



Comprehensive Annual Financial Report

| For the year ended December 31, 2002 |



**Auditor of State
Betty Montgomery**

Board of Trustees
Northeast Ohio Regional Sewer District
3826 Euclid Avenue
Cleveland, Ohio 44115-2504

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, 2002 to December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 19, 2003

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Legend

- A** Administration Building - 3826 Euclid Ave. (3900 Euclid Ave. FALL 2003)
- E** Environmental & Maintenance Services Center - 4747 E. 49th Street
- E** Easterly Wastewater Treatment Plant - 14021 Lake Shore Boulevard
- S** Southerly Wastewater Treatment Plant - 6000 Canal Road
- W** Westerly Wastewater Treatment Plant - 5800 West Memorial Shoreway

EASTERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

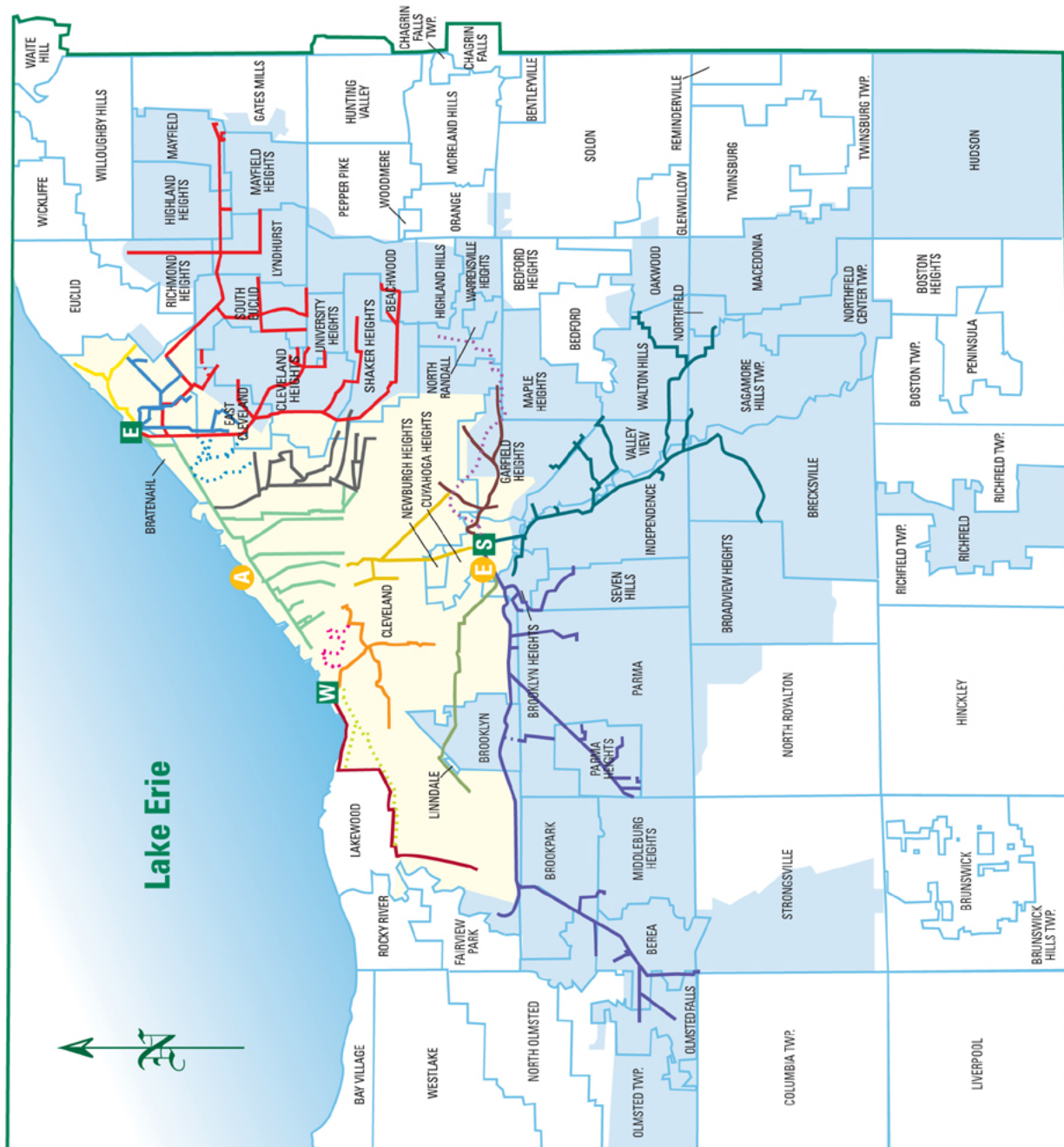
- Easterly
- Doan Valley
- Dugway
- Heights-Hilltop
- E. 140th & 152nd
- Lakeshore-Nottingham

SOUTHERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

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

WESTERLY WASTEWATER TREATMENT PLANT TRIBUTARY INTERCEPTOR SYSTEMS

- Low Level
- Northwest
- Westerly
- Walworth
- Combined Sewer Area
- Separate Sanitary Sewer Area



Protecting your health and environment since 1972

Map current as of December 2000. Portions of three communities have joined the District's service area since December 2000 that are not denoted on this map; their combined serviced population is 24.

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NORTHEAST OHIO REGIONAL SEWER DISTRICT
A POLITICAL SUBDIVISION OF THE
STATE OF OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2002

SUBMITTED BY:

Departments of Finance and District Administration



NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT

DECEMBER 31, 2002

TABLE OF CONTENTS

| | PAGE |
|---|------|
| INTRODUCTORY SECTION | |
| Letter of Transmittal | i |
| GFOA Certificate of Achievement | xi |
| District Officials | xii |
| Table of Organization | xiii |
| | |
| FINANCIAL SECTION | |
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements | |
| Balance Sheets | 12 |
| Statements of Revenues, Expenses and Changes in Net Assets | 14 |
| Statements of Cash Flows | 15 |
| Notes to Financial Statements | 17 |
| Required Supplementary Information | |
| Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual | 38 |
| Notes to Required Supplementary Information | 39 |
| | |
| STATISTICAL SECTION (UNAUDITED) | |
| Revenues by Type – Last Ten Years | 42 |
| Operating Expenses by Type – Last Ten Years | 44 |
| Ratio of Annual Debt Service for Bonded Debt to Total Operating Revenue – Last Ten Years | 46 |
| Communities Served by the District and Estimated Population Served | 47 |
| Largest Customers of the District | 48 |
| Miscellaneous Operating Statistics – Last Ten Years | 50 |
| Cumulative Asset Growth – Last Ten Years | 52 |
| CONTINUING DISCLOSURE REQUIREMENTS | |
| Sewer Customers and Usage | |
| Historical Number of Customer Accounts – Last Ten Years | 54 |
| Annual Metered Billing Quantities – Last Ten Years | 56 |

STATISTICAL SECTION (UNAUDITED) (continued)

| | |
|---|----|
| Summary of Revenues, Expenses and Debt Service Coverage – Last Ten Years..... | 58 |
| Sewage Service Rates – Rate History..... | 60 |
| Capital Improvement Program – Uses and Sources of Funds 2003 Through 2007..... | 61 |

INTRODUCTORY SECTION

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Northeast Ohio Regional Sewer District

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

May 27, 2003

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

The Comprehensive Annual Financial Report of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2002, is hereby submitted. This report conforms to Generally Accepted Accounting Principles (GAAP) including Governmental Accounting Standards Board Statements 34 through 38 as applicable. This report consists of management's representations concerning the finances of the District. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management.

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

The Ohio Revised Code requires the Auditor of State to perform biennial audits of the District. In addition, the District's Bond Resolution requires annual financial audits. Both these requirements are being met, with the approval of the Auditor of State, by the engagement of independent certified public accountants by the District. Ciuni & Panichi, Inc., a firm of licensed certified public accountants, has audited the District's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended December 31, 2002 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's report is presented as the first component of the financial section of this report.

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial and statistical. The introductory section, which is unaudited, includes this letter of transmittal, the Certificate of Achievement for Excellence in Financial Reporting awarded by the Government Finance Officers Association for the year ended December 31, 2001, a list of the District's principal officials and a table of organization. The financial section includes the

statements and related notes, required supplementary information and related notes. The report of the independent auditors, management's discussion and analysis, the 2002 financial statistical section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis that is helpful in performing trend analyses.

The District is required to undergo an annual audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Information related to this Single Audit, including a schedule of expenditures of federal awards and the independent auditors' report on compliance with requirements applicable to each major federal award program and internal control over compliance, is included in a separately issued Single Audit report.

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

As part of the District's Single Audit, described earlier, tests were made by the District's external auditors of its internal control structure and compliance with applicable laws and regulations, including those related to federal financial assistance programs. Although this testing is not sufficient to support a separate opinion on the District's internal control system or its overall compliance with laws and regulations related to federal financial assistance programs, the audit for the year ended December 31, 2002 disclosed no material internal control weaknesses or material violations of laws and regulations.

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

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

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

PROFILE OF THE DISTRICT

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

The District's service area covers approximately 355 square miles. The District encompasses 97% of the City of Cleveland and all or portions of 58 suburban communities in Cuyahoga and Summit Counties. The area contains a residential service population in excess of one million persons and includes a diverse group of service, information, biotechnology, manufacturing and processing industries. The District treats the greatest amount of wastewater in the State of Ohio.

General provisions regulating the District's budget and appropriation procedures are set forth in the Ohio Revised Code. The Executive Director is required to submit the District's operating and capital budgets to the Board of Trustees and they are required to adopt such budgets by March 31 of the year to which they apply. Readers should refer to the Schedule of Revenues, Expenses and Changes in Net Assets – Budget to Actual on page 38 of this report, along with the accompanying Notes to Required Supplementary Information for additional budgetary information.

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

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The economic environment in which the District operates is affected by the same events and conditions as the rest of the State of Ohio and the nation. Although the economy is experiencing a downturn, District revenue is expected to increase in 2003 due to approval of a rate increase by the Board of Trustees. The region is not dominated by any single industry. The city of Cleveland ranks 12th among cities with Fortune 500 company headquarters. There are six Fortune 500 companies in Cleveland and eight in the District's service area. Major industries

with headquarters or divisions located in the District's service area or in close proximity include automotive manufacturers; industrial equipment, metals, paints and coatings producers; office supply retailer; insurance; and banking services. Major employers in the area also include federal, state and local government agencies, health care providers, public schools and financial service providers. In recent years there has been a significant shift from manufacturing to a service and information based economy.

The area has experienced an increase in travel and tourism. The Convention & Visitors Bureau of Greater Cleveland has released some statistics for 2002 travel and tourism and has updated 2001 statistics. The Bureau received 445,598 visitor information requests in 2002 compared to 394,769 in 2001 and 256,328 in 2000. The number of leisure visitors to Cuyahoga County in 2001 was 9.0 million, which is a 2.3% increase over the 8.8 million in 2000 and an 11.1% increase over the 8.1 million in 1999. Travel and tourism contributed approximately \$3.1 billion and 65,470 jobs to the economy of the area in 2001.

The unemployment rate in December 2002 (not seasonally adjusted) for Cuyahoga County, which is significantly the same as the District's service area, of 5.9% was 0.6% higher than the seasonally adjusted rate for the State of Ohio and 0.1% lower than the national rate. The county had an employed labor force of approximately 622,900 as of December 2002, which was about 12,300 less than the revised amounts for December 2001. Although the City of Cleveland and Cuyahoga County have experienced an outward migration of residents to neighboring suburbs and counties, the presence of corporate, cultural and entertainment facilities continues to attract visitors and commuters to the area. The service area of the District has remained stable, and can be readily expanded in the future, as opportunities arise.

Long-term Financial Planning

During 2002 the District commenced work on a long-term financial plan. Challenges to the plan include funding requirements for federally mandated combined sewer overflow projects estimated to cost over \$1.3 billion over the next 30 years. The planning process recognized a decline in consumption that, when combined with future funding requirements, led to a rate increase for the years 2003 through 2006. Long-term financial planning is an ongoing process and the plan continues to evolve to meet the District's needs.

Cash Management

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

In determining portfolio performance and value, marketable securities are periodically compared to market. The District has not incurred any realized loss in the portfolio since securities are held to maturity, at which time the anticipated return is received. At December 31, 2002, the

District's investment portfolio, at cost, of \$309,993,840, including \$1,982,486 in the Debt Service Account for the Series 1995 Bonds and excluding accrued interest, had a market value of \$323,466,931.

Risk Management

The District maintains an insurance reserve to account for and finance its uninsured risks of property damage. The District is self-insured for workers' compensation and purchases commercial insurance for liability and other specific types of coverage. Note 11 to the audited financial statements discloses information about risk management.

Debt Administration

At year-end, the District had bonded debt outstanding of \$76,175,000. The debt net of applicable unamortized discounts, issue costs and refunding costs is \$72,366,682. The District also has obtained loans through the State of Ohio Water Pollution Control Loan Fund (WPCLF) and through the Ohio Water Development Authority (OWDA). As of December 31, 2002, the outstanding loan balances were \$329,331,746 for the WPCLF and \$1,907,426 with the OWDA. Outstanding revenue bonds of the District are rated AAA by Standard & Poor's and Aaa by Moody's rating agencies. Note 6 to the audited financial statements includes schedules of debt outstanding and future debt service requirements.

In prior years, the District refinanced bonded debt that was outstanding at the time. These legal defeasance transactions resulted in funds being deposited with escrow agents who invested them in U.S. Treasury obligations which, together with the income earned on such investments, will be sufficient to service the debt until maturity or redemption. The refinanced debt and the escrow funds, deposited in irrevocable trusts, are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the refunding transactions. This information should be read in conjunction with Note 6 to the audited financial statements.

MAJOR INITIATIVES

For the Year

Rate Study

A rate study of a projected six-year period concluded that an increase in sewage service rates was necessary. The increase in rates is due to the District's need to finance \$495 million in capital projects between 2002 and 2006, combined with the repayment of existing debt service requirements for past capital improvement projects and an anticipated decrease in billed consumption. The District was able to keep rates stable for three years from 2000 through 2002, however, these uncontrollable factors led to the increase in rates. Effective January 1, 2003, City of Cleveland customers pay \$22.70 and suburban customers pay \$27.95 per 1,000 cubic feet (mcf) of water, equivalent to 7,480 gallons. Homestead program customers pay \$15.30 in Cleveland and \$18.70 in the suburbs.

