

CITY OF CLEVELAND, OHIO



**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2009 and 2008**

CITY OF CLEVELAND, OHIO

**DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

TABLE OF CONTENTS

	Page
Independent Accountants' Report	1-2
Management's Discussion and Analysis	3-11
Balance Sheets	13-14
Statements of Revenues, Expenses and Changes in Net Assets	16
Statements of Cash Flows	17-18
Notes to Financial Statements	19-32

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Division of Water Pollution Control
Department of Public Utilities
City of Cleveland
Cuyahoga County
601 Lakeside Avenue
Cleveland, Ohio 44114

To the Honorable Frank G. Jackson, Mayor, Members of Council, and the Audit Committee:

We have audited the accompanying basic financial statements of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, (the Division) as of and for the years ended December 31, 2009 and December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As described in Note A, the financial statements present only the financial position and the changes in financial position and cash flows of the Division, and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2009 and December 31, 2008, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2009 and December 31, 2008, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America 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.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 28, 2010

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water Pollution Control (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2009 and 2008. Please read this information in conjunction with the Division's basic financial statements and footnotes that begin on page 13.

The Division was created for the purpose of supplying sewer services to customers within the Cleveland metropolitan area. Embarking with a rudimentary system in the late 1800's, the Cleveland Sewer System developed as the City itself expanded. Until the early 1970's, the City operated the entire system and managed all aspects of sewage treatment and disposal.

In 1972, a court order created the Northeast Ohio Regional Sewer District (NEORS) and transferred the operation of all wastewater treatment plants and interceptors to the district during December 1973.

The City retained responsibility for the sewer collector system in Cleveland. The Division serves a significant portion of the entire metropolitan area by managing the sanitary sewage and storm water drainage collection system. The sewer collection system transfers sanitary and storm sewage from its point of origin to an interceptor sewer or treatment plant for processing. The system is comprised of 1,200 miles of sewer lines with attendant catch basins and includes 18 pump/lift stations. The Division is also responsible for the cleaning of 127,000 catch basins and for maintaining two storm detention basins.

The Division currently has 122,669 customer accounts in the City of Cleveland of which 96% are residential and 4% commercial. Also, in 2009, the Division's sewers transported 2,165,459 Mcf's (thousand cubic feet) of water.

The Division's capital improvement program is supported by a "pay as you go" system funded by its operating revenue and loans. Since the Division has a low debt burden, its capital improvements are funded from cash reserves and loans, therefore the Division could still maintain an unencumbered cash balance allowing the current debts to be repaid. Maintaining this same approach helps the Division stabilize rate increase requirements and control rates charged to its customers.

COMPARISON OF CURRENT YEAR'S AND PRIOR YEARS' DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities (net assets) by \$97,615,000, \$93,814,000 and \$88,446,000 at December 31, 2009, 2008 and 2007, respectively. Of these amounts, \$30,948,000, \$30,154,000 and \$25,160,000 are unrestricted net assets at December 31, 2009, 2008 and 2007, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's net assets increased by \$3,801,000. Operating revenues increased by \$1,356,000. Maintenance expenses increased by \$808,000. In addition, investment income decreased by \$865,000.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL HIGHLIGHTS (Continued)

- Regular sewage rates increased from \$11.53 per thousand cubic feet in 2008 to \$12.03 per thousand cubic feet in 2009. Also, homestead sewage rates increased from \$6.84 per thousand cubic feet in 2008 to \$7.13 per thousand cubic feet in 2009.
- During 2009, the Division's net capital assets increased by \$2,351,000. In 2008, the Division's net capital assets increased by \$148,000. The major additions during 2009 and 2008 were for sewer line replacements and purchases of furniture, fixtures, equipment and vehicles, offset by depreciation expense.
- The Division's total debt decreased in 2009 and 2008 by 14.7% and 4.8%, respectively, due to the continuing scheduled debt payments made during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Division's basic financial statements. The accompanying financial statements present financial information for the City's Division of Water Pollution Control Fund, in which the City accounts for the operations of the Department of Public Utilities, Division of Water Pollution Control. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Division of Water Pollution Control Fund is considered an enterprise fund because the operations of the Division are similar to a private sector business enterprise. Accordingly, in accounting for the activities of the Division, the economic resources measurement focus and the accrual basis of accounting is used. This is similar to businesses in the private sector.

