. Any liability for outstanding claims at December 31, 2016 are deemed immaterial by management.

Changes in the claims liability amount in 2017 and 2016 were as follows:

	Beginning of Year	Current year Claims	Claims Payment	End of Year
2017	\$ -	\$ 9,969,216	\$ (8,972,797)	\$ 996,419
2016	-	8,141,497	(8,141,497)	-

Note 11: Commitments and Contingencies

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

In August 2009, the Board of Trustees approved to enter into a Project and Financing Agreement with the City of Pepper Pike for a maximum loan amount of \$1,715,000 at a simple interest rate of 3.5%. As of December 31, 2017, and 2016, \$308,567 and \$508,567; respectively, are included in the receivables from Federal, State and other agencies on the accompanying statements of net position. The parties entered into a revised, “interest-free” repayment agreement, to repay the loan over a five-year period.

Combined Sewer Overflows Long-Term Control Plan

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

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 11: Commitments and Contingencies (continued)

Upon approval of the Consent Decree, the District paid civil penalties to the United States and State of Ohio in cash in the amount of \$1.2 million. To mitigate additional civil penalties, the District implemented a federal Supplemental Environmental Project (SEP) in the amount of \$1 million to provide for the collection and disposal of household hazardous waste. In 2010, the District entered into an agreement with the Cuyahoga County Solid Waste Management District to satisfy the federal SEP obligation. As such, the District has recorded \$6,393 and \$97,641 as other accrued liabilities on the accompanying statements of net position as of December 31, 2017 and 2016.

In addition, the District is obligated to implement a State SEP known as the Canal Pump Station Operation and Maintenance Project, estimated at \$800,000, or implement an Alternate SEP by making a cash payment of \$800,000 to Ohio EPA. As of December 31, 2017, the District has removed the liability of \$800,000 due to the new settlement reached with EPA as part of our CSO Consent Decree which requires the District to operate/maintain (for a minimum of 25 years) a future Pump Station that will be designed/constructed by others. The project will be constructed under a design-build contract paid for and administered by others. As of December 31, 2016, the District has recorded \$800,000 as part of the long-term accrued liabilities to recognize this obligation pending final decision from Ohio EPA.

Other Litigation

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

Note 12: Fair Value Measurements

The District uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. U.S. Government Obligations and Fixed Income Securities are valued at the closing price reported on the over-the-counter market on which the individual securities are traded. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information which has been internally developed.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 12: Fair Value Measurements (continued)

Financial assets at December 31, 2017 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/2017</u>
<u>Short -Term Investments</u>				
Money Market Funds	\$ 114,713,258	\$ -	\$ -	\$ 114,713,258
CDs	3,163,692	-	-	3,163,692
Fixed Income Securities	-	48,072,937	-	48,072,937
U.S. Gov't Obligations	-	89,936,916	-	89,936,916
<u>Long-Term Investments</u>				
Fixed Income Securities	-	35,666,163	-	35,666,163
U.S. Gov't Obligations	-	14,973,551	-	14,973,551
<u>Revenue Bond Debt Service Fund</u>				
Money Market Funds	1,611,300	-	-	1,611,300
Fixed Income Securities	-	14,860,739	-	14,860,739
	<u>\$ 119,488,250</u>	<u>\$ 203,510,306</u>	<u>\$ -</u>	<u>\$ 322,998,556</u>

Financial assets at December 31, 2016 consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total at 12/31/2016</u>
<u>Bond Proceeds</u>				
Money Market Funds	\$ 33,566,481	\$ -	\$ -	\$ 33,566,481
U.S. Gov't Obligations	-	6,500,312	-	6,500,312
<u>Short -Term Investments</u>				
Money Market Funds	62,083,613	-	-	62,083,613
CDs	3,253,618	-	-	3,253,618
Fixed Income Securities	-	75,226,533	-	75,226,533
U.S. Gov't Obligations	-	82,691,160	-	82,691,160
<u>Long-Term Investments</u>				
Fixed Income Securities	-	58,964,271	-	58,964,271
U.S. Gov't Obligations	-	50,135,512	-	50,135,512
<u>Revenue Bond Debt Service Fund</u>				
Money Market Funds	2,254,033	-	-	2,254,033
Fixed Income Securities	-	25,489,644	-	25,489,644
	<u>\$ 101,157,745</u>	<u>\$ 299,007,432</u>	<u>\$ -</u>	<u>\$ 400,165,177</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to the Basic Financial Statements

December 31, 2017 and 2016

Note 13: Changes in Accounting Principles

For the year ended December 31, 2017, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions*, GASB Statement No 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, and GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions for making decisions and assessing accountability. The implementation of this GASB pronouncement did not result in any changes to the District's financial statements.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of this GASB pronouncement did not result in any changes to the District's financial statements.

GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this GASB pronouncement did not result in any changes to the District's financial statements.

Pronouncements Issued but Not Effective GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued in June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. This replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for Other Postemployment Benefits (OPEB). The District has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.



3900 Euclid Avenue
Cleveland, Ohio 44115
(216) 881-6600 • neorsd.org

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Required Supplementary Information

**Schedule of the District's Proportionate Share of the Net Pension Liability and Asset
Ohio Public Employees Retirement System - Traditional and Combined Plans**

For the Last Four Years (1) *

<u>Traditional Plan</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability	0.341986%	0.336154%	0.336024%	0.336024%
District's Proportionate Share of the Net Pension Liability	\$ 77,659,205	\$ 58,226,111	\$ 40,528,251	\$ 39,612,852
District's Covered Payroll	\$ 40,870,702	\$ 49,435,775	\$ 48,528,228	\$ 42,139,663
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	190.01%	117.78%	83.51%	94.00%
Plan Fiduciary Net Position as a Percentage of the Pension Liability	77.25%	81.08%	86.45%	86.36%
<u>Combined Plan</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Asset	0.583779%	0.531290%	0.535543%	0.535543%
District's Proportionate Share of the Net Pension Asset	\$ 324,913	\$ 258,537	\$ 206,196	\$ 56,194
District's Covered Payroll	\$ 2,189,367	\$ 2,275,217	\$ 2,233,128	\$ 1,939,145
District's Proportionate Share of the Net Pension Asset as a Percentage of Its Covered Payroll	14.84%	11.36%	9.23%	2.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	116.55%	116.90%	114.83%	N/A

(1) Information prior to 2014 is not available.

* Amounts presented for each year were determined as of the District's measurement date, which is the prior year-end.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Required Supplementary Information

**Schedule of the District Contributions
Ohio Public Employees Retirement System - Traditional Plan**

For the Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 6,800,173	\$ 4,904,484	\$ 5,932,293	\$ 5,823,387	\$ 5,478,156
Contributions in Relation to Contractually Required Contributions	(6,800,173)	(4,904,484)	(5,932,293)	(5,823,387)	(5,478,156)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 52,309,025	\$ 40,870,702	\$ 49,435,775	\$ 48,528,228	\$ 42,139,663
Contribution as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contributions	\$ 5,244,880	\$ 4,944,124	\$ 4,839,569	\$ 4,726,331	\$ 4,418,715
Contributions in Relation to Contractually Required Contributions	(5,244,880)	(4,944,124)	(4,839,569)	(4,726,331)	(4,418,715)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 52,448,799	\$ 49,441,242	\$ 53,772,993	\$ 55,603,893	\$ 63,124,493
Contribution as a Percentage of Covered Payroll	10.00%	10.00%	9.00%	8.50%	7.00%

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Required Supplementary Information

**Schedule of the District Contributions
Ohio Public Employees Retirement System - Combined Plan**

For the Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 391,438	\$ 262,724	\$ 273,026	\$ 267,975	\$ 252,089
Contributions in Relation to Contractually Required Contributions	(391,438)	(262,724)	(273,026)	(267,975)	(252,089)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 3,011,061	\$ 2,189,367	\$ 2,275,217	\$ 2,233,128	\$ 1,939,145
Contribution as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually Required Contributions	\$ 241,354	\$ 227,514	\$ 222,703	\$ 217,492	\$ 203,336
Contributions in Relation to Contractually Required Contributions	(241,354)	(227,514)	(222,703)	(217,492)	(203,336)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 2,413,542	\$ 2,275,143	\$ 2,474,477	\$ 2,558,730	\$ 2,904,806
Contribution as a Percentage of Covered Payroll	10.00%	10.00%	9.00%	8.50%	7.00%

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Required Supplementary Information