On January 1, 2003 the District initiated a 20-year equalization program which will eliminate the difference in suburban rates and City of Cleveland rates by 2022. The differential in rates was created by rate increments designed to amortize capital costs of suburban only projects.

2002 Awards

The Association of Metropolitan Sewerage Agencies (AMSA) recognized the District's outstanding accomplishments with three awards in 2002. The Southerly Wastewater Treatment Plant received the Platinum Award for 2002. This award recognizes the major accomplishment of five consecutive years of operation without any National Pollutant Discharge Elimination System (NPDES) permit violations. The Westerly Wastewater Treatment Plant received the AMSA Gold Award for one year without any permit violations. A Silver Award went to the Easterly Treatment Plant for just one permit violation in 2002.

For their exemplary safety records, the District's Easterly Wastewater Treatment Plant and the Environmental Services - Water Quality Investigation Services department each received the Ohio Water Environment Association Safety Award.

Plant Shift Schedule

In a conversion that called for cooperation to realize its true benefits, the District and Local Union 2798 agreed to a one-year trial of a 12-hour shift schedule for wastewater plant operators in December of 2001. Since 1946, operators had worked a standard eight-hour schedule. Employees and management favored the trial, which accounted for increased personal time for employees, fewer shift changes, and overwhelming support from operators. The experiment's success in 2002 prompted a District and Local 2798 agreement last December to retain the 12-hour schedule.

Easterly CSO Project Update

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

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

The recommended plan is comprised of a storage tunnel network for the majority of the service area, and satellite storage facilities in the Flats area to address CSOs overflowing into the Cuyahoga River that could not be cost-effectively connected to the tunnel system. The plan also

calls for a series of new sewers and regulator modifications necessary to reach the four overflows per year control goal, as well as pump station improvements to enhance the operation of the existing Easterly collection system. The network of tunnels will be capable of storing up to 152 million gallons of CSO in a single event.

The Easterly District CSO Control Plan will comply with CSO requirements, improve water quality and provide the best fit with current District facility operations. During a typical year of rainfall, approximately 2.55 billion gallons of CSOs are discharged to Lake Erie and seven receiving streams from the 47 permitted outfalls located throughout the Easterly service area. With implementation of this plan, it is estimated that over 2 billion gallons a year of additional CSO volume will be captured for treatment. The estimated cost of the proposed plan is \$693 million.

The District has proceeded with the design and construction of early-action projects to reduce CSO discharges. The early-action projects involve modifications to the existing combined sewer system to reduce CSO frequency. The construction of the early action projects is scheduled for completion in 2004. Additionally, the District has initiated an Advanced Facilities Planning study for the recommended CSO storage tunnels. This study, which involves collecting additional data to help refine the size, depth and route of the recommended CSO storage tunnels, is scheduled for completion in 2003.

Southerly CSO Project Update

The District concluded a study of its Southerly combined sewer area in 2001, intended to develop a facilities plan for system improvements that would reduce pollution levels in Lake Erie and area streams and meet Ohio EPA requirements for combined sewer overflow (CSO) control. According to study results, approximately 1.65 billion gallons of CSO reach receiving waters from 30 permitted outfalls in the Southerly study area. A recommended control plan — which includes two main storage tunnel systems, a dewatering pump station, a satellite storage tank, and several other miscellaneous modifications and improvements — has been submitted to the EPA for review. The estimated cost of the proposed plan, one that would capture and treat an additional 1.2 billion gallons of CSO annually, is \$468 million.

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

Westerly CSO Project Update

The District concluded a study of its Westerly combined sewer area in 1999. Study results indicated that approximately 417 million gallons of CSO reach receiving waters from 25 permitted outfalls in the Westerly study area. Another 355 million gallons of CSO is treated at the District's Combined Sewer Overflow Treatment Facility (CSOTF) located adjacent to the

Westerly WWTP. The recommended control plan includes a CSO storage tunnel system, a dewatering pump station, a pump station upgrade, an upgrade of the CSOTF and several other miscellaneous modifications and improvements. The estimated cost of the proposed plan, one that would capture and treat an additional 377 million gallons of CSO annually, is \$154 million.

Several early action CSO control projects in the Westerly CSO area have been completed. The design of upgrades to the District's CSOTF is scheduled for completion in 2003, with construction scheduled to begin in 2004.

Mill Creek Tunnel Contract 3 Update

The final leg of a three-phase tunneling project, designed to reduce combined sewer overflows (CSOs) to the environment, began in October. Known as Mill Creek Tunnel Contract 3 (MCT-3), this 15,600-ft. stretch of 20-foot-diameter sewer will be capable of storing more than 70 million gallons of CSO volume annually. Twelve communities will benefit from the project as the tunnel relieves currently overloaded combined and sanitary sewers. In addition, thirteen of 27 outfalls now discharging to Lake Erie, the Cuyahoga River, and Cranwood and Wolf Creeks, will be eliminated upon its completion. MCT-3 construction is scheduled through 2006 at a cost of \$58.3 million.

Passing of Judge George J. McMonagle

Judge George McMonagle, who established the Cleveland Regional Sewer District by court order in 1972, died last February at the age of 95. He was a mainstay in Ohio courtrooms from 1934 to 1976, and during that time, the environment was his passion: "The Judge was always critically interested in clean water," said William Schatz, District General Counsel since 1977. "He knew Lake Erie, knew its problems, and wanted to be part of the solution." Upon their completion this fall, the District's new administrative offices downtown will bear McMonagle's name "as a tribute to him and his work for the environment," said Schatz.

For the Future

Engineering Reorganization

The District's Engineering department underwent an overhaul last December in an effort to improve teamwork and harness the organizational knowledge of veteran employees. Forty-eight employees from seven departments gathered over a three-day period to analyze Engineering's current structure and propose a new plan that would address a need for succession planning and team-based planning and design. A plan was approved earlier this year and will be fully operational when engineering and administrative personnel are brought together in the new McMonagle Building this fall.

Asset Management

Thirty years of public service has not bred complacency in the District's plans for the future. Recognizing imminent challenges such as storm water management and the implementation of a \$1.35 billion combined sewer over flow control initiative, the District spent its thirtieth anniversary investigating the realm of Asset Management (AM). AM is a collection of business processes applied to more than \$2.7 billion worth of physical assets with the goal of providing required service in the most cost-effective manner. This year will mark the beginning of new mindset for management, requiring the District to be more proactive while still providing the exemplary service that has earned state and national acclaim since 1972.

CERTIFICATE OF ACHIEVEMENT

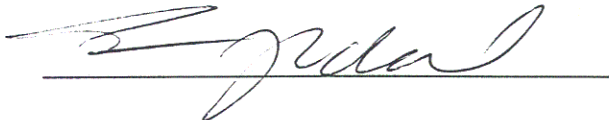
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Northeast Ohio Regional Sewer District for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2001. This was the seventh consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

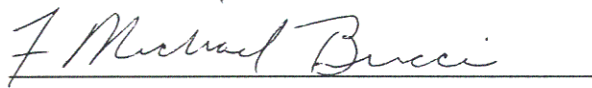
ACKNOWLEDGEMENTS

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

Respectfully submitted,



Erwin J. Odeal
Executive Director



F. Michael Bucci
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Northeast Ohio Regional
Sewer District

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2001

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



President

Executive Director

DISTRICT OFFICIALS

DECEMBER 31, 2002

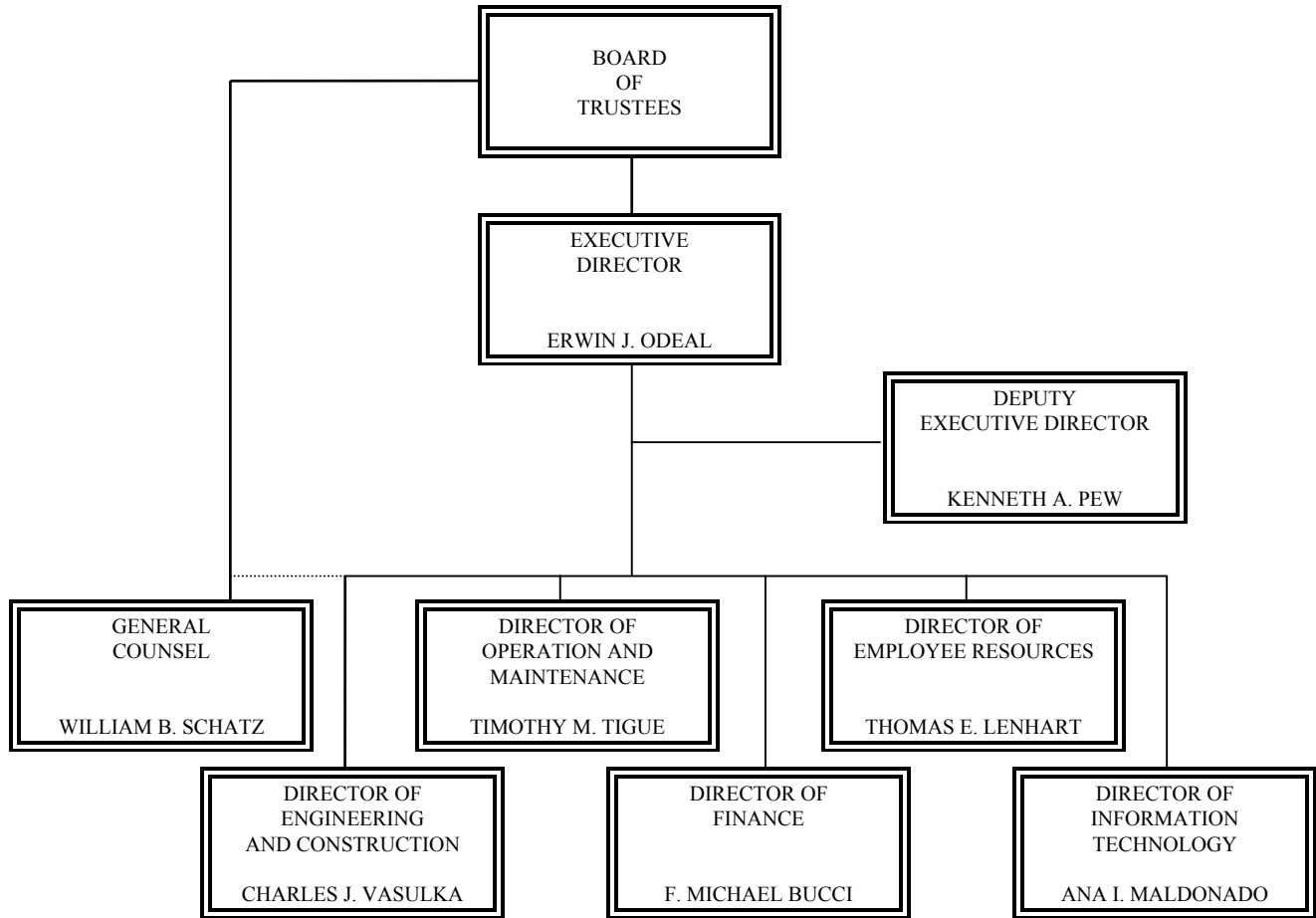
Board of Trustees

| | |
|-----------------------------|----------------|
| Mayor Thomas J. Longo | President |
| Michael L. Nelson, Sr. | Vice President |
| Mayor Gary W. Starr | Secretary |
| Mayor Gerald M. Boldt | Member |
| Sheila J. Kelly | Member |
| Darnell Brown..... | Member |
| Ronald D. Sulik..... | Member |

Senior Staff

| | |
|-------------------------|---|
| Erwin J. Odeal..... | Executive Director |
| Kenneth A. Pew | Deputy Executive Director |
| William B. Schatz | General Counsel |
| Charles J. Vasulka..... | Director of Engineering and Construction |
| Timothy M. Tigue..... | Director of Operation and Maintenance |
| F. Michael Bucci..... | Director of Finance |
| Thomas E. Lenhart..... | Director of Employee Resources |
| Ana I. Maldonado | Director of Information Technology |

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
TABLE OF ORGANIZATION
DECEMBER 31, 2002**



| <u>NUMBER OF EMPLOYEES BY DEPARTMENT</u> | |
|--|------------|
| OPERATION AND MAINTENANCE | 399 |
| EMPLOYEE RESOURCES | 45 |
| INFORMATION TECHNOLOGY | 20 |
| FINANCE | 40 |
| LEGAL | 10 |
| DISTRICT ADMINISTRATION | 18 |
| ENGINEERING AND CONSTRUCTION | 48 |
| TOTAL EMPLOYEES DECEMBER 31, 2002 | <u>580</u> |



FINANCIAL SECTION



Creating economic value through
knowledge, innovation, commitment, and service

CIUNI & PANICHI
INC.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS CONSULTING FIRM

a C&P Advisors Company

Independent Auditors' Report

The Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the accompanying financial statements of the Northeast Ohio Regional Sewer District, as of and for the years ended December 31, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Northeast Ohio Regional Sewer District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northeast Ohio Regional Sewer District, as of December 31, 2002 and 2001, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, during the year ended December 31, 2002 and 2001, the Northeast Ohio Regional Sewer District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2003 on our consideration of the Northeast Ohio Regional Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



The Board of Trustees
Northeast Ohio Regional Sewer District

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Cinni & Panichi, Inc.

Cleveland, Ohio
April 17, 2003

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

The following discussion provides a summary overview of the financial activities of the Northeast Ohio Regional Sewer District (the "District") for the year ended December 31, 2002. This information should be read in conjunction with the letter of transmittal and basic financial statements included in this report.

Financial Highlights

- Assets exceeded liabilities by \$1,177,507,549 as of December 31, 2002.
- Net assets increased by \$41,821,170 in 2002.
- Of the increase in net assets, \$40,884,465, or 97.8% was attributed to investment in capital assets, net of related debt. The remaining increase of \$936,705 was in unrestricted net assets.
- Debt increased \$47,461,825 due mainly to new Water Pollution Control Loan Fund borrowings. Retirements of debt principal were \$20,874,240.