The basic financial statements of the Division can be found on pages 13 - 18 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 19 - 32 of this report.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

Provided below is the condensed balance sheet information for the Division as of December 31, 2009, 2008 and 2007:

	2009	2008	2007
	(In thousands)		
Assets:			
Capital assets, net	\$ 70,463	\$ 68,112	\$ 67,964
Restricted assets	1,602		276
Current assets	132,820	114,271	96,492
Total assets	204,885	182,383	164,732
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	66,667	63,660	63,286
Unrestricted	30,948	30,154	25,160
Total net assets	97,615	93,814	88,446
Liabilities:			
Long-term obligations	3,520	3,980	4,436
Current liabilities	103,750	84,589	71,850
Total liabilities	107,270	88,569	76,286
Total net assets and liabilities	\$ 204,885	\$ 182,383	\$ 164,732

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Current Assets: In 2009, there was a \$18,549,000 increase in current assets due to the increase in net accounts receivable of \$26,539,000, offset by a decreases in cash and cash equivalents and investments of \$6,955,000 and unbilled revenue of \$958,000. In 2008, there was a \$17,779,000 increase in current assets due to the increase in net accounts receivable of \$12,340,000, an increase in cash and cash equivalents and investments of \$5,389,000 which was offset by a decrease in due from other City Divisions of \$86,000. In 2007, there was a \$11,653,000 increase in current assets due to the increase in net accounts receivable of \$8,066,000, an increase in cash and cash equivalents and investments of \$3,232,000 which was offset by a decrease in due from other City Divisions of \$103,000.

Capital Assets: The Division's investment in capital assets as of December 31, 2009 amounted to \$70,463,000 (net of accumulated depreciation). This was an increase of 3.45%. During 2008 and 2007, the Division's investment in capital assets amounted to \$68,112,000 and \$67,964,000, respectively. The totals increased by .22% in 2008 and decreased by .33% in 2007. A summary of the activity in the Division's capital assets during the years ended December 31, 2009 and 2008 is as follows:

	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009
	(In thousands)			
Land	\$ 297	\$	\$	\$ 297
Utility plant	124,682	932		125,614
Buildings, structures and improvments	2,658			2,658
Furniture, fixture, equipment and vehicles	11,236	985		12,221
Construction in progress	8,365	6,255	(932)	13,688
Total	147,238	8,172	(932)	154,478
Less: Accumulated depreciation	(79,126)	(4,889)	-	(84,015)
Capital assets, net	<u>\$ 68,112</u>	<u>\$ 3,283</u>	<u>\$ (932)</u>	<u>\$ 70,463</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008
(In thousands)				
Land	\$ 297	\$	\$	\$ 297
Utility plant	120,907	3,775		124,682
Buildings, structures and improvements	2,658			2,658
Furniture, fixture, equipment and vehicles	11,128	422	(314)	11,236
Construction in progress	<u>7,584</u>	<u>4,978</u>	<u>(4,197)</u>	<u>8,365</u>
Total	142,574	9,175	(4,511)	147,238
Less: Accumulated depreciation	<u>(74,610)</u>	<u>(4,829)</u>	<u>313</u>	<u>(79,126)</u>
Capital assets, net	<u>\$ 67,964</u>	<u>\$ 4,346</u>	<u>\$ (4,198)</u>	<u>\$ 68,112</u>

During 2009, utility plant sewer line capital additions were \$932,000. Major capital projects/expenses for the year included:

- Westchester Avenue Sewer Replacement
- West 127th Street Sewer Replacement
- Marcella Drive Sewer Replacement

During 2008, utility plant sewer line capital additions were \$3,775,000. Major capital projects/expenses included:

- Westchester Avenue Sewer Replacement
- East 117th Street Sewer Replacement
- Kirby Avenue Building Phase II
- West 127th Street Sewer Replacement
- Purchase of Vehicles

Additional information on the Division's capital assets, including commitments made for future capital expenditures, can be found in Note D.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Current Liabilities: Total current liabilities increased by \$19,161,000. The major component was an increase of \$15,739,000 in amounts due for billings on behalf of others. During 2008, total current liabilities increased by \$12,739,000. The major component was an increase of \$12,166,000 in amounts due for billings on behalf of others.