For the Years Ended December 31, 2017 and 2016

Note 1: Change in Assumptions – OPERS Traditional and Combined Plans

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	<u>2017</u>	<u>2016 and Prior</u>
Wage Inflation	3.25%	3.75%
Future Salary Increases, Including Inflation	3.25-10.75% (including wage inflation at 3.25%)	4.25-10.05% (including wage inflation)
COLA or Ad Hoc COLA: Pre-Jan 7, 2013 Retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 Retirees	3.00% Simple through 2018 then 2.15% Simple	3.00% Simple through 2018 then 2.8% Simple
Investment Rate of Return	7.50%	8.00%
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For the current valuation, mortality rates are based on the RP-2014 Healthy Annuitant Mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For the prior valuation, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2015. The prior experience study was completed for the five-year period ended December 31, 2010.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
User Charges:				
Billed	\$ 347,565,895	\$ 347,565,895	\$ 341,312,962	\$ (6,252,933)
Other Revenue	2,287,895	2,287,895	2,567,476	279,581
 Total Revenues	 <u>349,853,790</u>	 <u>349,853,790</u>	 <u>343,880,438</u>	 <u>(5,973,352)</u>
<u>Expenses:</u>				
Salary and Wages	55,909,948	55,909,948	53,498,024	2,411,924
Fringe Benefits	20,323,238	20,323,238	29,418,128	(9,094,890)
Power	11,089,090	11,089,090	10,052,193	1,036,897
Materials and Supplies	6,985,999	6,985,999	7,088,671	(102,672)
Collection Fees	8,771,200	8,771,200	8,506,812	264,388
Gas	1,579,755	1,579,755	1,326,027	253,728
Chemicals	3,044,462	3,044,462	2,062,888	981,574
Repairs and Maintenance	3,216,420	3,216,420	3,172,685	43,735
Solids Handling	2,202,519	2,202,519	1,546,734	655,785
Water	1,175,531	1,175,531	1,159,576	15,955
Professional Services	32,808,088	32,808,088	23,678,268	9,129,820
Insurance	960,000	960,000	762,390	197,610
Judgements and Awards	140,000	140,000	13,403	126,597
Other Operating Expenses	28,825,849	28,825,849	18,967,933	9,857,916
Capitalized Construction Costs	(9,000,000)	(9,000,000)	(8,323,277)	(676,723)
Depreciation	67,500,000	67,500,000	71,496,416	(3,996,416)
 Total Operating Expenses	 <u>235,532,099</u>	 <u>235,532,099</u>	 <u>224,426,871</u>	 <u>11,105,228</u>
 Excess of Revenues Over Operating Expenses	 <u>\$ 114,321,691</u>	 <u>\$ 114,321,691</u>	 <u>\$ 119,453,567</u>	 <u>\$ 5,131,876</u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the Year Ended December 31, 2017

Reconciliation to Change in Net Position:

Excess of Operating Revenues Over Operating Expenses	\$	119,453,567
Interest Revenue		3,833,084
Decrease in Fair Value of Investments, Net		(518,063)
Non-Operating Grant Revenue		206,905
Non-Operating Grant Expenses		(97,733)
Loss on Disposals of Equipment		(301,070)
Interest Expense on Long-Term Debt		(58,980,224)
Green Infrastructure Program		(1,318,460)
Member Infrastructure Community Program		(3,118,863)
Stormwater Community Cost Share Disbursement		(2,626,418)
Proceeds on Insurance Claims		7,112
Federal Subsidy Revenue		<u>6,472,856</u>
Change in Net Position		63,012,693
Net Position at Beginning of Year		<u>1,426,355,542</u>
Net Position at End of Year	\$	<u><u>1,489,368,235</u></u>

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2017

Note 1: Summary of Significant Accounting Policies

Budgetary Basis of Accounting

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

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

Requests for capital project expenditures must be approved by the Board of Trustees and/or the Chief Executive Officer, as appropriate, and require certification of available funds by the Chief Financial Officer. Board approval is required for all operating and capital purchases of goods and services in excess of \$50,000. All budget appropriations lapse on December 31 of each year. 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.



Statistical section

UNAUDITED



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STATISTICAL SECTION (UNAUDITED)

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

Contents	Page
Financial Trends <i>These schedules contain trend information to help the reader understand the District's financial performance and well-being and how they have changed over time.</i>	72
Revenue Capacity <i>These schedules contain information to help the reader assess the District's most significant revenue source, user charges.</i>	76
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>	84
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>	86
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>	88
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>	96

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>Restated 2014(2)</u>	<u>2013</u>
Net Investment in Capital Assets	\$ 1,107,066,113	\$ 990,664,879	\$ 786,650,331	\$ 1,018,734,360	\$ 1,067,650,046
Unrestricted	<u>382,302,122</u>	<u>435,690,663</u>	<u>571,255,854</u>	<u>284,669,454</u>	<u>248,677,688</u>
Total	<u>\$ 1,489,368,235</u>	<u>\$ 1,426,355,542</u>	<u>\$ 1,357,906,185</u>	<u>\$ 1,303,403,814</u>	<u>\$ 1,316,327,734</u>

Note:

(1) 2012, 2011 restated to comply with GASB 65.

(2) 2014 restated to comply with GASB 68.

Source: District accounting records.

<u>Restated 2012 (1)</u>	<u>Restated 2011 (1)</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 1,065,405,939	\$ 1,055,247,281	\$ 1,038,270,319	\$ 1,006,102,174	\$ 995,487,741
<u>235,652,225</u>	<u>238,611,550</u>	<u>251,770,264</u>	<u>273,486,822</u>	<u>280,572,507</u>
<u><u>\$ 1,301,058,164</u></u>	<u><u>\$ 1,293,858,831</u></u>	<u><u>\$ 1,290,040,583</u></u>	<u><u>\$ 1,279,588,996</u></u>	<u><u>\$ 1,276,060,248</u></u>

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

	2017	2016	2015	2014	2013
<u>Operating Revenues, Net - Sewage</u>					
Billing Agents	\$ 273,964,177	\$ 266,840,893	\$ 237,570,432	\$ 220,621,174	\$ 192,601,300
Direct Billed	22,848,020	17,970,171	16,684,685	17,685,946	16,227,994
Other (1)	2,567,476	1,972,379	5,428,088	878,279	960,830
Total Operating Revenues, Net - Sewage	<u>299,379,673</u>	<u>286,783,443</u>	<u>259,683,205</u>	<u>239,185,399</u>	<u>209,790,124</u>
<u>Operating Revenues, Net - Stormwater</u>					
Billing Agents	43,734,464	25,487,614	20,424,261	-	-
Direct Billed	766,301	765,778	322,691	-	-
Total Operating Revenues, Net - Stormwater	<u>44,500,765</u>	<u>26,253,392</u>	<u>20,746,952</u>	<u>-</u>	<u>-</u>
<u>Operating Revenues, Net - District Total</u>	<u>343,880,438</u>	<u>313,036,835</u>	<u>280,430,157</u>	<u>239,185,399</u>	<u>209,790,124</u>
<u>Operating Expenses - Sewage</u>					
Salaries and Wages	52,144,371	49,878,369	47,918,213	46,226,508	43,889,545
Fringe Benefits	29,221,894	22,495,670	14,563,011	14,610,845	14,203,943
Utilities	13,601,569	14,187,719	16,284,328	15,267,723	14,898,125
Professional and Contractual Services	32,211,644	29,842,682	21,988,568	22,286,370	24,747,308
Other (1)	4,575,795	2,587,719	3,725,796	3,807,036	2,155,767
Depreciation	71,496,416	66,605,940	62,825,528	57,171,918	50,179,846
Total Operating Expenses - Sewage	<u>203,251,689</u>	<u>185,598,099</u>	<u>167,305,444</u>	<u>159,370,400</u>	<u>150,074,534</u>
<u>Operating Expenses - Stormwater</u>					
Salaries and Wages	1,353,653	590,438	-	-	-
Fringe Benefits	196,233	82,758	-	-	-
Professional and Contractual Services	19,503,698	4,517,336	-	-	-
Other (1)	121,598	50,417	-	-	-
Total Operating Expenses - Stormwater	<u>21,175,182</u>	<u>5,240,949</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Expenses - District Total	<u>224,426,871</u>	<u>190,839,048</u>	<u>167,305,444</u>	<u>159,370,400</u>	<u>150,074,534</u>
Operating Income	119,453,567	122,197,787	113,124,713	79,814,999	59,715,590
<u>Non-Operating Revenues (Expenses), Net</u>					
Interest Revenue	3,833,084	2,901,760	2,526,049	993,560	1,879,311
(Decrease) Increase in Fair Value of Investments, Net	(518,063)	494,661	(1,173,193)	295,828	(417,004)
Non-Operating Grant Revenue	206,905	223,125	1,383,547	1,304,233	1,383,517
Non-Operating Grant Expenses	(97,733)	(187,668)	(707,409)	(4,259,001)	(1,520,478)
Other Non-Operating (Expenses) Revenues (1)	-	-	-	-	-
Proceeds on Insurance Claims (2)	7,112	64,597	-	-	-
Green Infrastructure Program (1)	(1,318,460)	-	-	-	-
Member Community Infrastructure Program	(3,118,863)	-	-	-	-
Stormwater Community Cost Share Disbursement	(2,626,418)	(72,190)	-	-	-
Loss on Disposals of Equipment	(301,070)	(3,319,289)	(4,323,785)	(3,913,066)	(340,588)
Loss on Extraordinary Events	-	(1,614)	(180,025)	-	-
Interest Expense on Long-Term Debt	(58,980,224)	(60,317,727)	(62,616,911)	(59,922,594)	(51,757,865)
Federal Subsidy Revenue (4)	6,472,856	6,465,915	6,469,385	6,438,149	6,327,087
Total Non-Operating Revenues (Expenses), Net	<u>(56,440,874)</u>	<u>(53,748,430)</u>	<u>(58,622,342)</u>	<u>(59,062,891)</u>	<u>(44,446,020)</u>
Capital Contributions	-	-	-	-	-
Change in Net Position	<u>\$ 63,012,693</u>	<u>\$ 68,449,357</u>	<u>\$ 54,502,371</u>	<u>\$ 20,752,108</u>	<u>\$ 15,269,570</u>