Overview of the Financial Statements

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

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

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

The tables below provide a summary of the District's financial position and operations for 2002, 2001 and 2000, respectively. The District implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in 2002. Certain reclassifications have been made to restate the 2001 and 2000 financial statements in order to conform to the 2002 presentation. Certain amounts may vary slightly due to differences caused by rounding to thousands.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Condensed Statements of Net Assets

December 31,
(in Thousands)

| | 2002 | 2001 | Change | |
|----------------------------|--------------------|--------------------|-----------------|-------------|
| | | | Amount | % |
| <u>Assets</u> | | | | |
| Current assets | \$145,854 | \$140,039 | \$5,815 | 4.2% |
| Capital assets, net | 1,208,616 | 1,140,558 | 68,058 | 6.0% |
| Other noncurrent assets | 254,616 | 260,726 | (6,110) | -2.3% |
| Total assets | 1,609,086 | 1,541,323 | 67,763 | 4.4% |
| <u>Liabilities</u> | | | | |
| Current liabilities | 45,369 | 45,999 | (630) | -1.4% |
| Long-term debt | 386,209 | 359,637 | 26,572 | 7.4% |
| Total liabilities | 431,578 | 405,636 | 25,942 | 6.4% |
| <u>Net assets</u> | | | | |
| Invested in capital assets | 806,995 | 766,111 | 40,884 | 5.3% |
| Unrestricted | 370,513 | 369,576 | 937 | 0.3% |
| Total net assets | \$1,177,508 | \$1,135,687 | \$41,821 | 3.7% |

Net assets may serve as a useful indicator of financial position. As noted earlier, District assets exceeded liabilities by \$1,177,507,549 as of December 31, 2002, of which \$806,994,285 is for net investment in capital assets.

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

During 2002, net assets increased by \$41,821,170. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$2,255,568.
- Receivables from Federal and state agencies decreased by \$1,642,285.
- Capital assets increased by \$68,058,343 due mainly to construction of the wastewater treatment and conveyance system and a new administration building.
- Total debt increased by a net amount of \$26,587,585. Additions of \$47,461,825 were for new borrowings from the Water Pollution Control Loan Fund. Reductions were \$20,874,240 for repayment of debt principal.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Condensed Statements of Net Assets

December 31,
(in Thousands)

| | 2001 | 2000 | Change | |
|----------------------------|--------------------|--------------------|-----------------|-------------|
| | | | Amount | % |
| <u>Assets</u> | | | | |
| Current assets | \$140,039 | \$127,297 | \$12,742 | 10.0% |
| Capital assets, net | 1,140,558 | 1,088,370 | 52,188 | 4.8% |
| Other noncurrent assets | 260,726 | 250,595 | 10,131 | 4.0% |
| Total assets | 1,541,323 | 1,466,262 | 75,061 | 5.1% |
| <u>Liabilities</u> | | | | |
| Current liabilities | 45,999 | 39,360 | 6,639 | 16.9% |
| Long-term debt | 359,637 | 338,678 | 20,959 | 6.2% |
| Total liabilities | 405,636 | 378,038 | 27,598 | 7.3% |
| <u>Net assets</u> | | | | |
| Invested in capital assets | 766,110 | 736,761 | 29,349 | 4.0% |
| Unrestricted | 369,577 | 351,463 | 18,114 | 5.2% |
| Total net assets | \$1,135,687 | \$1,088,224 | \$47,463 | 4.4% |

During 2001, net assets increased by \$47,462,282. The majority of this increase was due to the following:

- Sewage service fees receivable from customers increased by \$3,400,736.
- Receivables from Federal and state agencies increased \$5,063,372.
- Capital assets increased by \$52,187,579 due mainly to construction of the wastewater treatment and conveyance system.
- Total debt increased by \$22,186,735. Additions of \$41,733,837 were for new borrowings from the Water Pollution Control Loan Fund. Reductions were \$19,547,102 for repayment and adjustment of debt principal.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

The following table summarizes the changes in revenues and expenses for the District between 2002 and 2001:

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

| | 2002 | 2001 | Change | |
|---------------------------------|-----------------|-----------------|------------------|----------------|
| | | | Amount | % |
| Operating revenue | \$130,758 | \$134,612 | (\$3,854) | (2.9)% |
| <u>Operating expenses</u> | | | | |
| Operations | 44,565 | 44,550 | 15 | 0.0% |
| Maintenance | 17,342 | 18,182 | (840) | (4.6)% |
| Depreciation | 32,388 | 31,496 | 892 | 2.8% |
| Total operating expenses | <u>94,295</u> | <u>94,228</u> | <u>67</u> | <u>0.1%</u> |
| Operating income | 36,463 | 40,384 | (3,921) | (9.7)% |
| Nonoperating revenues | | | | |
| (expenses) | 104 | 3,700 | (3,596) | (97.2)% |
| Capital contributions | <u>5,254</u> | <u>3,378</u> | <u>1,876</u> | <u>55.5%</u> |
| Change in net assets | <u>\$41,821</u> | <u>\$47,462</u> | <u>(\$5,641)</u> | <u>(11.9)%</u> |

Operating revenue consists of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. For the year ended December 31, 2002:

- Operating revenue decreased by \$3,854,719 (2.9%) compared to 2001. The decrease was due to lower consumption in 2002.
- Operating expenses in total were virtually unchanged (0.1% increase) compared to 2001. A decrease of \$840,345 in maintenance expense was offset by an increase in depreciation expense of \$892,610.

Nonoperating revenues decreased by \$3,595,164 (97.2%) for the year ended December 31, 2002 due to several factors.

- Interest revenue decreased by \$4,332,322 due to lower rates of return.
- Fair value of investments increased by \$2,125,971.
- Interest expense increased by \$840,015 due to increased Water Pollution Control Loans.
- Losses on equipment disposals increased by \$548,798.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Capital contributions from the U.S. Environmental Protection Agency increased in 2002 by \$1,875,990 for the Doan Brook/Easterly project.

The following table summarizes the changes in revenues and expenses for the District between 2001 and 2000:

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

| | 2001 | 2000 | Change | |
|---------------------------|-----------|-----------|-----------|---------|
| | | | Amount | % |
| Operating revenue | \$134,612 | \$131,331 | \$3,281 | 2.5% |
| <u>Operating expenses</u> | | | | |
| Operations | 44,550 | 44,184 | 366 | 0.8% |
| Maintenance | 18,182 | 15,710 | 2,472 | 15.7% |
| Depreciation | 31,496 | 30,321 | 1,175 | 3.9% |
| Total operating expenses | 94,228 | 90,215 | 4,013 | 4.4% |
| Operating income | 40,384 | 41,116 | (732) | (1.8)% |
| Nonoperating revenues | | | | |
| (expenses) | 3,700 | 6,545 | (2,845) | (43.5)% |
| Capital contributions | 3,378 | 9,601 | (6,223) | (64.8)% |
| Change in net assets | \$47,462 | \$57,262 | (\$9,800) | (17.1)% |

Operating revenue consists of user charges for sewage service fees based on water consumption. Operating expenses reflect the cost of providing these services. Nonoperating revenue and expense reflects investing and financing activities.

For the year ended December 31, 2001:

- Operating revenue increased by \$3,281,925 (2.5%) compared to 2000. The increase was due mainly to an increase in unbilled Cleveland sewer service fees.
- Operating expenses increased \$4,013,784 (4.4%) compared to 2000 due mainly to increases of \$1,523,069 in utilities and \$1,918,860 in repairs and maintenance.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Nonoperating revenues decreased by \$2,845,255 (43.5%) for the year ended December 31, 2001 due to several factors.

- Interest revenue increased by \$2,599,819 due to higher investment balances.
- Fair value of investments decreased by \$3,794,399.
- Interest expense increased by \$957,000 due to increased Water Pollution Control Loans.
- Losses on equipment disposals increased by \$693,675.

Capital contributions from the U.S. Environmental Protection Agency decreased \$6,222,920 during 2001 due to completion of the Westerly wastewater treatment plant project.

Capital Assets

At the end of 2002, the District had \$1,208,616,296 invested in capital assets. This amount represents a net increase of approximately \$68 million, or 6.0% over 2001. Refer to Notes 2 and 5 to the audited financial statements for more detailed information on capital assets.

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

| | 2002 | 2001 | Change | |
|--|-------------|-------------|----------|--------|
| | | | Amount | % |
| Land | \$3,889 | \$3,809 | \$80 | 2.1% |
| Construction in Progress | 230,125 | 221,223 | 8,902 | 4.0% |
| Interceptor Sewer Lines | 509,157 | 485,065 | 24,092 | 5.0% |
| Buildings, structures and improvements | 378,588 | 335,942 | 42,646 | 12.7% |
| Sewage treatment and other equipment | 86,857 | 94,519 | (7,662) | (8.1)% |
| Totals | \$1,208,616 | \$1,140,558 | \$68,058 | 6.0% |

Major additions in 2002, at cost included:

Interceptors:

| | |
|---------------------------|---------|
| Van Aken Boulevard | \$5,217 |
| Mill Creek Tunnel 2 | 14,273 |
| Lee-Superior Relief Sewer | 8,132 |

Wastewater treatment plants:

| | |
|---|--------|
| Easterly wet weather improvements | 10,912 |
| Easterly early action combined sewer overflow | 5,518 |
| Westerly phase II A plant improvements | 8,751 |

Administrative office complex

| |
|-----------------|
| 7,882 |
| <u>\$60,685</u> |

NORTHEAST OHIO REGIONAL SEWER DISTRICT

**Management's Discussion and Analysis
(Unaudited)**

At the end of 2001, the District had \$ 1,140,557,953 invested in capital assets. This amount represents a net increase of approximately \$52,187,579 million, or 4.8% over 2000. Refer to Notes 2 and 5 to the audited financial statements for more detailed information regarding capital assets.

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

| | 2001 | 2000 | Change | |
|--|-------------|-------------|----------|--------|
| | | | Amount | % |
| Land | \$3,809 | \$3,806 | \$3 | 0.1% |
| Construction in Progress | 221,223 | 154,960 | 66,263 | 42.8% |
| Interceptor Sewer Lines | 485,065 | 483,377 | 1,688 | 0.3% |
| Buildings, structures and improvements | 335,942 | 357,673 | (21,731) | (6.1)% |
| Sewage treatment and other equipment | 94,519 | 88,554 | 5,965 | 6.7% |
| Totals | \$1,140,558 | \$1,088,370 | \$52,188 | 4.8% |

Major additions in 2001, at cost included:

Interceptors:

| | |
|---------------------------|---------|
| Van Aken Boulevard | \$2,780 |
| Mill Creek Tunnel 2 | 28,593 |
| Stonington-Parma Park | 3,086 |
| Lee-Superior Relief Sewer | |

Wastewater treatment plants:

| | |
|--|-----------------|
| Easterly wet weather improvements | 3,924 |
| Easterly breakwall rehabilitation | 3,321 |
| Westerly phase II A plant improvements | 10,999 |
| Southerly combined sewer overflow | 2,780 |
| Administrative office complex | 3,011 |
| | <u>\$58,494</u> |

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Debt Administration

At December 31, 2002 the District had total debt outstanding of \$407,414,172 compared to \$380,826,587 at December 31, 2001. This represents an increase of \$26,587,585. As mentioned earlier, loans from the Ohio Water Development Authority Water Pollution Control Loan Fund increased \$47,461,825 and debt retirements were \$20,874,240. The carrying value of the long-term portion of debt at December 31, 2002 was \$386,208,843 and the fair value of the long-term debt was \$401,937,286.

At December 31, 2001 the District had total debt outstanding of \$380,826,587 compared to \$358,639,852 at December 31, 2000. This represents an increase of \$22,186,735. Loans from the Water Pollution Control Loan Fund increased \$41,733,837 and debt retirements were \$19,547,102. The carrying value of the long-term portion of debt at December 31, 2001 was \$359,637,349 and the fair value of the long-term debt was \$353,642,360.

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)

| | 2002 | 2001 | 2000 |
|--|------------------|------------------|------------------|
| Revenue Bonds | \$76,175 | \$79,775 | \$83,220 |
| Ohio Water Development Authority Loans | 1,907 | 4,580 | 8,244 |
| Water Pollution Control Loans Payable | 329,332 | 296,459 | 267,148 |
| Other | 0 | 13 | 28 |
| Total Debt | <u>\$407,414</u> | <u>\$380,827</u> | <u>\$358,640</u> |

Economic Factors

Effective January 1, 2003 the District increased sewage service rates for the first time in three years. Rates increased by 7.6% to \$22.70 per thousand cubic feet (mcf) for customers located in the City of Cleveland, and by 5.1% to \$27.95 per mcf for customers outside the City. (The District's Homestead Program offers reduced rates to qualified customers age 65 or older, or those totally disabled.) Similar increases are scheduled for the years 2004 through 2006. Increasingly stringent federal regulations and remaining legal obligations are key factors that led to the increase. A rate study of a projected six-year period concluded that due to the need to finance \$495 million in federally mandated capital projects between 2002 and 2006, combined with the repayment of existing debt service for past projects and an anticipated decrease in billed consumption, rate increases were necessary.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Management's Discussion and Analysis (Unaudited)

Budgetary Highlights

There were no differences between the original and final budget amounts for 2002. The differences between the final budget amounts and actual results for 2002 resulted in a positive variance of \$11,745,883 in the excess of revenue over expenses. Significant variances were as follows.

- Actual revenues exceeded budgetary estimates by \$5,961,039 due to higher actual consumption than anticipated in the budget.
- Actual salaries and wages were less than budgetary estimates by \$1,386,247 due to lower than anticipated hours worked.
- Actual 2002 power was \$1,106,779 less than budgetary estimates due to lower consumption than anticipated in the budget.
- Depreciation was lower than the budget by \$1,111,484.