Long-Term Debt: At the end of the current year, the Division had total debt outstanding of \$3,796,000 associated with five OWDA construction loans and two OPWC construction loans. These loans are payable by revenues generated by the Division. At the end of the 2008 and 2007, the Division had total debt outstanding of \$4,452,000 and \$4,678,000, respectively, associated with these loans. These loans are payable by revenues generated by the Division.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2009 is summarized below:

	Balance January 1, 2009	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2009
(In thousands)					
Ohio Water Development Authority Loans (OWDA)	\$ 4,141	\$	\$	\$ (632)	\$ 3,509
Ohio Public Works Commission Loans (OPWC)	<u>311</u>	<u> </u>	<u> </u>	<u>(24)</u>	<u>287</u>
Total	<u>\$ 4,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (656)</u>	<u>\$ 3,796</u>

The activity in the Division's debt obligations outstanding during the year ended December 31, 2008 is summarized below:

	Balance January 1, 2008	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2008
(In thousands)					
Ohio Water Development Authority Loans (OWDA)	\$ 4,343	\$	\$	\$ (202)	\$ 4,141
Ohio Public Works Commission Loans (OPWC)	<u>335</u>	<u> </u>	<u> </u>	<u>(24)</u>	<u>311</u>
Total	<u>\$ 4,678</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (226)</u>	<u>\$ 4,452</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Additional information on the Division's long-term debt can be found in Note B on pages 22 - 24.

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by \$97,615,000, \$93,814,000 and \$88,446,000 at December 31, 2009, 2008 and 2007, respectively.

By far, the largest portion of the Division's net assets, \$66,667,000 or 68% and \$63,660,000 or 68%, at December 31, 2009 and 2008, respectively, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net assets, \$30,948,000 or 32% and \$30,154,000 or 32% at December 31, 2009 and 2008, respectively, are unrestricted and may be used to meet the Division's ongoing obligations to customers and creditors.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS INFORMATION**

The Division's operations during 2009 increased its net assets by \$3,801,000 and during 2008 increased its net assets by \$5,368,000 respectively. Provided below are the key elements of the Division's results of operations for the years ended December 31, 2009, 2008 and 2007:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In thousands)		
Operating revenues	\$ 27,700	\$ 26,344	\$ 24,204
Operating expenses	<u>23,888</u>	<u>22,773</u>	<u>22,459</u>
Operating income	3,812	3,571	1,745
Non-operating revenue (expense):			
Investment income	124	989	1,610
Interest expense	(157)	(174)	(190)
Other	<u>22</u>	<u>912</u>	<u>29</u>
Total non-operating revenue (expense), net	(11)	1,727	1,449
Income (loss) before other contributions	3,801	5,298	3,194
Capital and other contributions	<u> </u>	<u>70</u>	<u>396</u>
Increase (decrease) in net assets	3,801	5,368	3,590
Net assets, beginning of year	<u>93,814</u>	<u>88,446</u>	<u>84,856</u>
Net assets, end of year	<u>\$ 97,615</u>	<u>\$ 93,814</u>	<u>\$ 88,446</u>

Operating revenues: Total operating revenues amounted to \$27,700,000 in 2009, of which \$27,258,000 (98%) was from the sale of sewer services to customers and \$442,000 (2%) was from miscellaneous services and sales. In 2008, total operating revenues, which increased by \$2,140,000, amounted to \$26,344,000 of which \$26,009,000 (99%) were from the sale of sewer services to customers. The Division also had \$335,000 (1%) from miscellaneous services and sales.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS INFORMATION (Continued)**

Operating expenses: In 2009, total operating expenses increased by \$1,115,000 (4.9%). This rise was mainly due to an increase in maintenance costs. In 2008, the total operating expenses increased by \$314,000 (1.4%). This increase was primarily due to an addition in operations costs.