- (1) Other Non-Operating Expenses include Agreement with the Cleveland Metroparks.
(2) Proceeds from the flood at the Southerly WWTP.
(3) Beginning 2017, Green Infrastructure Program is classified to non-operating expenses.
(4) Beginning in 2010 Reclassified Build America Bonds Subsidy. Refer to Note 6.
(5) Restated to comply with GASB 65.

Source: District accounting records.

2012 (5)	2011 (5)	2010	2009	2008
\$ 171,056,663	\$ 155,342,800	\$ 150,703,554	\$ 151,132,069	\$ 147,605,404
14,832,256	16,275,002	14,663,082	12,697,756	13,832,074
1,352,457	1,104,565	1,484,110	946,537	833,463
<u>187,241,376</u>	<u>172,722,367</u>	<u>166,850,746</u>	<u>164,776,362</u>	<u>162,270,941</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>187,241,376</u>	<u>172,722,367</u>	<u>166,850,746</u>	<u>164,776,362</u>	<u>162,270,941</u>
41,255,137	39,190,544	38,061,309	37,024,254	35,102,015
13,657,026	12,939,019	12,747,900	11,714,646	11,493,925
13,979,812	15,511,558	16,042,200	18,924,173	20,632,885
21,827,170	18,766,341	23,034,225	17,696,366	18,727,176
3,387,828	3,907,002	7,392,509	8,194,326	5,757,037
51,187,381	47,271,807	46,061,584	45,410,351	44,448,564
<u>145,294,354</u>	<u>137,586,271</u>	<u>143,339,727</u>	<u>138,964,116</u>	<u>136,161,602</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>145,294,354</u>	<u>137,586,271</u>	<u>143,339,727</u>	<u>138,964,116</u>	<u>136,161,602</u>
41,947,022	35,136,096	23,511,019	25,812,246	26,109,339
2,827,947	3,825,074	3,292,522	7,240,399	11,714,888
(888,925)	(150,665)	(19,034)	(3,874,343)	2,332,208
758,941	676,833	1,731,894	1,430,784	1,592,151
(758,941)	(676,833)	(1,731,894)	(1,430,784)	(1,204,204)
-	-	-	(3,000,000)	-
792,245	621,938	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
(622,504)	(1,020,704)	(45,657)	(2,013,698)	(180,689)
-	(1,188,489)	-	-	-
(44,717,920)	(43,019,109)	(26,583,173)	(24,598,935)	(24,602,346)
6,941,401	6,912,478	858,034	-	-
<u>(35,667,756)</u>	<u>(34,019,477)</u>	<u>(22,497,308)</u>	<u>(26,246,577)</u>	<u>(10,347,992)</u>
<u>920,067</u>	<u>6,161,822</u>	<u>9,437,876</u>	<u>3,963,079</u>	<u>-</u>
<u>\$ 7,199,333</u>	<u>\$ 7,278,441</u>	<u>\$ 10,451,587</u>	<u>\$ 3,528,748</u>	<u>\$ 15,761,347</u>

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Operating Revenues, Net</u>				
Sewage and Stormwater Service Fees				
City of Cleveland Billing Agent	\$ 311,616,663	\$ 275,275,862	\$ 242,170,836	\$ 206,720,248
Other Billing Agents	6,081,978	17,052,645	15,823,857	13,900,926
Other Sewage and Stormwater Service Fees	23,614,321	18,735,949	17,007,376	17,685,946
Other Operating Revenue	<u>2,567,476</u>	<u>1,972,379</u>	<u>5,428,088</u>	<u>878,279</u>
Total Operating Revenues, Net	343,880,438	313,036,835	280,430,157	239,185,399
<u>Non-Operating Revenues, Net</u>				
Interest Revenue	3,833,084	2,901,760	2,526,049	993,560
(Decrease) Increase in Fair Value of Investments, Net	(518,063)	494,661	(1,173,193)	295,828
Proceeds from Insurance Claims	7,112	64,597 (3)	-	-
Federal Subsidy Revenue (2)	6,472,856	6,465,915	6,469,385	6,438,149
Non-Operating Grant Revenue	<u>206,905</u>	<u>223,125</u>	<u>1,383,547</u>	<u>1,304,233</u>
Total Non-Operating Revenues, Net	10,001,894	10,150,058	9,205,788	9,031,770
Capital Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 353,882,332</u>	<u>\$ 323,186,893</u>	<u>\$ 289,635,945</u>	<u>\$ 248,217,169</u>

(1) Proceeds from Southerly Flood event.

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

(3) Proceeds from 4th floor IT fire.

Source: District accounting records.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 179,391,021	\$ 159,114,027	\$ 144,326,900	\$ 140,059,765	\$ 141,082,193	\$ 137,760,081
13,210,279	11,942,636	11,015,900	10,643,789	10,049,876	9,845,323
16,227,994	14,832,256	16,275,002	14,663,082	12,697,756	13,832,074
<u>960,830</u>	<u>1,352,457</u>	<u>1,104,565</u>	<u>1,484,110</u>	<u>946,537</u>	<u>833,463</u>
209,790,124	187,241,376	172,722,367	166,850,746	164,776,362	162,270,941
1,879,311	2,827,947	3,825,074	3,292,522	7,240,399	11,714,888
(417,004)	(888,925)	(150,665)	(19,034)	(3,874,343)	2,332,208
-	792,245 (1)	621,938 (1)	-	-	-
6,327,087	6,941,401	6,912,478	858,034	-	-
<u>1,383,517</u>	<u>758,941</u>	<u>676,833</u>	<u>1,731,894</u>	<u>1,430,784</u>	<u>1,592,151</u>
9,172,911	10,431,609	11,885,658	5,863,416	4,796,840	15,639,247
<u>-</u>	<u>920,067</u>	<u>6,161,822</u>	<u>9,437,876</u>	<u>3,963,079</u>	<u>-</u>
<u>\$ 218,963,035</u>	<u>\$ 198,593,052</u>	<u>\$ 190,769,847</u>	<u>\$ 182,152,038</u>	<u>\$ 173,536,281</u>	<u>\$ 177,910,188</u>

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

	2017	2016	2015	2014
Salaries and Wages	\$ 53,498,024	\$ 50,468,807	\$ 47,918,213	\$ 46,226,508
Fringe Benefits	29,418,128	22,578,428	14,563,011	14,610,845
Power	10,052,193	10,652,319	12,072,308	10,247,703
Materials and Supplies	7,088,671	6,820,729	5,676,639	4,882,158
Collection Fees	8,506,812	8,000,246	7,870,531	7,753,358
Gas	1,326,027	1,314,239	1,818,054	2,710,438
Chemicals	2,062,888	2,390,757	2,865,628	3,152,662
Repairs and Maintenance	3,172,685	2,290,027	3,154,329	3,310,824
Solids Handling	1,546,734	1,763,205	1,170,548	2,315,896
Water	1,159,576	1,069,671	977,437	1,096,667
Professional Services	23,678,268	16,550,378	6,004,935	6,468,485
Insurance	762,390	764,709	778,421	858,861
All Other Expenses	18,981,336	9,627,486	8,353,217	7,940,886
Capitalized Construction Costs	(8,323,277)	(10,057,893)	(8,743,355)	(9,376,809)
Depreciation	71,496,416	66,605,940	62,825,528	57,171,918
Total Operating Expenses	\$ 224,426,871	\$ 190,839,048	\$ 167,305,444	\$ 159,370,400

Source : District accounting records.