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances for all interested parties. Questions and requests for additional information regarding this report should be addressed to the Director of Finance, Northeast Ohio Regional Sewer District, 3826 Euclid Avenue, Cleveland, Ohio 44115, or by telephone at (216) 881-6600.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Net Assets

December 31, 2002 and 2001

| | <u>Assets</u> | |
|--|------------------|------------------|
| | 2002 | 2001 |
| Current assets: | | |
| Cash | \$ 238,161 | \$ 333,788 |
| Short-Term Investments | 75,776,139 | 70,555,105 |
| Sewage Service Fees Receivable, Less | | |
| Allowance for Doubtful Accounts of \$5,212,000 in 2002 | | |
| and \$6,488,000 in 2001 (Note 4) | 55,357,791 | 53,102,223 |
| Receivables from Federal and State Agencies | 6,610,936 | 8,253,221 |
| Inventory, Prepaid Expenses and Other | 7,870,768 | 7,794,417 |
| Total Current Assets | 145,853,795 | 140,038,754 |
| Noncurrent Assets: | | |
| Capital Assets: | | |
| Interceptor Sewer Lines | 589,511,249 | 557,960,724 |
| Buildings, Structures and Improvements | 602,745,553 | 546,084,950 |
| Sewage Treatment and Other Equipment | 229,627,158 | 233,030,500 |
| | 1,421,883,960 | 1,337,076,174 |
| Less Accumulated Depreciation | 447,281,747 | 421,549,869 |
| | 974,602,213 | 915,526,305 |
| Land | 3,888,718 | 3,808,718 |
| Construction in Progress | 230,125,365 | 221,222,930 |
| Net Capital Assets | 1,208,616,296 | 1,140,557,953 |
| Unamortized Deferred Debt Expense | 3,808,318 | 4,392,644 |
| Construction Funds (Note 2) | 248,823,749 | 254,347,846 |
| Revenue Bond Debt Service Deposit (Note 2) | 1,983,842 | 1,985,810 |
| Total Noncurrent Assets | 1,463,232,205 | 1,401,284,253 |
| Total Assets | \$ 1,609,086,000 | \$ 1,541,323,007 |

Continued

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statement of Net Assets (Continued)

December 31, 2002 and 2001

| | <u>Liabilities and Net Assets</u> | |
|--|-----------------------------------|-------------------------|
| | <u>2002</u> | <u>2001</u> |
| Liabilities: | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 4,647,143 | \$ 5,282,072 |
| Construction Contracts Payable | 8,398,882 | 8,336,089 |
| Accrued Interest | 5,892,262 | 5,930,815 |
| Other Accrued Liabilities | 3,476,500 | 3,683,409 |
| Retainages on Construction Contracts | 1,749,492 | 1,577,656 |
| Current Maturities of Long-Term Debt (Note 6) | <u>21,205,329</u> | <u>21,189,238</u> |
| Total Current Liabilities | <u>45,369,608</u> | <u>45,999,279</u> |
| Noncurrent Liabilities: | | |
| Long-Term Debt, Net of Current Maturities (Note 6) | <u>386,208,843</u> | <u>359,637,349</u> |
| Total Liabilities | <u>431,578,451</u> | <u>405,636,628</u> |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | 806,994,285 | 766,109,820 |
| Unrestricted | <u>370,513,264</u> | <u>369,576,559</u> |
| Total Net Assets | <u>\$ 1,177,507,549</u> | <u>\$ 1,135,686,379</u> |

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Revenues, Expenses and Changes in Net Assets

For the years ended December 31, 2002 and 2001

| | <u>2002</u> | <u>2001</u> |
|---|-------------------------|-------------------------|
| Operating Revenue | \$ 130,758,039 | \$ 134,612,758 |
| Operating Expenses: | | |
| Operations | 44,565,277 | 44,550,323 |
| Maintenance | 17,341,617 | 18,181,962 |
| Depreciation | <u>32,388,516</u> | <u>31,495,906</u> |
| Total Operating Expenses | <u>94,295,410</u> | <u>94,228,191</u> |
| Operating Income | 36,462,629 | 40,384,567 |
| Non-Operating Revenues (Expenses): | | |
| Interest Income | 14,247,954 | 18,580,276 |
| Increase (Decrease) in Fair Value of Investments, Net | 5,457,490 | 3,331,519 |
| Loss on Disposals of Equipment | (1,317,155) | (768,357) |
| Interest on Long-Term Debt | <u>(18,283,691)</u> | <u>(17,443,676)</u> |
| Total Non-Operating Revenues (Expenses) | <u>104,598</u> | <u>3,699,762</u> |
| Income Before Contributions | 36,567,227 | 44,084,329 |
| Capital Contributions | <u>5,253,943</u> | <u>3,377,953</u> |
| Change in Net Assets | 41,821,170 | 47,462,282 |
| Net Assets at Beginning of Year | <u>1,135,686,379</u> | <u>1,088,224,097</u> |
| Net Assets at End of Year | \$ <u>1,177,507,549</u> | \$ <u>1,135,686,379</u> |

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flows

For the years ended December 31, 2002 and 2001

| | 2002 | 2001 |
|---|----------------|----------------|
| Cash Flows from Operating Activities: | | |
| Cash Received From Customers | \$ 128,433,434 | \$ 131,020,493 |
| Cash Payments to Suppliers for Goods and Services | (28,768,641) | (31,469,220) |
| Cash Payments to Employees for Services | (33,939,586) | (31,325,455) |
| Net Cash Provided by Operating Activities | 65,725,207 | 68,225,818 |
| Cash Flows from Investing Activities: | | |
| Purchase of Investments | (410,965,188) | (392,680,228) |
| Proceeds from Maturities of Investments | 415,131,632 | 380,549,901 |
| Interest on Investments | 15,708,321 | 18,912,392 |
| Net Cash Provided by Investing Activities | 19,874,765 | 6,782,065 |
| Cash Flows from Capital and Related Financing Activities: | | |
| Principal Payments on Long-Term Debt | (20,874,240) | (19,547,102) |
| Interest Payments on Long-Term Debt | (15,194,618) | (15,408,907) |
| Proceeds from Water Pollution Control Loans | 46,642,026 | 36,508,404 |
| Acquisition and Construction of Capital Assets | (101,529,386) | (79,088,703) |
| Grants Received | 5,434,522 | 2,777,518 |
| Grant Refund | (173,903) | (474,315) |
| Proceeds from Note Receivable | - | 212,772 |
| Net Cash Used in Capital and Related Financing Activities | (85,695,599) | (75,020,333) |
| Net Decrease in Cash | (95,627) | (12,450) |
| Cash at Beginning of Year | 333,788 | 346,238 |
| Cash at End of Year | \$ 238,161 | \$ 333,788 |

Continued

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Statements of Cash Flows (Continued)

For the years ended December 31, 2002 and 2001

| | 2002 | 2001 |
|--|---------------------|---------------------|
| Reconciliation of Operating Income to Net Cash by | | |
| Operating Activities: | | |
| Operating Income | \$ 36,462,629 | \$ 40,384,567 |
| Adjustments to Reconcile Operating Income to Net Cash by | | |
| Operating Activities: | | |
| Depreciation | 32,388,516 | 31,495,906 |
| Changes in Operating Assets and Liabilities: | | |
| Accounts Receivable | (2,324,605) | (3,592,265) |
| Inventory and Prepaid Expenses | (9,308) | (48,966) |
| Accounts Payable and Other Accrued Liabilities | (792,025) | (13,424) |
| Total Adjustments | 29,262,578 | 27,841,251 |
| Net Cash Provided by Operating Activities | \$ 65,725,207 | \$ 68,225,818 |
| Supplemental Schedule of Non-Cash Investing, Capital and Related Financing Activities: | | |
| Construction Grants Recorded for Receivables from (Payables to) Federal Agencies in Connection with Reimbursable Project Costs | \$ <u>685,156</u> | \$ <u>691,833</u> |
| Long-Term Debt Recorded for Receivables from State Agencies in Connection with Water Pollution Control Loans | \$ <u>5,856,742</u> | \$ <u>7,561,387</u> |
| Long-Term Debt Increased due to Accrued Construction Interest and Recorded Receivables | \$ <u>819,799</u> | \$ <u>5,225,433</u> |
| Capital Assets Increased due to Capitalized Costs, Recorded Accounts Payable, and Asset Reclassifications | \$ <u>634,806</u> | \$ <u>5,589,568</u> |
| Increase in Fair Value of Investments, Net | \$ <u>5,457,490</u> | \$ <u>3,331,519</u> |

The Accompanying Notes Are an Integral Part of These Statements

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 1: Reporting Entity

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

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

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

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

Note 2: Summary of Significant Accounting Policies

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

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

D. Cash Equivalents and Investments

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

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 2: Summary of Significant Accounting Policies (continued)

D. Cash Equivalents and Investments (continued)

The District invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2002 and 2001. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on the respective balance sheet date.

E. Short-term Investments

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

F. Fair Value of Financial Instruments

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

Cash

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

Investments

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

Long-Term Debt

The fair value of the District's long-term debt is estimated based on the borrowing rates currently available to the District for loans with comparable maturities. The carrying value and estimated fair value of the District's long-term debt at December 31, 2002 were \$386,208,843 and \$401,937,286, respectively. The carrying value and estimated fair value of the District's long-term debt at December 31, 2001 were \$359,637,349 and \$353,642,360, respectively.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 2: Summary of Significant Accounting Policies (continued)

G. Construction and Restricted Accounts

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

Construction Funds

At December 31, 2002 and 2001, these funds consisted of cash, nonnegotiable certificates of deposit, U.S. Treasury Securities, obligations of Federal agencies, and STAROhio. They are used to finance construction expenditures approved by the Board of Trustees. Under certain circumstances, the funds may be used for repayment of principal and interest costs on the 1995 Wastewater Improvement Revenue Refunding Bonds.

Revenue Bond Debt Service Deposit

These are advance deposits made to the District's bond trustee for principal and interest payments on revenue bonds. Investments at December 31, 2002 and 2001 consisted of direct obligations of the United States Government, plus accrued interest.

H. Sewage Service Fees Receivable

Sewage service fees receivable are shown net of an allowance for uncollectibles. The allowance is based on aged accounts receivable and current year operating revenues. The allowance amounts are \$5,212,000 at December 31, 2002 and \$6,488,000 at December 31, 2001.

I. Inventory

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 2: Summary of Significant Accounting Policies (continued)

J. Capital Assets

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

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

K. Deferred Debt Expense

Bond issuance costs, bond premiums, and the difference between the reacquisition price and the net carrying value of refunded debt were capitalized and are being amortized over the terms of the respective bonds using a method which approximates the effective interest method. Amortization amounted to \$584,326 for 2002 and \$640,187 for 2001.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Northeast Ohio Regional Sewer District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The District did not have any restricted net assets for 2002 or 2001.

M. Revenues and Expenses

Operating revenues and expenses result from providing wastewater conveyance and treatment services. Operating revenues consist of user charges for sewage services based on water consumption. Operating revenues are shown net of bad debt expense of \$1,008,257 in 2002 and \$921,000 in 2001. Operating expenses include the cost of these sewer services, including administrative expenses and depreciation on capital assets.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 2: Summary of Significant Accounting Policies (continued)

M. Revenues and Expenses (continued)

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

Sewage service fees are billed to users of the system on a cycle basis based primarily upon water usage. Estimates for services provided between the ends of various cycles and the end of the year are recorded as unbilled revenue. Included in sewage service fees receivable at December 31, 2002 and 2001 are unbilled sewage service fees of \$19,421,738 and \$19,658,235, respectively.

N. Interest Expense

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

O. Use of Estimates

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

P. Comparative Data/Reclassifications

Comparative data for the prior year are presented in order to provide an understanding of the changes in financial position and operations. Certain reclassifications have been made to the 2001 financial statements in order to conform to the 2002 presentation.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

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, 2002, the carrying amount of the District's deposits, including certificates of deposit of \$1,554,365, was \$1,791,526 and the bank balance was \$3,224,107. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$2,924,107 was covered by collateral securities held in Federal Reserve pledge accounts. At December 31, 2001, the carrying amount of the District's deposits, including certificates of deposit of \$1,082,937, was \$1,416,725 and the bank balance was \$2,857,849. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$2,557,849 was covered by collateral securities held in Federal Reserve pledge accounts. In the event of default by the pledging financial institution, the District may make written demand upon the Federal Reserve Bank of Cleveland for surrender of the collateral.

Investments

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

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

The District categorizes investments to give an indication of the level of credit risk associated with the District's custodial arrangements at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name (the District had no Category 2 investments at December 31, 2002 and 2001). Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent but not in the District's name.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 3: Deposits and Investments (continued)

Categorization of the District's investments at December 31, 2002 was as follows:

| | Category | | Total Fair Value |
|--------------------------------------|-----------------------|---------------------|------------------------|
| | 1 | 3 | |
| Debt Securities: | | | |
| United States Treasury | \$ - | \$ 1,983,842 | \$ 1,983,842 |
| United States Government Agencies | <u>289,570,957</u> | <u>-</u> | <u>289,570,957</u> |
| Total Debt Securities | <u>\$ 289,570,957</u> | <u>\$ 1,983,842</u> | <u>\$ 291,554,799</u> |
| STAROhio* | | | <u>33,474,566</u> |
| | | | <u>\$ 325,029,365</u> |

*Non-Categorized

Categorization of the District's investments at December 31, 2001 was as follows:

| | Category | | Total Fair Value |
|--------------------------------------|-----------------------|---------------------|------------------------|
| | 1 | 3 | |
| Debt Securities: | | | |
| United States Treasury | \$ 12,633,804 | \$ 1,985,810 | \$ 14,619,614 |
| United States Government Agencies | <u>286,062,283</u> | <u>-</u> | <u>286,062,283</u> |
| Total Debt Securities | <u>\$ 298,696,087</u> | <u>\$ 1,985,810</u> | <u>\$ 300,681,897</u> |
| STAROhio* | | | <u>25,123,927</u> |
| | | | <u>\$ 325,805,824</u> |

*Non-Categorized

The amounts invested with STAROhio at December 31, 2002 and 2001 are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form.