Non-operating revenues and expenses: In 2009, investment income decreased by \$865,000 (87.5%). The decrease was due to lower interest rates and significantly fewer long-term investments. In 2008, investment income decreased by \$621,000 (38.6%).

**FACTORS EXPECTED TO IMPACT THE DIVISION’S FUTURE
FINANCIAL POSITION OR RESULTS OF OPERATIONS**

Sewage rate increases will continue to have a positive impact on the financial position of the Division:

PER Mcf		
EFFECTIVE	REGULAR	HOMESTEAD
January 1, 2009	\$ 12.03	\$7.13
January 1, 2010	\$12.53	\$7.43
January 1, 2011	\$12.78	\$7.58

In June 2006, legislation was passed for the above sewer rates increases that will enable the Division to continue to maintain and provide superior sewer services to its customers.

The installation of a Supervisory Control and Data Acquisition (SCADA) system has greatly enhanced pump station maintenance from a central location at the Kirby Road Main Facility. The system has assisted in discovering problems in a timely manner and has reduced the manpower needed to check lift stations.

Monitoring sewer lines electronically from a central location has enabled the Division to utilize its limited manpower efficiently. The system is vital in the Division’s desire to minimize the potential for any future environmental hazards.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Division’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, City Hall, Room 104, 601 Lakeside Avenue, Cleveland, Ohio 44114.

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 2009 and 2008

	<i>(In thousands)</i>	
	2009	2008
ASSETS		
CAPITAL ASSETS		
Land	\$ 297	\$ 297
Utility plant	125,614	124,682
Buildings, structures and improvements	2,658	2,658
Furniture, fixtures, equipment and vehicles	<u>12,221</u>	<u>11,236</u>
	140,790	138,873
Less: Accumulated depreciation	<u>(84,015)</u>	<u>(79,126)</u>
	56,775	59,747
Construction in progress	<u>13,688</u>	<u>8,365</u>
CAPITAL ASSETS, NET	70,463	68,112
 RESTRICTED ASSETS		
Cash and cash equivalents	1,602	
 CURRENT ASSETS		
Cash and cash equivalents	30,220	32,139
Investments		5,036
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of \$3,648,000 in 2009 and \$448,000 in 2008	100,127	73,588
Unbilled revenue	1,839	2,797
Due from other City of Cleveland departments, divisions or funds	443	399
Accrued interest receivable		69
Materials and supplies - at average cost	<u>191</u>	<u>243</u>
TOTAL CURRENT ASSETS	<u>132,820</u>	<u>114,271</u>
TOTAL ASSETS	<u>\$ 204,885</u>	<u>\$ 182,383</u>

(Continued)

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 2009 and 2008

	<i>(In thousands)</i>	
	2009	2008
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	\$ 66,667	\$ 63,660
Unrestricted	30,948	30,154
TOTAL NET ASSETS	97,615	93,814
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
OWDA loans	3,066	3,509
OPWC loans	263	287
Accrued wages and benefits	191	184
TOTAL LONG-TERM OBLIGATIONS	3,520	3,980
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	467	656
Accounts payable	145	196
Construction payable	744	1,532
Amounts due for billing on behalf of others	92,608	76,869
Due to other City of Cleveland departments, divisions or funds	7,911	3,517
Current portion of accrued wages and benefits	1,755	1,669
Other accrued expenses	65	150
Customer deposits and other liabilities	55	-
TOTAL CURRENT LIABILITIES	103,750	84,589
TOTAL LIABILITIES	107,270	88,569
TOTAL NET ASSETS AND LIABILITIES	\$ 204,885	\$ 182,383

(Concluded)

See notes to financial statements.