	2013	2012	2011	2010	2009	2008
\$	43,889,545	\$ 41,255,137	\$ 39,190,544	\$ 38,061,309	\$ 37,024,254	\$ 35,102,015
	14,203,943	13,657,026	12,939,019	12,747,900	11,714,646	11,493,925
	9,400,085	8,068,363	9,258,484	9,879,693	10,591,495	11,101,067
	4,075,901	5,056,453	4,564,897	4,729,166	4,190,172	4,261,239
	7,812,254	6,725,143	5,975,072	5,805,347	5,725,215	5,435,973
	3,318,117	3,825,221	4,254,679	4,292,298	6,600,201	7,801,361
	1,931,902	1,641,550	1,329,150	1,293,973	1,615,452	1,268,036
	2,762,386	2,078,341	2,440,310	2,901,283	2,362,155	3,036,704
	1,446,497	1,825,201	847,246	2,190,398	1,831,793	861,768
	1,260,155	1,191,439	1,147,687	1,054,989	1,007,356	1,021,701
	10,553,455	8,917,796	8,407,259	11,998,519	7,886,179	8,991,475
	821,442	779,453	1,227,736	1,161,822	997,672	1,097,763
	6,774,159	6,592,367	4,506,935	5,107,521	5,466,842	3,758,449
	(8,355,153)	(7,506,517)	(5,774,554)	(3,946,075)	(3,459,667)	(3,518,438)
	50,179,846	51,187,381	47,271,807	46,061,584	45,410,351	44,448,564
\$	<u>150,074,534</u>	<u>\$ 145,294,354</u>	<u>\$ 137,586,271</u>	<u>\$ 143,339,727</u>	<u>\$ 138,964,116</u>	<u>\$ 136,161,602</u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMMUNITIES SERVED BY THE DISTRICT AND
ESTIMATED POPULATION SERVED
DECEMBER 31, 2017**

Municipality	Estimated Service Population ⁽¹⁾	Municipality	Estimated Service Population ⁽¹⁾
SUBDISTRICT 1			
Cleveland City	383,800		
SUBDISTRICT 2		SUBDISTRICT 2	
Bath Township	60 ⁽³⁾	Middleburg Heights City	15,654
Beachwood City	12,071	Moreland Hills Village	3,267
Bedford City	- ⁽³⁾	Newburgh Heights Village	2,111
Bedford Heights City	- ⁽³⁾	North Randall Village	1,080
Berea City	18,619	North Royalton City	4,111 ⁽²⁾
Boston Heights Village	794 ⁽²⁾	Northfield Center Township	5,717
Bratenahl Village	1,281	Northfield Village	3,505
Brecksville City	13,163 ⁽²⁾	Oakwood Village	1,655 ⁽²⁾
Broadview Heights City	15,090 ⁽²⁾	Olmsted Falls City	8,959 ⁽²⁾
Brook Park City	18,854	Olmsted Township	8,140 ⁽²⁾
Brooklyn City	10,836	Orange Village	944 ⁽²⁾
Brooklyn Heights Village	1,568	Parma City	79,381
Cleveland Heights City	46,084	Parma Heights City	20,596
Columbia Township	2,269 ⁽²⁾	Pepper Pike City	6,178 ⁽²⁾
Cuyahoga Heights Village	712	Richfield Township	963 ⁽²⁾
East Cleveland City	16,810	Richfield Village	3,755 ⁽²⁾
Euclid City	396 ⁽²⁾	Richmond Heights City	4,328 ⁽²⁾
Garfield Heights City	28,036	Sagamore Hills Township	11,250
Gates Mills Village	440 ⁽²⁾	Seven Hills City	11,883
Glenwillow Village	3 ⁽²⁾	Shaker Heights City	28,259
Highland Heights City	8,231	Solon City	148 ⁽²⁾
Highland Hills Village	1,129	South Euclid City	21,302
Hudson City	8,878 ⁽²⁾	Strongsville City	25,333 ⁽²⁾
Independence City	7,158	Twinsburg City	9 ⁽²⁾
Lakewood City	- ⁽³⁾	Twinsburg Township	543 ⁽²⁾
Linndale Village	158	University Heights City	13,884
Lyndhurst City	13,625	Valley View Village	1,999
Macedonia City	11,667	Walton Hills Village	2,153
Maple Heights City	22,825	Warrensville Heights City	13,199
Mayfield Heights City	18,699	Willoughby Hills City	- ⁽³⁾
Mayfield Village	3,412		
		Total Subdistrict 2	583,174
Total Estimated Service Population			966,974

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

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

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



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Cleveland, Ohio 44115
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**NORTHEAST OHIO REGIONAL SEWER DISTRICT
SEWER LARGEST CUSTOMERS OF THE DISTRICT
AS OF DECEMBER 31, 2017
and NINE YEARS PRIOR**

	2017			
	CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
<u>SUBDISTRICT 1</u>				
Cuyahoga Metropolitan Housing Agency (2)	81,797.7	\$ 6,813,625	1	2.3%
City of Cleveland Water Filtration Plants	42,443.5	4,553,969	2	1.5%
Arcelor Mittal Steel (ISG Cleveland)	18,610.1	1,886,955	4	0.6%
University Hospitals	18,525.6	1,521,831	5	0.5%
Cuyahoga County (2)	16,806.4	1,392,832	7	0.5%
Case Western Reserve University	13,213.2	1,086,391	8	0.4%
Cleveland Board of Education	7,780.3	644,899	9	0.2%
Veterans Administration Hospitals (2)	5,298.1	436,035	13	0.1%
Ferro Corporation (2)	4,645.0	385,159	15	0.1%
Cleveland Metroparks Zoo	3,775.4	354,432	16	0.1%
MetroHealth Medical Centers	4,135.0	340,901	17	0.1%
Sherwin Williams (2)	3,985.6	331,799	18	0.1%
Clean Harbors	2,192.8	291,869	19	0.1%
Cleveland State University	3,446.0	286,283	20	0.1%
General Electric Company	2,558.5	109,879	24	0.0%
Cleveland Thermal Energy Corporation	-	-	-	0.0%
Synthetic Products	-	-	-	0.0%
Ninth Street - Euclid Ltd	-	-	-	0.0%
Cleveland Public Power	-	-	-	0.0%
Columbus Road Realty	-	-	-	0.0%
Holiday Inn	-	-	-	0.0%
Property Management Rental	-	-	-	0.0%
Cleveland Clinic (2)	-	-	-	0.0%
HydroChem (Inland Waters of Ohio)	-	-	-	0.0%
Dominion Cleveland Thermal Energy Corporation	-	-	-	0.0%
Total Subdistrict 1	229,213.2	20,436,859		6.7%
<u>SUBDISTRICT 2</u>				
Aluminum Corporation of America (ALCOA)	23,051.5	1,945,125	3	0.6%
NASA John H Glenn Research Center	17,019.9	1,439,927	6	0.5%
Forest City Management (2)	7,413.6	626,641	10	0.2%
Ford Motor Corporation	6,116.4	526,893	11	0.2%
Eaton Estates / Nagy Park	5,620.3	513,018	12	0.2%
Charter Steel	4,807.4	406,792	14	0.1%
Brooklyn Acres Homes (2)	2,926.4	256,692	21	0.1%
Zehman & Wolfe Management	2,996.0	250,543	22	0.1%
Cuyahoga County Community College (2)	2,681.8	223,007	23	0.1%
General Motors Corporation	-	-	-	0.0%
The Pearl Management Company	-	-	-	0.0%
Thistledown Racing Club	-	-	-	0.0%
K & D Group	-	-	-	0.0%
Total Subdistrict 2	72,633.3	6,188,638		2.1%
Grand Total	301,846.5	\$ 26,625,497		8.8%

(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.