The fair value of debt securities by contractual maturity at December 31, 2002 and 2001, are shown below:

| | 2002 | 2001 |
|---------------------------------------|-----------------------|-----------------------|
| Due Within One Year | \$ 54,572,046 | \$ 76,216,791 |
| Due After One Year Through Five Years | <u>236,982,753</u> | <u>224,465,106</u> |
| | <u>\$ 291,554,799</u> | <u>\$ 300,681,897</u> |

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 4: Transactions With The City of Cleveland

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

A summary of the billing and collection transactions between the City and the District for 2002 and 2001 follows:

| | <u>2002</u> | <u>2001</u> |
|--|----------------------|----------------------|
| Amounts due from District customers at beginning of year for invoices rendered by the City | \$ 36,523,025 | \$ 33,926,553 |
| Amounts billed to District customers by the City during the year | 110,163,757 | 112,963,731 |
| Cash collected from District customers by the City and remitted to the District during the year | (106,981,842) | (109,814,040) |
| Write off of inactive accounts | (2,284,157) | - |
| Cash collected directly by the District on invoices rendered by the City and other adjustments | <u>(862,846)</u> | <u>(553,219)</u> |
| Balance due from customers at end of year, included in sewage service fees receivable before allowance for doubtful accounts | \$ <u>36,557,937</u> | \$ <u>36,523,025</u> |

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

Fees paid to the City for billing and collection services in 2002 and 2001 were \$4,542,160 and \$4,666,888, respectively.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 5: Capital Assets and Depreciation

Capital Asset Activity for the year ended December 31, 2002 was as follows:

| | Balance December 31, 2001 | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | Balance December 31, 2002 |
|--|---------------------------------|----------------------|-----------------------|---------------------|---------------------------------|
| Non-depreciable: | | | | | |
| Land | \$ 3,808,718 | \$ 80,000 | \$ - | \$ - | \$ 3,888,718 |
| Construction in Progress | <u>221,222,930</u> | <u>99,719,168</u> | <u>-</u> | <u>(90,816,733)</u> | <u>230,125,365</u> |
| | <u>225,031,648</u> | <u>99,799,168</u> | <u>-</u> | <u>(90,816,733)</u> | <u>234,014,083</u> |
| Depreciable: | | | | | |
| Interceptor Sewer Lines | 557,960,724 | - | (829,342) | 32,379,867 | 589,511,249 |
| Buildings, Structures and Improvements | 546,084,950 | 152,188 | (1,400,555) | 57,908,970 | 602,745,553 |
| Sewage Treatment and Other Equipment | <u>233,030,500</u> | <u>2,212,836</u> | <u>(6,144,074)</u> | <u>527,896</u> | <u>229,627,158</u> |
| | <u>1,337,076,174</u> | <u>2,365,024</u> | <u>(8,373,971)</u> | <u>90,816,733</u> | <u>1,421,883,960</u> |
| Totals at Historical Cost | <u>1,562,107,822</u> | <u>102,164,192</u> | <u>(8,373,971)</u> | <u>-</u> | <u>1,655,898,043</u> |
| Less Accumulated Depreciation For: | | | | | |
| Interceptor Sewer Lines | (72,895,513) | (7,634,135) | 175,845 | - | (80,353,803) |
| Buildings, Structures and Improvements | (210,142,699) | (14,916,454) | 901,441 | - | (224,157,712) |
| Sewage Treatment and Other Equipment | <u>(138,511,657)</u> | <u>(9,837,927)</u> | <u>5,579,352</u> | <u>-</u> | <u>(142,770,232)</u> |
| Total Accumulated Depreciation | <u>(421,549,869)</u> | <u>(32,388,516)</u> | <u>6,656,638</u> | <u>-</u> | <u>(447,281,747)</u> |
| Capital Assets, Net | \$ <u>1,140,557,953</u> | \$ <u>69,775,676</u> | \$ <u>(1,717,333)</u> | \$ <u>-</u> | \$ <u>1,208,616,296</u> |
| Depreciation Expense Charged to Operating Expenses | | \$ <u>32,388,516</u> | | | |

Included in asset retirements and also in the additions' column is \$400,177 of improvements reclassified to Construction in Progress from Buildings, Structures and Improvements for improvements made in a prior year on a basement of a building. The building is being torn down, however, the basement is being kept intact and therefore has been moved to CIP.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 5: Capital Assets and Depreciation (continued)

Capital Asset Activity for the year ended December 31, 2001 was as follows:

| | <u>Balance December 31, 2000</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>Balance December 31, 2001</u> |
|--|--|----------------------|---------------------|---------------------|--|
| Non-Depreciable: | | | | | |
| Land | \$ 3,805,718 | \$ 3,000 | \$ - | \$ - | \$ 3,808,718 |
| Construction In Progress | <u>154,960,206</u> | <u>82,703,784</u> | <u>-</u> | <u>(16,441,060)</u> | <u>221,222,930</u> |
| | <u>158,765,924</u> | <u>82,706,784</u> | <u>-</u> | <u>(16,441,060)</u> | <u>225,031,648</u> |
| Depreciable: | | | | | |
| Interceptor Sewer Lines | 548,742,386 | - | - | 9,218,338 | 557,960,724 |
| Buildings, Structures and Improvements | 553,959,407 | 17,758 | - | (7,892,215) | 546,084,950 |
| Sewage Treatment and Other Equipment | <u>219,576,275</u> | <u>1,953,729</u> | <u>(3,614,441)</u> | <u>15,114,937</u> | <u>233,030,500</u> |
| | <u>1,322,278,068</u> | <u>1,971,487</u> | <u>(3,614,441)</u> | <u>16,441,060</u> | <u>1,337,076,174</u> |
| Totals at Historical Cost | <u>1,481,043,992</u> | <u>84,678,271</u> | <u>(3,614,441)</u> | <u>-</u> | <u>1,562,107,822</u> |
| Less Accumulated Depreciation For: | | | | | |
| Interceptor Sewer Lines | (65,364,768) | (7,530,745) | - | - | (72,895,513) |
| Buildings, Structures and Improvements | (196,286,336) | (13,856,363) | - | - | (210,142,699) |
| Sewage Treatment and Other Equipment | <u>(131,022,514)</u> | <u>(10,108,798)</u> | <u>2,619,655</u> | <u>-</u> | <u>(138,511,657)</u> |
| Total Accumulated Depreciation | <u>(392,673,618)</u> | <u>(31,495,906)</u> | <u>2,619,655</u> | <u>-</u> | <u>(421,549,869)</u> |
| Capital Assets, Net | \$ <u>1,088,370,374</u> | \$ <u>53,182,365</u> | \$ <u>(994,786)</u> | \$ <u>-</u> | \$ <u>1,140,557,953</u> |
| Depreciation Expense Charged to Operating Expenses | | \$ <u>31,495,906</u> | | | |

Included in asset retirements and also in the additions' column is \$226,430 of assets reclassified in 2001.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 6: Long-Term Debt

A summary of long-term debt outstanding at December 31, 2002 and 2001 follows:

| | Interest Rate | 2002 | 2001 |
|--|---------------|----------------|----------------|
| Wastewater Improvement Revenue Refunding Bonds, Series 1995: | | | |
| Serial Bonds Maturing 2002 – 2014 | 3.65%-5.60% | \$ 61,545,000 | \$ 65,145,000 |
| Term Bonds Due 2016 | 5.60% | 14,630,000 | 14,630,000 |
| | | 76,175,000 | 79,775,000 |
| | | | |
| Ohio Water Development Authority Loans Payable Annually Through 2008 | 6.75%-8.47% | 1,907,426 | 4,579,536 |
| Water Pollution Control Loans Payable Through 2023 | 3.20%-5.20% | 329,331,746 | 296,459,289 |
| Other | | - | 12,762 |
| Total Debt | | 407,414,172 | 380,826,587 |
| Less Current Maturities | | 21,205,329 | 21,189,238 |
| Total Long-Term Debt | | \$ 386,208,843 | \$ 359,637,349 |

Wastewater Improvement Revenue Refunding Bonds, Series 1995

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

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

Ohio Water Development Authority Loans (OWDA)

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 6: Long-Term Debt (continued)

Water Pollution Control Loans

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

The repayment period for each loan commences no later than the first January or July following the expected completion dates of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. The District is required to submit final eligible project costs within one year of the project completion date at which time the final loan amount is determined and semi-annual payment amounts are adjusted to reflect such costs. The District had thirty-eight SRF loan awards related to projects, ten of which were not complete as of December 31, 2002. Loans related to completed construction projects are being repaid in semi-annual payments of principal and interest over a period of up to twenty years. SRF loans outstanding by completion or expected completion year of the related projects as of December 31, 2002 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 – 2002 | 28 | \$ 233,297,620 | \$ - |
| 2003 | 8 | 81,913,925 | 29,066,397 |
| 2005 | 1 | 9,415,160 | 25,297,486 |
| 2006 | 1 | 4,705,041 | 68,509,360 |
| | | \$ 329,331,746 | \$ 122,873,243 |

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 6: Long-Term Debt (continued)

Defeasance Transactions

In July 1991, the District deposited available construction funds and revenue bond debt service deposits in an irrevocable trust with an escrow agent for the purpose of defeasing bonded debt issued in 1984. The deposit was invested in U.S. Treasury obligations, which, together with the revenue earned on such investments, will be sufficient to service the debt until maturity or redemption. The defeased debt and the escrow funds deposited in the irrevocable trust are excluded from the District's balance sheet since the District has legally satisfied its obligations as a result of the defeasance transaction. As of December 31, 2002, the amount of defeased debt outstanding is \$89,775,000.

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

Future Debt Service Requirements

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

The total future debt service requirements for all long-term debt not defeased or refunded as of December 31, 2002 follows:

| | Wastewater Improvement | | Ohio Water Development | | Water Pollution Control Loans | | Total |
|-----------|---------------------------|----------------------|---------------------------|-------------------|----------------------------------|-----------------------|-----------------------|
| | Revenue Refunding Bonds | | Authority Loans | | | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2003 | \$ 3,760,000 | \$ 4,169,945 | \$ 308,488 | \$ 100,140 | \$ 17,136,841 | \$ 12,130,766 | \$ 37,606,180 |
| 2004 | 4,000,000 | 3,934,945 | 324,684 | 83,944 | 18,758,961 | 13,087,785 | 40,190,319 |
| 2005 | 4,250,000 | 3,684,945 | 341,730 | 66,898 | 18,570,499 | 12,310,777 | 39,224,849 |
| 2006 | 4,450,000 | 3,480,945 | 359,671 | 48,958 | 18,368,411 | 11,547,396 | 38,255,381 |
| 2007 | 4,670,000 | 3,262,895 | 378,553 | 30,075 | 18,390,905 | 10,766,819 | 37,499,247 |
| 2008-2012 | 27,295,000 | 12,378,440 | 194,300 | 10,014 | 97,242,227 | 41,785,244 | 178,905,225 |
| 2013-2017 | 27,750,000 | 3,990,840 | - | - | 92,456,878 | 20,044,719 | 144,242,437 |
| 2018-2022 | - | - | - | - | 45,454,599 | 5,109,533 | 50,564,132 |
| 2023 | - | - | - | - | 2,952,425 | 63,746 | 3,016,171 |
| Total | \$ <u>76,175,000</u> | \$ <u>34,902,955</u> | \$ <u>1,907,426</u> | \$ <u>340,029</u> | \$ <u>329,331,746</u> | \$ <u>126,846,785</u> | \$ <u>569,503,941</u> |

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 6: Long-Term Debt (continued)

Long-term debt activity for the years ended December 31, 2002 was as follows:

| | Balance December 31, <u>2001</u> | <u>Additions</u> | <u>Reductions</u> | Balance December 31, <u>2002</u> | Amount Due in 2003 |
|--|--|----------------------|------------------------|--|--------------------------|
| Wastewater Improvement: Revenue Refunding Bonds, Series 1995 | \$ 79,775,000 | \$ - | \$ (3,600,000) | \$ 76,175,000 | \$ 3,760,000 |
| Ohio Water Development Authority Loans | 4,579,536 | 147,307 | (2,819,417) | 1,907,426 | 308,487 |
| Water Pollution Control Loans | 296,459,289 | 47,314,518 | (14,442,061) | 329,331,746 | 17,136,842 |
| Other | <u>12,762</u> | <u>-</u> | <u>(12,762)</u> | <u>-</u> | <u>-</u> |
| Total Debt | \$ <u>380,826,587</u> | \$ <u>47,461,825</u> | \$ <u>(20,874,240)</u> | \$ <u>407,414,172</u> | \$ <u>21,205,329</u> |

Long-term debt activity for the years ended December 31, 2001 was as follows:

| | Balance December 31, <u>2000</u> | <u>Additions</u> | <u>Reductions</u> | Balance December 31, <u>2001</u> | Amount Due in 2002 |
|--|--|----------------------|------------------------|--|--------------------------|
| Wastewater Improvement: Revenue Refunding Bonds, Series 1995 | \$ 83,220,000 | \$ - | \$ (3,445,000) | \$ 79,775,000 | \$ 3,600,000 |
| Ohio Water Development Authority Loans | 8,243,531 | - | (3,663,995) | 4,579,536 | 2,672,110 |
| Water Pollution Control Loans | 267,148,458 | 41,733,837 | (12,423,006) | 296,459,289 | 14,904,366 |
| Other | <u>27,863</u> | <u>-</u> | <u>(15,101)</u> | <u>12,762</u> | <u>12,762</u> |
| Total Debt | \$ <u>358,639,852</u> | \$ <u>41,733,837</u> | \$ <u>(19,547,102)</u> | \$ <u>380,826,587</u> | \$ <u>21,189,238</u> |

Note 7: Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The District contributes to the Ohio Public Employees Retirement System (“OPERS”), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board of Ohio. The OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issue a stand-alone financial report. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 7: Defined Benefit Pension Plans (continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. District employees are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 the employer contribution rate for the District was 13.55 percent of covered payroll. The District's contributions to the OPERS for the years ended December 31, 2002, 2001 and 2000 were \$3,540,726, \$3,408,909, and \$2,616,873, respectively, which is approximate to the required contributions for each year.

Note 8: Postemployment Benefits

Ohio Public Employees Retirement System

OPERS provide postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions and for requiring public employers to fund postretirement health care through their contributions to OPERS. For the District's employer units, the rate was 13.55 percent of covered payroll; 5.00 percent was the portion used to fund health care for the year. During 2002 and 2001 the District's portion that was used to fund health care was \$1,306,541 and \$1,081,794, respectively, representing 5.00 percent and 4.30 percent of covered payroll, respectively.

The postretirement health care coverage is advance-funded on an actuarially determined basis. The following assumptions and calculations were based on OPERS' latest actuarial review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of benefit liabilities. The difference between assumed and actual experience is part of the unfunded actuarial accrued liability. The investment assumption rate for 2001 was 8.00 percent; all investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used – meaning that assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. Individual pay increases are assumed to increase 4.00 percent compounded annually, with no change in the number of active employees; annual pay increases over and above the 4.00 percent base increase were assumed to range from 0.50 percent to 6.30 percent; and health care costs are assumed to increase 4.00 percent annually. The actuarially accrued postretirement health care liability and the unfunded actuarial accrued liability, based on the actuarial cost, method were \$16.4 billion and \$4.8 billion, respectively. The net assets were \$11.6 billion, leaving an unfunded actuarial accrued liability of \$9.6 billion. The number of active contributing participants was 402,041.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 8: Postemployment Benefits (continued)

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Note 9: Deferred Compensation Plans

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

The District follows the provisions of GASB Statement No.32, Accounting and Financial Reporting for Internal Revenue Code Section 457, Deferred Compensation Plans. In accordance with the provisions of GASB Statement No.32, at both December 31, 2002 and 2001, the assets of both plans met the applicable trust requirements and are therefore excluded from the District's financial statements.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

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. At December 31, 2002 and 2001, estimated liabilities were less than \$250,000 and \$130,000, respectively, and are not material with respect to the financial position of the District. The District's insurance reserve as of December 31, 2002 and 2001 was \$16,431,918 and \$15,632,404, respectively, and is included in short-term investments on the District's balance sheet.