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DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2009 and 2008

	<i>(In thousands)</i>	
	2009	2008
OPERATING REVENUES		
Charges for services	\$ 27,700	\$ 26,344
TOTAL OPERATING REVENUES	27,700	26,344
OPERATING EXPENSES		
Operations	9,198	8,951
Maintenance	9,801	8,993
Depreciation	4,889	4,829
TOTAL OPERATING EXPENSES	23,888	22,773
OPERATING INCOME (LOSS)	3,812	3,571
NON-OPERATING REVENUE (EXPENSE)		
Investment income	124	989
Interest expense	(157)	(174)
Other	22	912
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	(11)	1,727
INCOME (LOSS) BEFORE OTHER CONTRIBUTIONS	3,801	5,298
Capital and other contributions		70
INCREASE (DECREASE) IN NET ASSETS	3,801	5,368
NET ASSETS, BEGINNING OF YEAR	93,814	88,446
NET ASSETS, END OF YEAR	\$ 97,615	\$ 93,814

See notes to financial statements.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<i>(In thousands)</i>	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 24,501	\$ 23,167
Cash payments to suppliers for goods or services	(6,870)	(7,236)
Cash payments to employees for services	(10,434)	(10,235)
Agency activity on behalf of other sewer authorities	(3,587)	3,638
	<hr/>	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,610	9,334
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Workers compensation refund		6
	<hr/>	<hr/>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	6
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(8,257)	(4,905)
Principal paid on long-term debt	(656)	(226)
Interest paid on long-term debt	(243)	(89)
	<hr/>	<hr/>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(9,156)	(5,220)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturity of investment securities	4,982	
Interest received on investments	247	1,007
	<hr/>	<hr/>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	5,229	1,007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(317)	5,127
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	32,139	27,012
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 31,822	\$ 32,139
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CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2009 and 2008

	<i>(In thousands)</i>	
	2009	2008
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	\$ 3,812	\$ 3,571
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,889	4,829
Changes in assets and liabilities:		
Accounts receivable, net	(26,539)	(11,440)
Accrued and unbilled revenue	958	(142)
Due from other City of Cleveland departments, divisions or funds	(44)	86
Materials and supplies, net	52	3
Accounts payable	(51)	(67)
Amounts due for billings on behalf of others	15,739	12,166
Due to other City of Cleveland departments, divisions or funds	4,394	261
Accrued wages and benefits	93	67
Customer deposits and other liabilities	307	
TOTAL ADJUSTMENTS	(202)	5,763
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,610	\$ 9,334

(Concluded)

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended December 31, 2009 and 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water Pollution Control (the Division) is reported as an Enterprise Fund of the City of Cleveland's Department of Public Utilities and is a part of the City of Cleveland's (the City) primary government. The Division was created for the purpose of supplying sewer services to customers within the metropolitan area. The following is a summary of the more significant accounting policies.

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. Beginning January 1, 2002, the Division changed its financial reporting to comply with GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section*, which is effective for the year ended December 31, 2006. The Division has determined that GASB Statement No. 44 has no impact on its financial statements as of December 31, 2006. In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*, which is effective for the year ended December 31, 2006. The Division has determined that GASB Statement No. 47 has no impact on its financial statements as of December 31, 2006. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is effective for the year ended December 31, 2007. The Division has determined that GASB Statement No. 45 has no impact on its financial statements as of December 31, 2007. In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, which is effective for the year ended December 31, 2007. The Division has determined that GASB Statement No. 48 has no impact on its financial statements as of December 31, 2007. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which is effective for the year ended December 31, 2009. The City has determined that GASB Statement No. 52 has no impact on its financial statements as of December 31, 2009.

The Division's net assets are accounted for in the accompanying balance sheets and the net assets are divided into the following categories:

- Amount invested in capital assets, net of related debt.
- Remaining unrestricted amount.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition, certain additional financial information regarding the Division is included in these footnotes. The implementation of the new GASB statements did not result in a change in the Division's beginning net asset/equity balance as previously reported.