2008

CONSUMPTION MCF (1)	AMOUNT BILLED	RANK	PERCENTAGE OF OPERATING REVENUE
86,337.2	\$ 3,889,068	1	2.3%
28,362.5	1,240,935	6	0.7%
27,473.9	1,251,904	5	0.8%
41,748.2	1,857,670	2	1.1%
21,458.5	974,237	9	0.6%
21,074.8	961,903	10	0.6%
26,376.3	1,178,062	8	0.7%
8,355.5	367,737	17	0.2%
17,914.9	782,439	13	0.5%
-	-	-	0.0%
18,960.3	848,258	12	0.5%
-	-	-	0.0%
-	-	-	0.0%
10,786.1	502,674	16	0.3%
4,771.8	206,349	26	0.1%
-	-	-	0.0%
-	-	-	0.0%
-	-	-	0.0%
-	-	-	0.0%
6,546.3	285,268	21	0.2%
6,709.4	274,241	22	0.2%
6,630.3	298,996	20	0.2%
40,208.8	1,816,683	4	1.1%
4,800.8	299,419	19	0.2%
15,184.0	705,874	15	0.4%
<u>393,699.6</u>	<u>17,741,717</u>		<u>10.7%</u>
31,952.4	1,204,973	7	0.7%
23,774.1	899,633	11	0.5%
18,182.1	736,551	14	0.4%
50,905.1	1,823,571	3	1.1%
9,275.9	344,754	18	0.2%
-	-	-	0.0%
-	-	-	0.0%
5,597.5	218,730	24	0.1%
-	-	-	0.0%
-	-	-	0.0%
5,384.0	201,822	25	0.1%
-	-	-	0.0%
<u>6,707.9</u>	<u>248,945</u>	<u>23</u>	<u>0.1%</u>
151,779.0	5,678,979		3.2%
<u>545,478.6</u>	<u>\$ 23,420,696</u>		<u>13.9%</u>

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

Debt by Type, In Thousands	2017	2016	2015	2014
Revenue Bond Issues				
\$68,280 Series 2005 (A)	\$ -	\$ -	\$ 13,950	\$ 20,445
\$126,055 Series 2007 (B) (F) (G)	-	7,520	34,110	36,865
\$336,930 Series 2010 (C)	336,930	336,930	336,930	336,930
\$249,535 Series 2013 (D) (H)	24,730	249,535	249,535	249,535
\$350,570 Series 2014A (E)	336,570	350,570	350,570	350,570
\$68,460 Series 2014B (F)	68,460	68,460	68,460	68,460
\$25,015 Series 2016 (G)	22,115	25,015	-	-
\$241,595 Series 2017 (H)	241,595	-	-	-
Total Revenue Bond Issues	1,030,400	1,038,030	1,053,555	1,062,805
Bond Premium	53,979	59,638	66,503	74,014
Bond Discount	(22)	(26)	-	-
Total Revenue Bonds	1,084,357	1,097,642	1,120,058	1,136,819
Water Pollution Control Loans	515,685	490,186	497,778	469,536
Total All Debt	<u>\$ 1,600,042</u>	<u>\$ 1,587,828</u>	<u>\$ 1,617,836</u>	<u>\$ 1,606,355</u>
Number of Customer Accounts (1)	323,887	325,225	326,496	326,555
Outstanding Debt Per Customer Account	\$ 4,940	\$ 4,882	\$ 4,955	\$ 4,919
(1)For this schedule, Number of Customer Accounts is adjusted for Master Meter Communities as follows.*				
Historical Number of Customer Accounts (see pages 96 & 97)	322,809 (1)	311,441	312,837	313,021
Less Master Meter Communities	(1)	(3)	(3)	(3)
Add estimated number of customers in Master Meter Communities	1,079	13,787	13,662	13,537
Number of Customer Accounts	<u>323,887</u>	<u>325,225</u>	<u>326,496</u>	<u>326,555</u>

*The Master Meter Communities bill their customers separately.

Master Meter Communities Village of Richfield and Summit County.

Note: This schedule should be read in conjunction with Note 6 to the Audited Financial Statements for December 31, 2017.

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

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

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

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

(E) The Series 2014A Bonds were issued on December 18, 2014.

(F) The Series 2014B Bonds were issued on December 18, 2014 and refunded a portion of the Series 2007 Bonds.

(G) The Series 2016 Bonds were issued on March 24, 2016 and refunded a portion of the Series 2007 Bonds.

(H) The Series 2017 Bonds were issued on September 20, 2017 and refunded a portion of the Series 2013 Bonds.

(I) Starting in 2017, Summit County is no longer billed as a Master Meter community, billing is based on actual consumption by property. Village of Richfield is still a Master Meter community.

Source: District accounting records.

2013	2012	2011	2010	2009	2008
\$ 26,635	\$ 32,525	\$ 38,190	\$ 43,660	\$ 48,925	\$ 53,985
112,430	114,930	117,330	119,645	121,865	124,000
336,930	336,930	336,930	336,930	-	-
249,535	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
725,530	484,385	492,450	500,235	170,790	177,985
2,299	2,646	3,046	3,507	4,044	4,684
-	-	-	-	-	-
727,829	487,031	495,496	503,742	174,834	182,669
468,816	470,471	478,272	435,356	411,544	417,080
<u>\$ 1,196,645</u>	<u>\$ 957,502</u>	<u>\$ 973,768</u>	<u>\$ 939,098</u>	<u>\$ 586,378</u>	<u>\$ 599,749</u>
326,720	326,412	323,567	315,794	319,629	328,856
\$ 3,663	\$ 2,933	\$ 3,009	\$ 2,974	\$ 1,835	\$ 1,824
313,284	313,294	309,820	302,838	306,791	311,937
(3)	(3)	(3)	(3)	(3)	(3)
13,439	13,121	13,750	12,959	12,841	16,922
<u>326,720</u>	<u>326,412</u>	<u>323,567</u>	<u>315,794</u>	<u>319,629</u>	<u>328,856</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)
2008	1,291,479	6.8%	54,632,402	42,051
2009	1,285,082	9.2%	51,323,908	41,391
2010	1,278,226	9.5%	51,092,441	41,347
2011	1,269,820	9.9%	54,151,587	44,088
2012	1,265,798	7.0%	56,876,705	40,838
2013	1,263,796	7.2%	56,730,102	47,294
2014	1,260,610	5.3%	59,358,035	47,087
2015	1,255,921	4.5%	60,919,487	48,506
2016	1,249,352	5.4%	62,496,228	50,023
2017	1,248,514	4.8%	n/a	n/a

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

(2) Sources are District administrative records, County of Cuyahoga, Ohio Comprehensive Annual Financial Report 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, 2017 and 2008

Employer Name (1)	2017			2008		
	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* 6-30-2017			FTE* 12-31-2008		
Cleveland Clinic Health System	32,772	1	4.62%	32,415	1	5.17%
University Hospitals	16,606	2	2.34%	10,904	3	1.74%
U.S. Office of Personnel Management	12,045	3	1.70%	13,101	2	2.09%
Progressive Corp.	9,002	4	1.27%	9,057	6	1.45%
Cuyahoga County	7,397	5	1.04%	9,566	4	1.53%
Area Temps Inc.	7,000	6	0.99%	-	(3)	-
City of Cleveland	6,561	7	0.92%	7,950	10	1.27%
Metro Health System	6,469	8	0.91%	-	(3)	-
Cleveland Municipal School District	6,392	9	0.90%	-	(3)	-
Group Management Services Inc.	5,357	10	0.76%	9,486	5	1.51%
Summa Health System	-	-	-	8,923	7	1.42%
Giant Eagle Inc.	-	-	-	8,800	8	1.40%
United States Postal Service	-	-	-	8,032	9	1.28%
Total	109,601		15.45%	118,234		18.86%
Total Cuyahoga County Employment (2)			709,442			626,700

* Full-Time Equivalent.

(1) Sources are *Crain's Cleveland Business*, December 2017 and December 2008.

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, and U.S.

Department of Labor, Bureau of Labor Statistics.

(3) Employment outside of top ten in reporting year.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>TREATMENT PLANT FLOW</u>				
Billions of gallons of sewage treated per plant:				
Easterly	29.9	26.3	29.4	32.2
Southerly	44.8	41.0	47.7	47.2
Westerly	8.6	9.0	9.7	10.3
Total	<u>83.3</u>	<u>76.3</u>	<u>86.8</u>	<u>89.7</u>
Total sewage treated, in MCFs (1)	<u>11,136,364</u>	<u>10,200,535</u>	<u>11,604,278</u>	<u>11,991,979</u>
MCFs billed, total District (5) (10)	<u>3,758,095</u>	<u>3,703,861</u>	<u>3,665,500</u>	<u>3,739,178</u>
<u>STAFFING LEVELS</u>				
Number of sewer employees:				
Plant Operations and Maintenance (4)	424	427	410	363
Engineering	64	66	64	61
Finance (6) (7)	43	43	43	44
Human Resources (3)	30	30	27	16
Information Technology	36	24	19	22
District Administration (3) (6) (8)	14	15	13	78
Legal (8)	10	10	8	9
Administration and External Affairs (7)	41	33	27	38
Watershed Programs (4)	105	94	83	77
Total	<u>767</u>	<u>742</u>	<u>694</u>	<u>708</u>
Number of stormwater employees:				
Stormwater (9)	<u>26</u>	<u>8</u>	<u>-</u>	<u>-</u>
Total District employees	<u>793</u>	<u>750</u>	<u>694</u>	<u>708</u>
Budgeted employees, total District	<u>809</u>	<u>773</u>	<u>761</u>	<u>730</u>

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

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

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

(5) Restated 2010 MCF's billed.