Note 11: Commitments and Contingencies

The District has a major capital improvement and expansion program. At December 31, 2002, the District has outstanding commitments for contracts in progress of approximately \$168,000,000. Funding for future expenditures will be provided primarily from borrowings and District equity.

The District has approximately \$12,000,000 in asserted or implied construction contract claims currently pending against it related to active construction contracts. In the opinion of District management, the ultimate outcome of these matters will not have a material adverse effect on the financial position of the District and, accordingly, no liability for this amount has been accrued by the District.

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Financial Statements

December 31, 2002 and 2001

Note 12: Change in Accounting Estimate

Construction is in progress on a new administration building for the District. The District has committed to a plan to demolish its current administration building some time after the new building is occupied. This is expected to take place before the end of 2003. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the service life of the existing building was revised in 2002. The effect of this change in accounting estimate is to increase depreciation expense and thereby decrease operating income in the amount of \$818,183 in the year 2002. The effect on 2003 will be to increase depreciation expense and decrease operating income by an additional \$818,183.

Note 13: Change in Accounting Principles

For 2002, the Northeast Ohio Regional Sewer District has implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB 34 creates new basic financial statements for reporting on the District’s financial activities. The financial statements now include a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows all prepared on an accrual basis of accounting. The net assets beginning of year amount for 2001 represents the sum of retained earnings and contributed capital previously reported as of December 31, 2000.

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REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

For the year ended December 31, 2002

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|----------------------------|-------------------------|----------------------|---|
| <u>Revenue:</u> | | | | |
| User Charges: | | | | |
| Billed | \$ 122,397,000 | \$ 122,397,000 | \$ 129,642,426 | \$ 7,245,426 |
| Unbilled | 2,000,000 | 2,000,000 | 150,994 | (1,849,006) |
| Other Revenue | <u>400,000</u> | <u>400,000</u> | <u>964,619</u> | <u>564,619</u> |
| Total Revenue | <u>124,797,000</u> | <u>124,797,000</u> | <u>130,758,039</u> | <u>5,961,039</u> |
| <u>Expenses:</u> | | | | |
| Salaries and Wages | 27,218,466 | 27,218,466 | 25,832,219 | 1,386,247 |
| Benefits | 7,789,047 | 7,789,047 | 7,790,909 | (1,862) |
| Power | 10,254,010 | 10,254,010 | 9,147,231 | 1,106,779 |
| Materials and Supplies | 3,183,210 | 3,183,210 | 3,383,852 | (200,642) |
| Collection Fees | 5,649,000 | 5,649,000 | 4,977,231 | 671,769 |
| Gas | 3,867,260 | 3,867,260 | 3,805,104 | 62,156 |
| Chemicals | 780,628 | 780,628 | 742,794 | 37,834 |
| Repairs and Maintenance | 2,909,910 | 2,909,910 | 2,435,869 | 474,041 |
| Solids Handling | 1,570,640 | 1,570,640 | 1,181,476 | 389,164 |
| Water | 877,000 | 877,000 | 500,030 | 376,970 |
| Professional Services | 2,358,700 | 2,358,700 | 2,097,685 | 261,015 |
| Insurance | 940,000 | 940,000 | 908,484 | 31,516 |
| Judgments and Awards | 70,000 | 70,000 | 41,651 | 28,349 |
| Other Operating Expenses | 2,794,383 | 2,794,383 | 2,626,844 | 167,539 |
| Capitalized Construction Costs | (3,682,000) | (3,682,000) | (3,564,485) | (117,515) |
| Depreciation | <u>33,500,000</u> | <u>33,500,000</u> | <u>32,388,516</u> | <u>1,111,484</u> |
| Total Operating Expenses | <u>100,080,254</u> | <u>100,080,254</u> | <u>94,295,410</u> | <u>5,784,844</u> |
| Excess of Revenues Over Operating Expenses | \$ <u>24,716,746</u> | \$ <u>24,716,746</u> | 36,462,629 | \$ <u>11,745,883</u> |
| Reconciliation to Change in Net Assets: | | | | |
| Interest Revenue | | | \$ 14,247,954 | |
| Increase in Fair Value of Investments | | | 5,457,490 | |
| Loss on Disposals of Equipment | | | (1,317,155) | |
| Interest Expense on Long-Term Debt | | | <u>(18,283,691)</u> | |
| Income Before Contributions | | | 36,567,227 | |
| Capital Contributions | | | <u>5,253,943</u> | |
| Change in Net Assets | | | \$ <u>41,821,170</u> | |

NORTHEAST OHIO REGIONAL SEWER DISTRICT

Notes to Required Supplementary Information

December 31, 2002

Note 1: Summary of Significant Accounting Policies

Budgetary Basis of Accounting

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

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

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

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

| | <u>2002</u> | <u>2001</u> |
|--|----------------------|----------------------|
| Excess of revenue over operating expenses – operating budget basis | \$ 36,462,629 | \$ 40,384,567 |
| Interest income | 14,247,954 | 18,580,276 |
| Loss on disposals of equipment | (1,317,155) | (768,357) |
| Increase in fair value of investments | 5,457,490 | 3,331,519 |
| Interest on long-term debt | (18,283,691) | (17,443,676) |
| Capital contributions | <u>5,253,943</u> | <u>3,377,953</u> |
| Change in net assets | <u>\$ 41,821,170</u> | <u>\$ 47,462,282</u> |

**STATISTICAL SECTION
(UNAUDITED)**





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

| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <u>Operating Revenues</u> | | | | |
| Sewer Service Fees | | | | |
| City of Cleveland Billing Agent (1) | \$89,014,831 | \$89,274,103 | \$90,988,184 | \$95,374,478 |
| Other Billing Agents | 2,856,538 | 7,459,849 | 7,826,656 | 8,481,837 |
| Other Sewer Service Fees | 6,600,176 | 7,226,733 | 6,906,932 | 7,404,001 |
| Other Operating Revenue | <u>948,315</u> | <u>1,016,818</u> | <u>982,145</u> | <u>1,058,847</u> |
| Total Operating Revenue (2) | 99,419,860 | 104,977,503 | 106,703,917 | 112,319,163 |
| <u>Non-Operating Revenues</u> | | | | |
| Interest Income | 8,431,474 | 9,726,315 | 11,761,325 | 14,419,575 |
| Increase (Decrease) in Fair Value of Investments (3) | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Non-Operating Revenues | 8,431,474 | 9,726,315 | 11,761,325 | 14,419,575 |
| Capital Contributions (4) | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Revenues | <u><u>\$107,851,334</u></u> | <u><u>\$114,703,818</u></u> | <u><u>\$118,465,242</u></u> | <u><u>\$126,738,738</u></u> |

(1) 1993 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.

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

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

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

Source: District accounting records.

| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| \$99,227,876 | \$107,385,439 | \$114,613,601 | \$110,749,258 | \$113,591,867 | \$109,416,694 |
| 8,819,246 | 9,754,924 | 10,025,945 | 9,914,671 | 10,435,577 | 10,099,165 |
| 7,622,117 | 8,174,134 | 8,846,646 | 9,727,725 | 9,780,118 | 10,277,561 |
| <u>1,198,112</u> | <u>1,159,594</u> | <u>744,600</u> | <u>939,179</u> | <u>805,196</u> | <u>964,619</u> |
| 116,867,351 | 126,474,091 | 134,230,792 | 131,330,833 | 134,612,758 | 130,758,039 |
| 14,656,424 | 14,833,852 | 14,996,659 | 15,980,457 | 18,580,276 | 14,247,954 |
| <u>1,050,095</u> | <u>2,445,183</u> | <u>(4,806,082)</u> | <u>7,125,918</u> | <u>3,331,519</u> | <u>5,457,490</u> |
| 15,706,519 | 17,279,035 | 10,190,577 | 23,106,375 | 21,911,795 | 19,705,444 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>3,377,953</u> | <u>5,253,943</u> |
| <u><u>\$132,573,870</u></u> | <u><u>\$143,753,126</u></u> | <u><u>\$144,421,369</u></u> | <u><u>\$154,437,208</u></u> | <u><u>\$159,902,506</u></u> | <u><u>\$155,717,426</u></u> |

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

| | <u>1993 (1)</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| Salaries and Wages | \$22,113,901 | \$23,319,678 | \$24,086,396 | \$24,993,344 |
| Benefits | 6,318,051 | 6,720,646 | 6,360,136 | 6,235,727 |
| Power | 9,424,042 | 9,303,057 | 9,646,002 | 9,664,024 |
| Gas | 2,652,841 | 2,373,248 | 2,607,493 | 2,581,693 |
| Water | 631,245 | 631,753 | 667,855 | 701,934 |
| Professional Services | 1,869,990 | 2,787,508 | 3,207,863 | 1,346,917 |
| Billing and Collection Fees | 3,725,604 | 4,176,279 | 4,486,005 | 4,568,164 |
| Insurance and Bonds | 557,202 | 615,065 | 533,639 | 583,216 |
| Solids Handling | 1,605,700 | 1,173,927 | 1,431,972 | 1,393,493 |
| Chemicals | 1,474,658 | 1,419,660 | 1,578,721 | 912,559 |
| Materials and Supplies | 2,304,772 | 2,474,834 | 2,603,262 | 2,648,300 |
| Repairs and Maintenance | 1,123,637 | 1,334,008 | 1,196,549 | 1,167,174 |
| Depreciation | 22,290,708 | 22,052,053 | 24,332,512 | 26,589,817 |
| All Other Expenses | 1,416,172 | 1,546,501 | 2,324,815 | 2,124,851 |
| Capitalized Construction Costs | <u>(3,322,855)</u> | <u>(3,210,377)</u> | <u>(3,576,318)</u> | <u>(3,715,274)</u> |
| Total Operating Expenses | <u>\$74,185,668</u> | <u>\$76,717,840</u> | <u>\$81,486,902</u> | <u>\$81,795,939</u> |

(1) Years 1993 through 2000 restated for reclassification of bad debt expense as a reduction of revenue.

Source : District accounting records.

| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| \$25,033,703 | \$24,437,135 | \$23,662,565 | \$23,892,150 | \$24,647,491 | \$25,832,219 |
| 6,621,439 | 6,492,369 | 6,746,180 | 7,197,179 | 6,774,095 | 7,790,909 |
| 9,751,968 | 9,490,602 | 9,126,719 | 8,953,181 | 9,267,991 | 9,147,231 |
| 2,744,234 | 2,557,611 | 2,391,660 | 3,601,449 | 4,926,932 | 3,805,104 |
| 768,811 | 858,857 | 871,216 | 954,713 | 831,926 | 500,030 |
| 1,070,494 | 1,303,469 | 1,990,640 | 1,426,942 | 1,484,679 | 2,097,685 |
| 4,666,139 | 4,863,083 | 4,947,264 | 5,002,072 | 5,110,654 | 4,977,231 |
| 541,835 | 580,001 | 583,644 | 864,156 | 819,952 | 908,484 |
| 1,010,364 | 1,082,460 | 1,373,228 | 1,439,390 | 1,495,717 | 1,181,476 |
| 808,661 | 831,880 | 944,648 | 742,727 | 765,279 | 742,794 |
| 2,936,944 | 2,750,734 | 3,261,897 | 4,677,056 | 3,375,647 | 3,383,852 |
| 1,437,440 | 1,700,997 | 2,004,747 | 1,722,806 | 3,641,665 | 2,435,869 |
| 29,929,463 | 28,335,108 | 29,028,480 | 30,320,517 | 31,495,906 | 32,388,516 |
| 2,097,277 | 2,240,893 | 2,176,672 | 2,473,286 | 2,686,842 | 2,668,495 |
| <u>(3,393,015)</u> | <u>(3,637,103)</u> | <u>(3,122,880)</u> | <u>(3,053,217)</u> | <u>(3,096,585)</u> | <u>(3,564,485)</u> |
| <u><u>\$86,025,757</u></u> | <u><u>\$83,888,096</u></u> | <u><u>\$85,986,680</u></u> | <u><u>\$90,214,407</u></u> | <u><u>\$94,228,191</u></u> | <u><u>\$94,295,410</u></u> |

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

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

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
COMMUNITIES SERVED BY THE DISTRICT AND
ESTIMATED POPULATION SERVED
DECEMBER 31, 2002**

| <u>Municipality</u> | Estimated Service <u>Population (1)</u> | <u>Municipality</u> | Estimated Service <u>Population (1)</u> |
|------------------------------------|---|----------------------------|---|
| SUBDISTRICT 1 | | | |
| Cleveland | 478,403 | | |
| SUBDISTRICT 2 | | | |
| Bath Township | 0 (3) | Middleburg Heights | 15,542 |
| Beachwood | 12,186 | Newburgh Heights | 2,389 |
| Bedford | 0 (3) | North Randall | 906 |
| Bedford Heights | 41 (2) | North Royalton | 5,654 (2) |
| Berea | 18,970 | Northfield | 3,827 |
| Boston Heights | 0 (4) | Northfield Center Township | 4,931 |
| Bratenahl | 1,337 | Oakwood | 3,104 (2) |
| Brecksville | 13,382 | Olmsted Falls | 7,962 |
| Broadview Heights | 15,967 | Olmsted Township | 5,002 (2) |
| Brook Park | 21,218 | Orange | 375 (2) |
| Brooklyn | 11,586 | Parma | 85,655 |
| Brooklyn Heights | 1,558 | Parma Heights | 21,659 |
| Cleveland Heights | 49,958 | Pepper Pike | 976 (2) |
| Cuyahoga Heights | 599 | Richfield Village | 3,144 |
| East Cleveland | 27,217 | Richfield Township | 0 (4) |
| Euclid | 2,373 (2) | Richmond Heights | 4,162 (2) |
| Garfield Heights | 30,734 | Sagamore Hills Township | 9,340 |
| Gates Mills | 849 (2) | Seven Hills | 12,080 |
| Highland Heights | 8,082 | Shaker Heights | 29,405 |
| Highland Hills | 1,618 | Solon | 353 (2) |
| Hudson | 9,911 (2) | South Euclid | 23,537 |
| Independence | 7,109 | Strongsville | 24,836 (2) |
| Lakewood | 0 (3) | Twinsburg | 0 (3) |
| Linndale | 117 | Twinsburg Township | 0 (3) |
| Lyndhurst | 15,279 | University Heights | 14,146 |
| Macedonia | 9,224 (2) | Valley View | 2,179 |
| Maple Heights | 26,156 | Walton Hills | 2,400 |
| Mayfield Heights | 19,386 | Warrensville Heights | 14,921 |
| Mayfield Village | 3,435 | Willoughby Hills | <u>24 (2)</u> |
| | | Total Subdistrict 2 | <u>606,801</u> |
| Total estimated service population | | | <u><u>1,085,204</u></u> |

(1) Based on 2000 U.S. Census Block Data as presented in the Northeast Ohio Areawide Coordinating Agency (NOACA) Magic 2001 Database, using the Service Area Boundary determined by the District's Regional Plan for Sewerage and Drainage Phase I study revised 01/11/02 .