Basis of Accounting: The Division's financial statements are prepared under the accrual basis of accounting. Under this method, revenues are recognized when earned and measurable and expenses are recognized as incurred. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Activities*, all Proprietary Funds will continue to follow Financial Accounting Standards Board (FASB) standards issued on or before November 30, 1989. However, from that date forward, Proprietary Funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements (unless they conflict with GASB pronouncements). The City has chosen not to apply future FASB standards.

Revenues: Revenues are derived primarily from sales of sewer services to residential, commercial and industrial customers based upon actual water consumption. Sewer rates are authorized by City Council and billings are made on a cyclical basis. Estimates for services between the end of the various cycles and the end of the year are recorded as unbilled revenue.

Accounts Receivables: The Division's share of the accounts receivable balance is \$9,332,000 and \$8,403,000, net of allowance for doubtful accounts of \$3,648,000 and \$448,000, for 2009 and 2008, respectively. The remaining accounts receivable balances of \$90,795,000 and \$65,185,000 for 2009 and 2008, respectively, belong to the Northeast Ohio Regional Sewer District and other municipalities in the Greater Cleveland Region and are offset by the corresponding amounts due for billings on behalf of others.

Statement of Cash Flows: The Division utilizes the direct method of reporting for the statement of cash flows as defined by the Governmental Accounting Standards Board (GASB) Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. In a statement of cash flows, cash receipts and cash payments are classified according to operating, noncapital financing, capital and related financing, and investment activities.

Cash and Cash Equivalents: Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with maturity of three months or less when purchased and include certificates of deposit, U.S. Treasury bills, State Treasury Asset Reserve of Ohio (STAROhio) and repurchase agreements. The City's policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

Investments: The Division follows the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which requires governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. The fair value is based on quoted market rates.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has invested funds in STAROhio during year 2009 and 2008. 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 December 31, 2009 and 2008.

Capital Assets and Depreciation: Capital assets are stated on the basis of historical cost or, if contributed, at fair market value as of the date received. Depreciation is computed by allocating the cost of capital assets over the estimated useful lives of the assets using the straight-line method. A capital asset is defined as a tangible item with a useful life in excess of one year and an individual cost of more than \$5,000 for furniture, fixtures, equipment and vehicles and \$10,000 for all other assets. When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Utility plant	10 to 75 years
Building, structures and improvements	20 to 60 years
Furniture, fixtures, equipment and vehicles	5 to 20 years

Compensated Absences: The Division accrues for compensated absences such as vacation, sick leave and compensatory time using the termination payment method specified under GASB Statement No. 16, *Accounting for Compensated Absences*. These amounts are recorded as accrued wages and benefits in the accompanying balance sheets. The portion of the compensated absence liability that is not expected to be paid or utilized within one year is reported as a long-term liability.

Normally, all vacation time is to be taken in the year available. The Division allows employees to carryover up to 80 hours of vacation from one year to the next with proper approval. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at the three-year average base salary rate, with the balance being forfeited.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE B - LONG-TERM OBLIGATIONS

Long-term obligations outstanding at December 31, 2009 and 2008 is as follows:

	<u>Interest Rate</u>	<u>Original Issuance</u>	<u>2009</u>	<u>2008</u>
			<u>(In thousands)</u>	
Ohio Water Development Authority (OWDA) loans payable annually through 2017	4.04% - 4.18%	\$ 7,897	\$ 3,509	\$ 4,141
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	0%	<u>481</u>	<u>287</u>	<u>311</u>
		<u>\$ 8,378</u>	3,796	4,452
Less:				
Current portion			<u>(467)</u>	<u>(656)</u>
Total Long-Term Debt			<u>\$ 3,329</u>	<u>\$ 3,796</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE B - LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2009 are as follows:

	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009	Due Within One Year
	(In thousands)				
Ohio Water Development Authority (OWDA) loans payable annually through 2017	\$ 4,141	\$	\$ (632)	\$ 3,509	\$ 443
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	<u>311</u>	<u></u>	<u>(24)</u>	<u>287</u>	<u>24</u>
Total loans	<u>4,452</u>	<u>-</u>	<u>(656)</u>	<u>3,796</u>	<u>467</u>
Accrued wages and benefits	<u>1,853</u>	<u>162</u>	<u>(69)</u>	<u>1,946</u>	<u>1,755</u>
Total	<u>\$ 6,305</u>	<u>\$ 162</u>	<u>\$ (725)</u>	<u>\$ 5,742</u>	<u>\$ 2,222</u>

Summary: Changes in long-term obligations for the year ended December 31, 2008 are as follows:

	Balance January 1, 2008	Increase	Decrease	Balance December 31, 2008	Due Within One Year
	(In thousands)				
Ohio Water Development Authority (OWDA) loans payable annually through 2017	\$ 4,343	\$	\$ (202)	\$ 4,141	\$ 632
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	<u>335</u>	<u></u>	<u>(24)</u>	<u>311</u>	<u>24</u>
Total loans	<u>4,678</u>	<u>-</u>	<u>(226)</u>	<u>4,452</u>	<u>656</u>
Accrued wages and benefits	<u>1,786</u>	<u>67</u>	<u></u>	<u>1,853</u>	<u>1,669</u>
Total	<u>\$ 6,464</u>	<u>\$ 67</u>	<u>\$ (226)</u>	<u>\$ 6,305</u>	<u>\$ 2,325</u>

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE B - LONG-TERM OBLIGATIONS (Continued)

Minimum principal and interest payments on long-term debt are as follows:

	Principal	Interest	Total
	(In thousands)		
2010	\$ 467	\$ 140	\$ 607
2011	486	121	607
2012	505	102	607
2013	525	82	607
2014	546	61	607
2015-2019	1,221	63	1,284
2020-2022	46		46
Total	\$ 3,796	\$ 569	\$ 4,365

The Ohio Water Development Authority and Ohio Public Works Commission Loans are being paid from the revenues derived from operations of the Division.

Water Pollution Control Loans: Under Title VI of the Clean Water Act, Congress created the State Revolving Fund (SRF). The SRF program provides federal capitalization grants to states, in addition to the 20% state matching funds, in order to capitalize state level revolving loan funds. Besides the traditional types of municipal wastewater treatment projects, Congress expanded the potential use of SRF funds to include correction of combined sewer overflows, major sewer rehabilitation and new collector sewers.

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. 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 1st of January or July following the expected completion date of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. Construction loans and design loans are to be repaid in semi-annual payments of principal and interest over a period of twenty years and five years, respectively. The Division had five SRF loan awards related to projects as of December 31, 2009.

In addition, the Division had two OPWC loan awards as of December 31, 2009. The loan related projects are for sewer repair and replacement at the Hamlet and Adolpha Streets intersection, and a storm water detention basin project at Kerruish Park. Both loans are interest-free and principal repayment will be made from the Division's operating revenues.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at years ended December 31, 2009 and December 31, 2008 totaled \$4,907,000 and \$1,088,000, and the Division's bank balances were approximately \$5,354,000 and \$1,183,000, respectively. The difference represents normal reconciling items. Based on the criteria described in *GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, the entire bank balances for both years were insured or collateralized with securities held by the City or by its agent in the City's name.

Custodial credit risk for deposits is the risk that in the event of bank failure, the Division will not be able to recover deposits or collateral for securities that are in possession of an outside party. At year end, the Division's deposits were fully insured or collateralized. All deposits are collateralized with eligible securities pledged and deposited either with the City or with a qualified trustee by the financial institution as security for repayment of all public monies deposited in the financial institution whose market value at all times is equal to at least 110% of the carrying value of the deposits being secured.

Investments: The City's investment policies are governed by State statutes and City ordinances which authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State obligations; certificates of deposit; U.S. Government Money Market Mutual Funds; STAROhio; guaranteed investment contracts; and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers. Repurchase transactions are not to exceed a period of one year and confirmation of securities pledged must be obtained.