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

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

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

(9) The stormwater program began in 2016

(10) In 2017, a one-time 6.3% increase in total MCFs was due to the conversion of quarterly to monthly billing cycle.

Source: Various District records.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
31.7	32.9	41.9	30.9	31.2	36.1
44.0	39.1	51.5	39.2	39.1	43.8
9.9	9.9	12.6	9.0	10.1	10.8
<u>85.6</u>	<u>81.9</u>	<u>106.0</u>	<u>79.1</u>	<u>80.4</u>	<u>90.7</u>
<u>11,443,850</u>	<u>10,949,198</u>	<u>14,171,123</u>	<u>10,574,866</u>	<u>10,748,663</u>	<u>12,125,668</u>
<u>3,709,188</u>	<u>3,895,816</u>	<u>4,096,885</u>	<u>4,195,507</u>	<u>4,267,959</u>	<u>4,507,357</u>
344	339	352	357	353	363
61	61	52	54	56	57
43	39	41	47	47	47
16	15	17	17	19	14
18	19	19	20	21	19
69	66	54	50	47	46
12	11	10	14	13	14
32	28	25	18	16	16
78	70	72	63	62	58
<u>673</u>	<u>648</u>	<u>642</u>	<u>640</u>	<u>634</u>	<u>634</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>673</u>	<u>648</u>	<u>642</u>	<u>640</u>	<u>634</u>	<u>634</u>
<u>719</u>	<u>693</u>	<u>680</u>	<u>679</u>	<u>668</u>	<u>660</u>

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





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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Number of Buildings				
<u>Operations</u>				
Southerly Plant	45	44	43	42
Easterly Plant	21	21	20	19
Westerly Plant	17	17	17	17
Outlying Pump Buildings	7	6	6	7
Total Operations	<u>90</u>	<u>88</u>	<u>86</u>	<u>85</u>
<u>Administration</u>				
District Administration	1	1	1	1
Environmental Maintenance and Services Center	4	4	4	4
Total Offices	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Total Buildings	<u><u>95</u></u>	<u><u>93</u></u>	<u><u>91</u></u>	<u><u>90</u></u>
Miles of Interceptor Sewers Installed Annually*	<u><u>-</u></u>	<u><u>0.20</u></u>	<u><u>1.4</u></u>	<u><u>4.5</u></u>
Number of Outlying Systems				
<u>Sewage Collection System</u>				
Interceptor Sewers and Tunnels	21	21	21	21
Inter-Community Relief Sewers	30	30	30	30
Automated Regulators	32	32	32	31
Pumping Stations	10	9	9	9
Force Mains	5	5	5	5
Total Sewage Collection System	<u>98</u>	<u>97</u>	<u>97</u>	<u>96</u>
<u>Support Facilities</u>				
Floatables Control Sites	10	10	10	10
Biofilter Odor Control Sites	8	8	8	8
Rain Gauge Sites	29	28	28	28
Lakeview Dam	1	1	1	1
Total Support Facilities	<u>48</u>	<u>47</u>	<u>47</u>	<u>47</u>
Total Outlying Systems	<u><u>146</u></u>	<u><u>144</u></u>	<u><u>144</u></u>	<u><u>143</u></u>
Acres of Land				
<u>Operations</u>				
Southerly Plant	311.2	311.2	311.2	311.2
Easterly Plant	92.6	92.6	92.6	92.6
Westerly Plant	13.4	13.4	13.4	13.4
<u>Administration</u>				
District Administration	2.6	2.6	2.6	2.6
Environmental Maintenance and Services Center	14.7	14.7	14.7	14.7
Total Acres, Operations and Administration	<u><u>434.5</u></u>	<u><u>434.5</u></u>	<u><u>434.5</u></u>	<u><u>434.5</u></u>

*Total interceptor sewers are in excess of 200 miles.

Source: District accounting and engineering records.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
42	40	39	39	39	38
19	18	18	18	18	18
16	16	16	16	16	16
7	7	7	7	5	5
<u>84</u>	<u>81</u>	<u>80</u>	<u>80</u>	<u>78</u>	<u>77</u>
1	1	1	1	1	1
4	4	4	4	4	4
5	5	5	5	5	5
<u>89</u>	<u>86</u>	<u>85</u>	<u>85</u>	<u>83</u>	<u>82</u>
<u>0.25</u>	<u>2.87</u>	<u>5.55</u>	<u>3.95</u>	<u>0.40</u>	<u>0.99</u>
21	21	21	21	21	21
29	28	26	26	25	25
25	25	25	25	25	25
10	10	10	10	8	8
6	6	6	6	5	5
<u>91</u>	<u>90</u>	<u>88</u>	<u>88</u>	<u>84</u>	<u>84</u>
10	10	10	10	10	10
8	8	8	8	8	8
25	25	25	25	25	25
1	1	1	1	1	1
<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>	<u>44</u>
<u>135</u>	<u>134</u>	<u>132</u>	<u>132</u>	<u>128</u>	<u>128</u>
311.2	311.2	311.2	311.2	311.2	311.2
92.6	92.6	92.6	92.6	77.7	77.7
13.4	13.4	13.4	13.4	14.5	14.5
2.6	2.6	2.6	2.6	2.6	2.6
14.7	14.7	14.7	14.7	14.7	14.7
<u>434.5</u>	<u>434.5</u>	<u>434.5</u>	<u>434.5</u>	<u>420.7</u>	<u>420.7</u>



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CONTINUING DISCLOSURE REQUIREMENTS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Sewage Accounts:</u>				
<u>Subdistrict 1</u>				
Cleveland (2)	120,031	122,204	123,722	124,288
<u>Subdistrict 2</u>				
Master Meter - Suburbs (1) (2)	1	3	3	3
Direct Service - Suburbs (2)	<u>202,777</u>	<u>189,234</u>	<u>189,112</u>	<u>188,730</u>
Subtotal	<u>202,778</u>	<u>189,237</u>	<u>189,115</u>	<u>188,733</u>
Total Sewage Accounts	<u>322,809</u>	<u>311,441</u>	<u>312,837</u>	<u>313,021</u>
Stormwater Only Accounts (3)	<u>17,296</u>	<u>20,602</u>	<u>-</u>	<u>-</u>
Total Customers	<u><u>340,105</u></u>	<u><u>332,043</u></u>	<u><u>312,837</u></u>	<u><u>313,021</u></u>

- (1) Master Meter communities are Village of Richfield and Summit County. Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in Subdistrict 2. Effective beginning of 2017, the District is no longer billing Summit County as a Master Meter community; billing is based on actual consumption by property. Village of Richfield is still a Master Meter community.
- (2) Represents total accounts billed for sewage and stormwater fees.
- (3) This represents the remainder of North Royalton that the District does not provide sewage services, Summit County customers where sewage fees were billed at Master Meters, and actual stormwater only accounts, such as parking lots and other properties that do not have water/sewage services.

Source: District accounting records.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
125,422	126,357	125,832	121,009	122,201	128,142
3	3	3	3	3	3
<u>187,859</u>	<u>186,934</u>	<u>183,985</u>	<u>181,826</u>	<u>184,587</u>	<u>183,792</u>
<u>187,862</u>	<u>186,937</u>	<u>183,988</u>	<u>181,829</u>	<u>184,590</u>	<u>183,795</u>
<u>313,284</u>	<u>313,294</u>	<u>309,820</u>	<u>302,838</u>	<u>306,791</u>	<u>311,937</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u><u>313,284</u></u>	<u><u>313,294</u></u>	<u><u>309,820</u></u>	<u><u>302,838</u></u>	<u><u>306,791</u></u>	<u><u>311,937</u></u>

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

	<u>2017 (4)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<u>Subdistrict 1</u>				
Cleveland	1,701,704	1,684,932	1,668,505	1,715,359
<u>Subdistrict 2</u>				
Direct Service - Suburbs (3)	2,046,806	1,921,167	1,884,506	1,892,128
Master Meter - Suburbs (1)	<u>8,812</u>	<u>97,367</u>	<u>112,489</u>	<u>131,691</u>
Subtotal	<u>2,055,618</u>	<u>2,018,534</u>	<u>1,996,995</u>	<u>2,023,819</u>
Total Service Area	<u><u>3,757,322</u></u>	<u><u>3,703,466</u></u>	<u><u>3,665,500</u></u>	<u><u>3,739,178</u></u>

(1) For years 2008-2011, Consumption of Master Meter Suburbs is presented at 80% of their total consumption, which is the billing basis. For years 2012-2015, Consumption of Master Meter Suburbs is presented at 70%, 65%, 60% and 55%; respectively, of their total consumption, which is the billing basis.