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

(3) Service population not applicable. District serves commercial properties only.

(4) Part of the community is not within the District service area. Service population to be determined by ongoing service area verification project.

Source: District administrative records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
LARGEST CUSTOMERS OF THE DISTRICT
AS OF DECEMBER 31, 2002**

| | <u>2002 CONSUMPTION MCFs (1)</u> | <u>2002 AMOUNT BILLED</u> |
|---|--|-----------------------------------|
| <u>SUBDISTRICT 1</u> | | |
| Cuyahoga Metropolitan Housing Agency (2) | 100,276.6 | \$2,825,027 |
| Cleveland Clinic (2) | 47,640.0 | 1,330,894 |
| City of Cleveland Water Filtration Plants | 34,657.5 | 1,048,481 |
| LTV Steel / ISG - Cleveland | 35,400.9 | 1,019,931 |
| Cleveland Board of Education (2) | 34,825.1 | 982,549 |
| Cuyahoga County (2) | 31,377.4 | 845,920 |
| Case Western Reserve University | 29,332.7 | 825,500 |
| MetroHealth Medical Centers | 28,732.2 | 695,862 |
| University Hospitals | 21,911.2 | 574,810 |
| Ferro Corporation (2) | 18,840.5 | 528,783 |
| Cleveland Thermal Energy Corporation | 21,296.0 | 508,224 |
| Synthetic Products | 14,067.6 | 399,335 |
| Cleveland State University (2) | 13,745.3 | 382,594 |
| Veterans Administration Hospital (2) | 15,235.1 | 343,711 |
| General Electric Company (2) | 8,021.8 | 235,697 |
| Ninth Street - Euclid Ltd | 8,393.2 | 198,738 |
| Holiday Inn (2) | 7,149.8 | 196,980 |
| New Longwood Association | 6,572.6 | 185,617 |
| Clean Harbors | 2,722.7 | 166,736 |
| Total Subdistrict 1 | 480,198.3 | \$13,295,389 |
| <u>SUBDISTRICT 2</u> | | |
| Ford Motor Corporation | 52,797.5 | \$1,420,525 |
| NASA Lewis Research Center | 49,691.1 | 1,319,722 |
| Aluminum Corporation of America | 35,040.7 | 932,177 |
| Forest City Management (2) | 17,956.0 | 499,140 |
| General Motors Corporation | 10,122.8 | 233,032 |
| Zehman & Wolfe Management | 6,207.8 | 167,394 |
| Total Subdistrict 2 | 171,815.9 | \$4,571,989 |
| Grand Total | 652,014.2 | \$17,867,378 |

(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.



Northeast Ohio Regional
Sewer District

Protecting Your Health and Environment

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

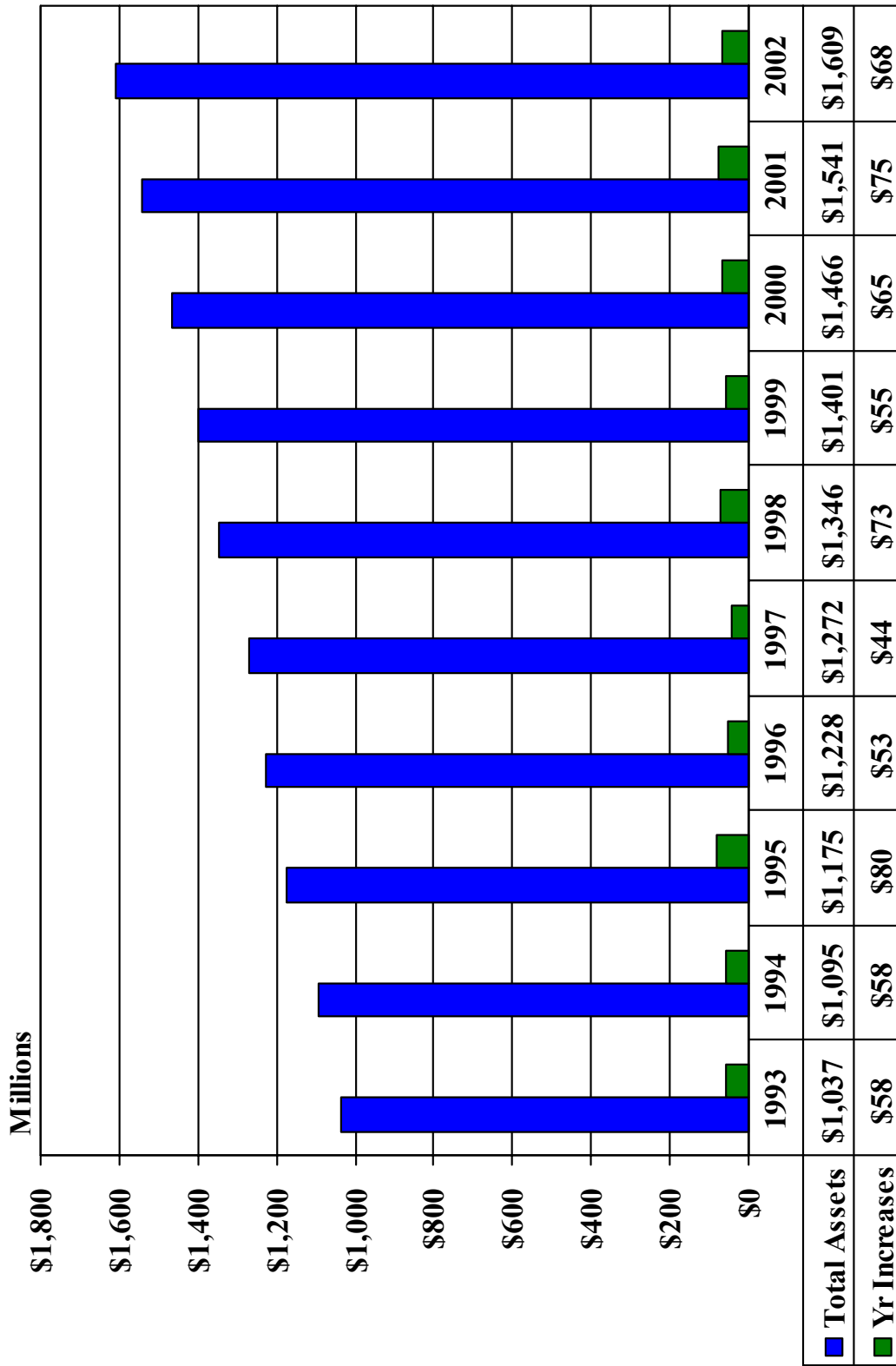
| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| <u>TREATMENT PLANT FLOW</u> | | | | |
| Billions of gallons of sewage treated per plant: | | | | |
| Easterly | 57.5 | 54.1 | 58.3 | 54.6 |
| Southerly | 45.9 | 46.5 | 46.4 | 54.2 |
| Westerly | 12.6 | 12.6 | 14.6 | 13.1 |
| Strongsville (1) | 1.3 | 0.7 | 0.0 | 0.0 |
| Berea (1) | 0.7 | 0.0 | 0.0 | 0.0 |
| Total | <u>118.0</u> | <u>113.9</u> | <u>119.3</u> | <u>121.9</u> |
| Total sewage treated, in MCFs (2) | <u>15,775,401</u> | <u>15,227,273</u> | <u>15,949,198</u> | <u>16,296,791</u> |
| MCFs billed, total District | <u>6,211,793</u> | <u>6,436,047</u> | <u>6,057,449</u> | <u>6,158,601</u> |
| <u>STAFFING LEVELS</u> | | | | |
| Number of employees (3): | | | | |
| Plant Operations & Maintenance | 400 | 396 | 390 | 385 |
| Support Services | 174 | 177 | 178 | 183 |
| Engineering and Construction | 45 | 50 | 50 | 49 |
| Finance | 39 | 39 | 39 | 39 |
| District Administration | 10 | 12 | 11 | 13 |
| Legal | 10 | 9 | 11 | 8 |
| Total | <u>678</u> | <u>683</u> | <u>679</u> | <u>677</u> |
| Budgeted employees, total District | <u>699</u> | <u>700</u> | <u>705</u> | <u>709</u> |

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

Source: Various District records.

| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| 41.0 | 36.5 | 38.0 | 40.9 | 36.7 | 37.3 |
| 47.5 | 43.3 | 40.0 | 39.2 | 38.9 | 37.2 |
| 13.8 | 12.7 | 11.4 | 12.0 | 11.1 | 10.4 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <u>102.3</u> | <u>92.5</u> | <u>89.4</u> | <u>92.1</u> | <u>86.7</u> | <u>84.9</u> |
| <u>13,676,471</u> | <u>12,366,310</u> | <u>11,951,872</u> | <u>12,312,834</u> | <u>11,590,909</u> | <u>11,350,267</u> |
| <u>5,963,566</u> | <u>6,004,778</u> | <u>5,785,288</u> | <u>5,600,215</u> | <u>5,442,696</u> | <u>5,191,506</u> |
| 370 | 467 | 435 | 420 | 400 | 382 |
| 186 | 0 | 0 | 0 | 0 | 0 |
| 47 | 45 | 46 | 45 | 48 | 54 |
| 39 | 38 | 38 | 35 | 35 | 48 |
| 13 | 66 | 66 | 73 | 76 | 80 |
| 8 | 8 | 9 | 9 | 10 | 9 |
| <u>663</u> | <u>624</u> | <u>594</u> | <u>582</u> | <u>569</u> | <u>573</u> |
| <u>704</u> | <u>644</u> | <u>620</u> | <u>625</u> | <u>595</u> | <u>634</u> |

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



CONTINUING DISCLOSURE REQUIREMENTS

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

| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <u>Subdistrict 1</u> | | | | |
| Cleveland (1) | 135,981 | 136,845 | 134,688 | 134,851 |
| <u>Subdistrict 2</u> | | | | |
| Master Meter - Suburbs (2) | 4 | 3 | 3 | 3 |
| Direct Service - Suburbs (1) | <u>146,611</u> | <u>163,481</u> (1) | <u>164,395</u> | <u>167,376</u> |
| Subtotal | <u>146,615</u> | <u>163,484</u> | <u>164,398</u> | <u>167,379</u> |
| Total Customers | <u><u>282,596</u></u> | <u><u>300,329</u></u> | <u><u>299,086</u></u> | <u><u>302,230</u></u> |

(1) 2000 through 2002 exclude inactive accounts.

(2) The Master Meter Suburbs, which bill their customers separately, had approximately 16,217 accounts at the end of 2002. This represents an increase from 2001 of 667 accounts, mainly in Summit County. The Village of Richfield became a Master Meter Community in 1991. As of April 1, 1994 the City of Cleveland Heights converted from a Master Meter to a Direct Service community and performs billing and collection functions similar to those performed by the City of Cleveland. The City of Hudson became a Master Meter community in 1998.

Source: District accounting records.

| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| 134,819 | 134,228 | 136,234 | 132,801 | 136,332 | 133,611 |
| 3 | 4 | 4 | 4 | 4 | 4 |
| <u>167,784</u> | <u>170,325</u> | <u>170,032</u> | <u>171,712</u> | <u>174,264</u> | <u>175,194</u> |
| <u>167,787</u> | <u>170,329</u> | <u>170,036</u> | <u>171,716</u> | <u>174,268</u> | <u>175,198</u> |
| <u><u>302,606</u></u> | <u><u>304,557</u></u> | <u><u>306,270</u></u> | <u><u>304,517</u></u> | <u><u>310,600</u></u> | <u><u>308,809</u></u> |

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

| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| <u>Subdistrict 1</u> | | | | |
| Cleveland | 3,394,178 | 3,540,224 | 3,198,706 | 3,309,692 |
| <u>Subdistrict 2</u> | | | | |
| Direct Service - Suburbs | 2,273,988 | 2,537,397 | 2,593,163 | 2,569,691 |
| Master Meter - Suburbs(1) | <u>543,627</u> | <u>358,426</u> (2) | <u>265,580</u> (3) | <u>279,218</u> |
| Subtotal | <u>2,817,615</u> | <u>2,895,823</u> | <u>2,858,743</u> | <u>2,848,909</u> |
| Total Service Area | <u><u>6,211,793</u></u> | <u><u>6,436,047</u></u> | <u><u>6,057,449</u></u> | <u><u>6,158,601</u></u> |

(1) Consumption of Master Meter Suburbs is presented at 80% of total consumption which is the billing basis.

(2) As of April 1, 1994 the City of Cleveland Heights converted from a Master Meter to a Direct Service Community and performs billing and collection functions similar to those performed by the City of Cleveland.

Consumption in 1994 for the City of Cleveland Heights at 80% of actual as a Master Meter Community was 71,552.6 MCF (thousand cubic feet); as a Direct Service Community it was 175,342.9 MCF.

(3) In 1995 Cleveland Heights was a Direct Service Community for the entire year.

(4) 1999 includes the City of Hudson for the first time. Although Hudson joined the District in late 1998, they did not receive sewer bills and they were not included on the District billing roster until 1999.

Source: District accounting records.

| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 3,173,571 | 3,176,655 | 2,919,241 | 2,815,865 | 2,765,282 | 2,662,602 |
| 2,519,858 | 2,559,852 | 2,553,481 | 2,427,096 | 2,387,609 | 2,231,962 |
| <u>270,137</u> | <u>268,271</u> | <u>312,566</u> (4) | <u>357,254</u> | <u>289,805</u> | <u>296,942</u> |
| <u>2,789,995</u> | <u>2,828,123</u> | <u>2,866,047</u> | <u>2,784,350</u> | <u>2,677,414</u> | <u>2,528,904</u> |
| <u><u>5,963,566</u></u> | <u><u>6,004,778</u></u> | <u><u>5,785,288</u></u> | <u><u>5,600,215</u></u> | <u><u>5,442,696</u></u> | <u><u>5,191,506</u></u> |

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

| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|--|-----------------|-----------------|-----------------|-----------------|
| Operating Revenue (1) | \$99,235 | \$104,713 | \$106,704 | \$112,319 |
| Non-Operating Revenue (2) | <u>3,933</u> | <u>4,140</u> | <u>9,657</u> | <u>13,575</u> |
| Total Revenues | <u>103,168</u> | <u>108,853</u> | <u>116,361</u> | <u>125,894</u> |
| Operating Expenses (Exclusive of depreciation) | | | | |
| Operations (1) | 38,599 | 40,494 | 42,705 | 40,272 |
| Maintenance | <u>13,444</u> | <u>14,190</u> | <u>14,450</u> | <u>14,934</u> |
| Total Operating Expenses | <u>52,043</u> | <u>54,684</u> | <u>57,155</u> | <u>55,206</u> |
| Net Revenues Available for Debt Service | <u>\$51,125</u> | <u>\$54,169</u> | <u>\$59,206</u> | <u>\$70,688</u> |
| Total Revenue Bond Debt Service (3) | \$9,961 | \$9,959 | \$9,961 | \$8,285 |
| Coverage on Revenue Bond Debt Service | 5.13 | 5.44 | 5.94 | 8.53 |
| Total All Debt Service (3) | \$15,381 | \$16,143 | \$18,960 | \$21,561 |
| Coverage on Total Debt Service | 3.32 | 3.36 | 3.12 | 3.28 |

(1) 1993 through 2000 restated for reclassification of bad debt expense as a reduction of revenue. This has no effect on debt service.

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

| Interest Income from Project Account investments was as follows: | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|--|-------------|-------------|-------------|-------------|
| | \$3,159 | \$1,898 | \$701 | \$271 |

(2) Restated 1997 to record increase of investments to fair value.

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

| | <u>1993</u> | <u>1994</u> | <u>1995</u> | <u>1996</u> |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Revenue Bond Issues and Debt Service | | | | |
| \$63,439 Series 1984(A) | \$0 | \$0 | \$0 | \$0 |
| \$122,315 Series 1991(B) | 9,961 | 9,959 | 9,961 | 0 |
| \$97,830 Series 1995 | <u>0</u> | <u>0</u> | <u>0</u> | <u>8,285</u> |
| Total Revenue Bond Debt Service | 9,961 | 9,959 | 9,961 | 8,285 |
| OWDA Debt Service | 4,654 | 4,652 | 4,654 | 4,501 |
| WPCLF Debt Service | <u>766</u> | <u>1,532</u> | <u>4,345</u> | <u>8,775</u> |
| Total All Debt Service | <u>\$15,381</u> | <u>\$16,143</u> | <u>\$18,960</u> | <u>\$21,561</u> |

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

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

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

Source: District accounting records.

| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| \$116,867 | \$126,474 | \$132,631 | \$131,331 | \$134,613 | \$130,758 |
| <u>8,592 (2)</u> | <u>16,434</u> | <u>9,971</u> | <u>23,032</u> | <u>21,143</u> | <u>18,388</u> |
| <u>125,459</u> | <u>142,908</u> | <u>142,602</u> | <u>154,363</u> | <u>155,756</u> | <u>149,146</u> |
| 40,650 | 40,368 | 41,278 | 44,184 | 44,550 | 44,565 |
| <u>15,446</u> | <u>15,185</u> | <u>15,680</u> | <u>15,710</u> | <u>18,182</u> | <u>17,342</u> |
| <u>56,096</u> | <u>55,553</u> | <u>56,958</u> | <u>59,894</u> | <u>62,732</u> | <u>61,907</u> |
| <u>\$69,363</u> | <u>\$87,355</u> | <u>\$85,644</u> | <u>\$94,469</u> | <u>\$93,024</u> | <u>\$87,239</u> |
| \$7,932 | \$7,932 | \$7,934 | \$7,936 | \$7,932 | \$7,934 |
| 8.74 | 11.01 | 10.79 | 11.90 | 11.73 | 11.00 |
| \$25,640 | \$26,253 | \$28,331 | \$34,409 | \$34,866 | \$35,984 |
| 2.71 | 3.33 | 3.02 | 2.75 | 2.67 | 2.42 |
| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> |
| \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| <u>7,932</u> | <u>7,932</u> | <u>7,934</u> | <u>7,936</u> | <u>7,932</u> | <u>7,934</u> |
| 7,932 | 7,932 | 7,934 | 7,936 | 7,932 | 7,934 |
| 5,479 (C) | 4,643 | 4,643 | 4,643 | 4,079 | 3,136 |
| <u>12,229</u> | <u>13,678</u> | <u>15,754</u> | <u>21,830</u> | <u>22,855</u> | <u>24,914</u> |
| <u>\$25,640</u> | <u>\$26,253</u> | <u>\$28,331</u> | <u>\$34,409</u> | <u>\$34,866</u> | <u>\$35,984</u> |

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

| Fiscal Years During Which Rates Were Effective | SUBDISTRICT 1 | | | | SUBDISTRICT 2 | | | |
|--|---------------|--------|---------------|--------|---------------|--------|---------------|--------|
| | Standard | | Homestead (2) | | Standard | | Homestead (2) | |
| | Rate (1) | Change | Rate (1) | Change | Rate (1) | Change | Rate (1) | Change |
| 1993 | 13.00 | 2.0 | 9.44 | 0.5 | 18.00 | 9.1 | 12.45 | 2.5 |
| 1994 - 1995 | 14.75 | 13.5 | 9.79 | 3.7 | 19.80 | 10.0 | 12.81 | 2.9 |
| 1996 | 15.95 | 8.1 | 11.10 | 13.4 | 21.00 | 6.1 | 13.85 | 8.1 |
| 1997 | 17.15 | 7.5 | 11.80 | 6.3 | 22.25 | 6.0 | 14.75 | 6.5 |
| 1998 | 18.25 | 6.4 | 12.55 | 6.4 | 23.45 | 5.4 | 15.70 | 6.4 |
| 1999 | 19.60 | 7.4 | 13.35 | 6.4 | 24.50 | 4.5 | 16.70 | 6.4 |
| 2000 - 2002 | 21.10 | 7.7 | 14.25 | 6.7 | 26.60 | 8.6 | 17.80 | 6.6 |

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

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

Industrial Waste Surcharge

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

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

Minimum Quarterly Billing

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

Source: District accounting records.

**NORTHEAST OHIO REGIONAL SEWER DISTRICT
CAPITAL IMPROVEMENT PROGRAM
USES AND SOURCES OF FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2003 THROUGH 2007
(In Thousands of Dollars)**

| | 2003 | 2004 | 2005 | 2006 | 2007 | TOTAL |
|---|------------------|-----------------|------------------|-----------------|------------------|------------------|
| <u>USES OF FUNDS (1)</u> | | | | | | |
| Sewage Treatment Plant Improvements | | | | | | |
| Westerly | \$0 | \$100 | \$1,000 | \$500 | 500 | \$2,100 |
| Southerly | 17,320 | 10,400 | 20,600 | 13,530 | 68,700 | 130,550 |
| Easterly | 7,500 | 1,000 | 1,500 | 2,000 | 5,500 | 17,500 |
| Sub-Total | 24,820 | 11,500 | 23,100 | 16,030 | 74,700 | 150,150 |
| Interceptors | | | | | | |
| Inter-Community Relief Sewers | 16,300 | 4,770 | 2,500 | 0 | 0 | 23,570 |
| Cuyahoga Valley | 2,000 | 0 | 0 | 0 | 0 | 2,000 |
| Sub-Total | 18,300 | 4,770 | 2,500 | 0 | 0 | 25,570 |
| Combined Sewer Overflow and Interceptor Rehabilitation | | | | | | |
| Other Projects | 50,870 | 50,145 | 94,345 | 51,425 | 35,970 | 282,755 |
| TOTAL | 35,200 | 10,600 | 3,050 | 800 | 6,800 | 56,450 |
| | <u>\$129,190</u> | <u>\$77,015</u> | <u>\$122,995</u> | <u>\$68,255</u> | <u>\$117,470</u> | <u>\$514,925</u> |
| <u>SOURCES OF FUNDS</u> | | | | | | |
| Federal Grants (2) | \$7,000 | \$0 | \$0 | \$0 | \$0 | \$7,000 |
| WPCLF Loans (2) | 54,600 | 46,100 | 93,000 | 49,800 | 33,300 | 276,800 |
| Internally Generated Funds | 67,590 | 30,915 | 29,995 | 18,455 | 84,170 | 231,125 |
| TOTAL | <u>\$129,190</u> | <u>\$77,015</u> | <u>\$122,995</u> | <u>\$68,255</u> | <u>\$117,470</u> | <u>\$514,925</u> |

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

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

Source: District accounting records.

Cover Photograph

Jeffrey Dunlap

Printing

CopyMax and Milbourn Pressworks

Map, Graphics and Major Initiatives

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John C. Gonzalez, Media Production Specialist

Project Manager

Mary C. Mink, Finance Manager

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Francis P. Greenland, Planning Manager

Richard Switalski, Manager of Sewer Design

John D. Graves, Planning Scientist

Janetta R. Griffin, Administrator of Revenue and User Support

**Northeast Ohio Regional
Sewer District**

SINGLE AUDIT REPORTS

DECEMBER 31, 2002

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NORTHEAST OHIO REGIONAL SEWER DISTRICT

FOR THE YEAR ENDED DECEMBER 31, 2002

TABLE OF CONTENTS

| <u>TITLE</u> | <u>PAGE</u> |
|---|-------------|
| Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 1-2 |
| Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 3-4 |
| Schedule of Expenditures of Federal Awards..... | 5 |
| Notes to the Schedule of Expenditures of Federal Awards..... | 6 |
| Schedule of Findings OMB Circular A-133 Section .505 | 7 |
| Corrective Action Plan OMB Circular A-133 Section .315(c)..... | 8 |
| Schedule of Prior Audit Findings OMB Circular A-133 Section .315(b)..... | 9 |

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*Creating economic value through
knowledge, innovation, commitment, and service*

CIUNI & PANICHI
INC.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS CONSULTING FIRM

a C&P Advisors Company

Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit Of Financial
Statements Performed in Accordance with
Government Auditing Standards

Board of Trustees
Northeast Ohio Regional Sewer District

We have audited the financial statements of the Northeast Ohio Regional Sewer District (the "District"), as of and for the year ended December 31, 2002, and have issued our report thereon dated April 17, 2003 in which the District adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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



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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal controls over financial reporting, which we have reported to management of the District in a separate letter dated April 17, 2003.

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

Ciuni & Panichi, Inc.

Cleveland, Ohio
April 17, 2003



Creating economic value through
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CIUNI & PANICHI
INC.

CERTIFIED PUBLIC ACCOUNTANTS
AND BUSINESS CONSULTING FIRM

a C&P Advisors Company

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

Board of Trustees
Northeast Ohio Regional Sewer District

Compliance

We have audited the compliance of the Northeast Ohio Regional Sewer District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002.

Internal Control Over Compliance

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



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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the District as of and for the year ended December 31, 2002, and have issued our report there dated April 17, 2003. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Cinni & Panichi, Inc.

Cleveland, Ohio
April 17, 2003

NORTHEAST OHIO REGIONAL SEWER DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2002

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Grant Number</u> | <u>Federal Expenditures</u> |
|---|------------------------------------|-------------------------|---------------------------------|
| U.S. Environmental Protection Agency: Surveys, Studies, Investigations and Special Purpose Grants | 66.606 | XP985464-02-0 | \$ 5,482,802 |
| Nonpoint Source Implementation Grants | 66.460 | C997550001-0 | 42,087 |
| U.S. Environmental Protection Agency: Pass-through Programs from Ohio Environmental Protection Agency: Capitalization Grants for State Revolving Funds | 66.458 | | |
| | | CS391972-02 | 829,745 |
| | | CS392039-02 | 196,260 |
| | | CS392166-01 | 964,942 |
| | | CS391126-16 | 729,672 |
| | | CS391972-05 | 13,985,261 |
| | | CS391972-03 | 8,437 |
| | | CS392194-01 | 1,171,691 |
| | | CS391126-17 | 4,458,393 |
| | | CS392034-02 | 87,058 |
| | | CS391972-04 | 2,559,766 |
| | | CS391972-06 | 1,532,196 |
| | | CS391126-18 | 7,816,488 |
| | | CS392380-01 | 2,652,958 |
| | | CS392039-03 | 3,012,400 |
| | | CS391972-07 | 4,673,561 |
| | | CS392461-01 | <u>111,362</u> |
| Subtotal Pass-through Programs | | | <u>44,790,190</u> |
| Total Expenditures of Federal Awards | | | \$ <u>50,315,079</u> |

NORTHEAST OHIO REGIONAL SEWER DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE 1 – BASIS OF PRESENTATION

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

NORTHEAST OHIO REGIONAL SEWER DISTRICT

SCHEDULE OF FINDINGS OMB CIRCULAR A-133 SECTION .505

DECEMBER 31, 2002

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|--|---|
| (d)(I)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(I)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(I)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(I)(iii) | Was there any material reported noncompliance at the financial statement level (GAGAS)? | No |
| (d)(I)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(I)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(I)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(I)(vi) | Are there any reportable findings under Section .501? | No |
| (d)(I)(vii) | Major Programs | Surveys, Studies, Investigations and Special Purpose Grants (CFDA No. 66.606); Capitalization Grants for State Revolving Funds (CFDA No. 64.458) |
| (d)(I)(viii) | Dollar Threshold: Type A/B Programs | Type A: >\$1,509,452 Type B: All Others |
| (d)(I)(ix) | Low Risk Auditee? | Yes |

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

FOR THE YEAR ENDED DECEMBER 31, 2002

The December 31, 2002 audit reported no audit findings as defined in OMB Circular A-133, Section .510. Therefore, preparation of a corrective action plan is not applicable.

NORTHEAST OHIO REGIONAL SEWER DISTRICT

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

DECEMBER 31, 2002

The December 31, 2001 audit reported no audit findings as defined in OMB Circular A-133, Section .510. Therefore, there are no prior findings on which to report.



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Betty Montgomery**

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NORTHEAST OHIO REGIONAL SEWER DISTRICT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 8, 2003**