Starting in 2017, Summit County is no longer billed as a Master Meter community, billing is based on actual consumption by property. Village of Richfield is still a Master Meter community.

Commencing January 2008, the City of East Cleveland became a direct service community billed by the City of Cleveland in Subdistrict 2. No longer billing Summit County as a Master Meter community billing is based on actual consumption by property.

Village of Richfield is still a Master Meter community.

(2) Beginning in 2006, NASA has been categorized as a Subdistrict 2 customer to properly reflect consumption totals.

(3) Restated 2010 for consumption adjustment.

(4) In 2017, a one-time 1.5% increase in total MCFs was due to the conversion of quarterly to monthly billing cycle.

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
1,706,438	1,781,276	1,881,996	1,946,380 (3)	1,915,736	2,127,084
1,859,247	1,977,996	2,005,569	2,078,834 (3)	2,189,464	2,184,458
<u>143,503</u>	<u>136,544</u>	<u>209,320</u>	<u>170,293</u>	<u>162,759</u>	<u>195,815</u>
<u>2,002,750</u>	<u>2,114,540</u>	<u>2,214,889</u>	<u>2,249,127</u>	<u>2,352,223</u>	<u>2,380,273</u>
<u><u>3,709,188</u></u>	<u><u>3,895,816</u></u>	<u><u>4,096,885</u></u>	<u><u>4,195,507</u></u>	<u><u>4,267,959</u></u>	<u><u>4,507,357</u></u>

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
SUMMARY OF SEWER REVENUES, EXPENSES, DEBT SERVICE AND
DEBT SERVICE COVERAGE
LAST TEN YEARS**

(In Thousands of Dollars)

	2017 (3)	2016 (3)	2015 (3)	2014
Operating Revenues, Net	\$ 299,380	\$ 286,783	\$ 259,683	\$ 239,185
Non-Operating Revenues	3,315	3,397	1,353	1,290
Total Revenues	<u>302,695</u>	<u>290,180</u>	<u>261,036</u>	<u>240,475</u>
Operating Expenses (Exclusive of depreciation)	131,755	118,992	104,480	102,198
Transfer to Rate Stabilization Account	-	-	6,000	6,000
Total Expenses	<u>131,755</u>	<u>118,992</u>	<u>110,480</u>	<u>108,198</u>
Net Revenues Available for Debt Service	<u>\$ 170,940</u>	<u>\$ 171,188</u>	<u>\$ 150,556</u>	<u>\$ 132,277</u>
Total Revenue Bond Debt Service (1),(2)	\$ 62,907	\$ 63,428	\$ 42,425	\$ 28,774
Coverage on Revenue Bond Debt Service	2.72	2.70	3.55	4.60
Total All Debt Service (1)	\$ 107,612	\$ 111,612	\$ 94,103	\$ 78,180
Coverage on Total Debt Service	1.59	1.53	1.60	1.69

(1) Net Revenues are first used to pay debt service on Revenue Bonds and second to pay debt service on loans from the Ohio Water Development Authority (OWDA) and Water Pollution Control Loan Fund (WPCLF). The annual Debt Service Requirements on these obligations for the ten years ended December 31, 2017 were:

	2017	2016	2015	2014
Revenue Bond Issues and Debt Service				
\$68,280 Series 2005 (A)	\$ -	\$ 14,648	\$ 7,517	\$ 7,522
\$126,055 Series 2007 (B) (F) (H)	338	3,373	4,457	7,858
\$336,930 Series 2010 (C) (G)	13,360	13,367	13,363	13,394
\$249,535 Series 2013 (D) (I)	12,172	12,172	6,086	-
\$350,570 Series 2014A (E)	30,182	16,182	8,091	-
\$68,460 Series 2014B (F)	3,205	3,205	2,911	-
\$25,015 Series 2016 (H)	3,650	481	-	-
\$241,595 Series 2017 (I)	-	-	-	-
Total Revenue Bond Issues and Debt Service	<u>62,907</u>	<u>63,428</u>	<u>42,425</u>	<u>28,774</u>
OWDA Debt Service	-	-	-	-
WPCLF Debt Service	44,705	48,184	51,678	49,406
Total All Debt Service	<u>\$ 107,612</u>	<u>\$ 111,612</u>	<u>\$ 94,103</u>	<u>\$ 78,180</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.

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

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

(E) The Series 2014A Bonds were issued on December 18, 2014.

(F) The Series 2014B Bonds were issued on December 18, 2014 and refunded a portion of the Series 2007 Bonds.

(G) The Series 2010 Bonds interest has increased due to the BAB subsidy reduction from the recent sequester by Congress.

(H) The Series 2016 Bonds were issued on March 24, 2016 and refunded a portion of the Series 2007 Bonds.

(I) The Series 2017 Bonds were issued on September 20, 2017 and refunded a portion of the Series 2013 Bonds.

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

(3) Per bond covenants, sewer revenues and expenses are only used to calculate debt service ratios.

Source: District accounting records.

2013	2012	2011	2010	2009	2008
\$ 209,790	\$ 187,241	\$ 172,722	\$ 166,851	\$ 164,776	\$ 162,271
1,462	1,939	3,674	4,131	3,366	14,047
<u>211,252</u>	<u>189,180</u>	<u>176,396</u>	<u>170,982</u>	<u>168,142</u>	<u>176,318</u>
99,895	94,107	90,314	97,278	93,554	91,713
-	-	3,000	-	3,000	-
<u>99,895</u>	<u>94,107</u>	<u>93,314</u>	<u>97,278</u>	<u>96,554</u>	<u>91,713</u>
<u>\$ 111,357</u>	<u>\$ 95,073</u>	<u>\$ 83,082</u>	<u>\$ 73,704</u>	<u>\$ 71,588</u>	<u>\$ 84,605</u>
\$ 28,579	\$ 15,372	\$ 15,370	\$ 15,375	\$ 15,373	\$ 15,375
3.90	6.18	5.41	4.79	4.66	5.61
\$ 78,818	\$ 64,473	\$ 59,974	\$ 60,821	\$ 59,430	\$ 58,140
1.41	1.47	1.39	1.21	1.20	1.46

2013	2012	2011	2010	2009	2008
\$ 7,516	\$ 7,518	\$ 7,514	\$ 7,520	\$ 7,517	\$ 7,517
7,858	7,854	7,856	7,855	7,856	7,858
13,205	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>28,579</u>	<u>15,372</u>	<u>15,370</u>	<u>15,375</u>	<u>15,373</u>	<u>15,375</u>
-	-	-	-	-	204
<u>50,239</u>	<u>49,101</u>	<u>44,604</u>	<u>45,446</u>	<u>44,057</u>	<u>42,561</u>
<u>\$ 78,818</u>	<u>\$ 64,473</u>	<u>\$ 59,974</u>	<u>\$ 60,821</u>	<u>\$ 59,430</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	Standard Fixed Fee (3)		Homestead Fixed Fee (4)		SUBDISTRICT 1			SUBDISTRICT 2				
	Rate (1)		Rate (1)		Standard		Standard		Homestead (2)			
	% Change	% Change	% Change	% Change	% Change	% Change	% Change	% Change	Rate (1)	% Change	Rate (1)	% Change
2008	\$ -	\$ 33.85	9.7	\$ 22.75	9.6	\$ 37.85	7.8	\$ 25.40	7.9			
2009	-	37.15	9.7	24.95	9.7	40.90	8.1	27.45	8.1			
2010	-	40.75	9.7	27.35	9.6	44.25	8.2	29.70	8.2			
2011	-	44.75	9.8	30.05	9.9	48.00	8.5	32.25	8.6			
2012	5.85	49.55	10.7	29.75	-1.0	52.55	9.5	31.75	-1.6			
2013	6.30	55.45	11.9	33.35	12.1	58.15	10.7	35.15	10.7			
2014	6.60	62.15	12.1	37.35	12.0	64.55	11.0	38.95	10.8			
2015	6.90	69.65	12.1	41.85	12.0	71.75	11.2	43.25	11.0			
2016	7.20	78.05	12.1	46.85	11.9	79.85	11.3	48.05	11.1			
2017 (5)	10.80	83.10	6.5	49.85	6.4	84.60	5.9	50.85	5.8			

- (1) Per thousand cubic feet (MCF) of water consumed.
- (2) These rates were first established in the 1991 fiscal year.
- (3) A Fixed Fee per quarterly bill was established in the 2012 fiscal year.
- (4) Starting 2017 fiscal year, a homestead fixed rate was established.
- (5) Starting 2017 fiscal year, billing changed from quarterly to monthly billing. The fixed fee is calculated at a quarterly rate for comparison to prior years.

Industrial Waste Surcharge

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

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

Minimum Quarterly Billing

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

Source: District accounting records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
STORMWATER FEE RATES
RATES AS OF DECEMBER 31, 2017**

<u>Type of property</u>	<u>Tier Type</u>	<u>Impervious surface area (sq. ft.)*</u>	<u>2017 (1)</u>	<u>2016 (1)</u>
Residential	Tier 1	Less than 2,000	\$3.09	\$3.09
	Tier 2/Base	2,000-3,999	\$5.15	\$5.15
	Tier 3	4,000 or more	\$9.27	\$9.27
	Homestead/Affordability	Any size	\$2.07	\$2.07
Non-residential	All	Per ERU, or 3,000 square feet	\$5.15	\$5.15
	Educational Economically Disadvantaged (2)	Per ERU, or 3,000 square feet	\$2.07	\$2.07

All fees above are per month.

* Impervious surface area (estimated) includes hard surfaces on your property such as rooftops, driveways, or decks/patios which contribute to increasing stormwater runoff.

(1) The fee is based on Equivalent Residential Units or ERU which equals 3,000 square feet of impervious area.

(2) Educational Economically Disadvantaged Stormwater Fee – The Educational Economically Disadvantaged Stormwater Fee may be available to all public and private primary, elementary, and secondary schools, school districts, or school systems under the control of a common entity that are recognized in the State of Ohio and can demonstrate that at least twenty-five (25) percent of their current students are eligible to participate in the Free Lunch Program under the Richard B. Russell National School Lunch Act (42 U.S.C. § 1751, et seq.).

Source: District accounting records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
CAPITAL IMPROVEMENT PROGRAM
USES AND SOURCES OF FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2018 THROUGH 2027
(In Thousands of Dollars)**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
<u>USES OF FUNDS</u>					
Sewage Treatment Plant Improvements					
Westerly	\$ 7,204,228	\$ 5,206,225	\$ 12,016,553	\$ 1,464,518	\$ 4,992,587
Southerly	19,461,478	17,155,513	22,418,305	14,936,984	10,574,462
Easterly	3,430,575	3,781,350	3,686,775	2,823,779	13,205,274
Sub-Total	<u>30,096,281</u>	<u>26,143,088</u>	<u>38,121,633</u>	<u>19,225,281</u>	<u>28,772,323</u>
Interceptors/Rehabilitation	4,322,605	9,503,915	5,879,967	5,032,590	8,459,934
Combined Sewer Overflow Control Program	200,036,153	222,600,498	237,661,640	215,079,265	158,549,770
Districtwide Building Improvements and Other Improvements	23,453,305	36,134,352	34,702,867	27,092,223	23,826,077
Information Technology and Other Minor Equipment	23,136,500	18,400,182	17,670,983	18,637,823	19,670,029
Total	<u>\$ 281,044,844</u>	<u>\$ 312,782,035</u>	<u>\$ 334,037,090</u>	<u>\$ 285,067,182</u>	<u>\$ 239,278,133</u>
<u>SOURCES OF FUNDS</u>					
WPCLF Loans (1)	\$ 121,022,000	\$ 220,242,000	\$ 265,449,000	\$ 230,915,000	\$ 185,190,000
Net Bond Proceeds	-	-	-	-	-
Internally Generated Funds/Reserves	160,022,844	92,540,035	68,588,090	54,152,182	54,088,133
Total	<u>\$ 281,044,844</u>	<u>\$ 312,782,035</u>	<u>\$ 334,037,090</u>	<u>\$ 285,067,182</u>	<u>\$ 239,278,133</u>

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

<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>TOTAL</u>
\$ 3,589,086	\$ 2,248,373	\$ 2,244,002	\$ 2,311,322	\$ 2,380,662	\$ 43,657,556
23,820,227	40,820,606	51,342,570	26,851,608	8,777,054	236,158,807
17,325,060	4,372,334	3,152,947	3,049,369	3,140,850	57,968,313
<u>44,734,373</u>	<u>47,441,313</u>	<u>56,739,519</u>	<u>32,212,299</u>	<u>14,298,566</u>	<u>337,784,676</u>
18,791,510	28,313,293	13,933,386	4,426,044	11,018,375	109,681,619
146,388,906	126,994,363	220,198,743	189,439,931	63,270,554	1,780,219,823
23,727,876	8,533,645	8,604,399	7,642,729	7,518,404	201,235,877
<u>20,772,656</u>	<u>21,951,528</u>	<u>23,213,046</u>	<u>24,564,207</u>	<u>26,014,163</u>	<u>214,031,117</u>
<u>\$ 254,415,321</u>	<u>\$ 233,234,142</u>	<u>\$ 322,689,093</u>	<u>\$ 258,285,210</u>	<u>\$ 122,120,062</u>	<u>\$ 2,642,953,112</u>
\$ 180,960,000	\$ 156,920,000	\$ 251,132,000	\$ 211,680,000	\$ 39,288,929	\$ 1,862,798,929
25,099,000	27,514,000	23,254,000	-	26,362,806	102,229,806
48,356,321	48,800,142	48,303,093	46,605,210	56,468,327	677,924,377
<u>\$ 254,415,321</u>	<u>\$ 233,234,142</u>	<u>\$ 322,689,093</u>	<u>\$ 258,285,210</u>	<u>\$ 122,120,062</u>	<u>\$ 2,642,953,112</u>

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Prepared by the Department of Finance

Project Manager: Majlinda Marku, Manager of Accounting, MBA

Special thanks to the following Finance staff for their contributions to make this document possible:

Kenneth J. Duplay, Chief Financial Officer, CPA, CMA
Brandon Knittle, Manager of Debt & Treasury, MBA
Michael McGing, Manager of Billing Services and Systems
Robert Radd, Senior Financial Analyst
Kandis Morrissette, Financial Analyst
Brandi Hazeldine, Senior Accountant, CPA
Mary Paugh, Budget Analyst
Jamee Thompson, Budget Analyst
Maridah Ahmad, Senior Finance Administrator
Vanessa Byrd, Accounting Clerk

Other Department Contributors:

John C. Gonzalez, Manager of Communications
Monica Day, GIS Supervisor



3900 Euclid Avenue
Cleveland, Ohio 44115
(216) 881-6600 • neorsd.org

Northeast Ohio Regional Sewer District

**Single Audit Reports
For the Year Ended December 31, 2017**

Northeast Ohio Regional Sewer District

For the Year Ended December 31, 2017

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**Independent Auditor’s 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, in accordance with the 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, the financial statements of the business-type activities of the Northeast Ohio Regional Sewer District (the “District”), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated June 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Northeast Ohio Regional Sewer District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cienni + Panichi, Inc.

Cleveland, Ohio
June 29, 2018

**Independent Auditor’s Report on Compliance for Each Major Program; Internal Control
over Compliance Required by the Uniform Guidance; and Report on the Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Board of Trustees
Northeast Ohio Regional Sewer District

Report on Compliance for Major Federal Program

We have audited the Northeast Ohio Regional Sewer District’s (the “District”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District’s major federal program for the year ended December 31, 2017. The District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibilities

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibilities

Our responsibility is to express an opinion on compliance for the District’s major federal program based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the District’s compliance.

Opinion on Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Trustees
Northeast Ohio Regional Sewer District

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the business-type activities of the District as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated June 29, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 29, 2018

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Northeast Ohio Regional Sewer District

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2017

<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: Clean Water State Revolving Fund Cluster: Capitalization Grants for Clean Water State Revolving Funds	66.458	CS391430-0116	\$ 4,332,257
Capitalization Grants for Clean Water State Revolving Funds	66.458	CS391430-0130	<u>15,893,274</u>
Total U.S. Environmental Protection Agency, Clean Water State Revolving Fund Cluster: Capitalization Grants for Clean Water State Revolving Funds			<u>20,225,531</u>
Total expenditures of federal awards			\$ <u>20,225,531</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, 2017

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note 2: Indirect Cost Rate

The District did not elect to use the 10% de minimis indirect cost rate.

Northeast Ohio Regional Sewer District

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2017

1. Summary of Auditor's Results

(d)(I)(i)	Type of Financial Statement Opinion	Unmodified
(d)(I)(ii)	Were there any material internal control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material noncompliance reported at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weaknesses 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 Program's Compliance Opinion	Unmodified
(d)(I)(vi)	Are there any reportable findings under 2 CFR Section 200.516(a)?	No
(d)(I)(vii)	Major Program	Clean Water State Revolving Fund Cluster: Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458)
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: All others
(d)(I)(ix)	Low Risk Auditee?	Yes

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

None

3. Findings for Federal Awards

None

Northeast Ohio Regional Sewer District

Schedule of Prior Audit Findings and Questioned Costs

For the Year Ended December 31, 2017

No prior year findings or questioned costs.



Dave Yost • 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
AUGUST 9, 2018**