Under City policy, investments are limited to repurchase agreements, U.S. Government securities, certificates of deposit, investments in certain money market mutual funds, and STAROhio. Generally, investments are recorded in segregated accounts by way of book entry through the banks' commercial or trust department and are kept at the Federal Reserve Bank in the depository institutions' separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of reverse repurchase agreements.

Investment securities are exposed to various risks such as interest rate, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value.

Interest rate risk: As a means of limiting its exposure to fair value losses caused by rising interest rates, the Division invests primarily in short-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed in the table on the following page.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The Division does not have an investment policy dealing with investment custodial credit risk beyond the requirement in the State statute.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: The Division's investments as of December 31, 2009 and 2008 include U.S. Agencies, Victory Federal Money Market Funds, STAROhio and mutual funds. The Division maintains the highest ratings for their investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in the Victory Money Market Fund, Allegiant Government Money Market Fund and STAROhio carry a rating of AAAM, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: The Division places a limitation on the amount it may invest in any one issuer to minimize the concentration of credit risk. The Division had the following investments at December 31, 2009 and 2008, which include those classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9 since they have a maturity of three months or less:

<u>Type of Investment</u>	2009		2008		Investment Maturities		
	Fair Value	2009 Cost	Fair Value	2008 Cost	Less than One Year	1 - 5 Years	5 Years or More
(In thousands)							
U.S. Agency Obligations	\$	\$	\$ 5,036	\$ 4,982	\$	\$	\$
STAROhio	26,675	26,675	30,863	30,863	26,675		
Investment in Mutual Funds	240	240	188	188	240		
Total Investments	26,915	26,915	36,087	36,033	26,915	-	-
Total Deposits	4,907	4,907	1,088	1,088	4,907		
Total Deposits and Investments	<u>\$ 31,822</u>	<u>\$ 31,822</u>	<u>\$ 37,175</u>	<u>\$ 37,121</u>	<u>\$ 31,822</u>	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2009, the investments in STAROhio and mutual funds are 99% and 1%, respectively, of the Division's total investments. As of December 31, 2008, the investments in U.S. Agency Obligations, STAROhio and mutual funds are 14%, 85% and 1%, respectively, of the Division's total investments.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2009 was as follows:

	January 1, 2009	Additions	Reductions	December 31, 2009
	(In thousands)			
Capital assets, not being depreciated:				
Land	\$ 297	\$	\$	\$ 297
Construction in progress	8,365	6,255	(932)	13,688
Total capital assets, not being depreciated	8,662	6,255	(932)	13,985
Capital assets, being depreciated:				
Utility plant	124,682	932		125,614
Buildings, structures and improvements	2,658			2,658
Furniture, fixtures, equipment and vehicles	11,236	985		12,221
Total capital assets, being depreciated	138,576	1,917	-	140,493
Less: Accumulated depreciation	(79,126)	(4,889)		(84,015)
Total capital assets being depreciated, net	59,450	(2,972)	-	56,478
Capital assets, net	\$ 68,112	\$ 3,283	\$ (932)	\$ 70,463

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE D - CAPITAL ASSETS (Continued)

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

	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008
	(In thousands)			
Capital assets, not being depreciated:				
Land	\$ 297	\$	\$	\$ 297
Construction in progress	7,584	4,978	(4,197)	8,365
Total capital assets, not being depreciated	7,881	4,978	(4,197)	8,662
Capital assets, being depreciated:				
Utility plant	120,907	3,775		124,682
Buildings, structures and improvements	2,658			2,658
Furniture, fixtures, equipment and vehicles	11,128	422	(314)	11,236
Total capital assets, being depreciated	134,693	4,197	(314)	138,576
Less: Accumulated depreciation	(74,610)	(4,829)	313	(79,126)
Total capital assets being depreciated, net	60,083	(632)	(1)	59,450
Capital assets, net	\$ 67,964	\$ 4,346	\$ (4,198)	\$ 68,112

Commitments: The Division had outstanding commitments of approximately \$15,059,000 and \$17,058,000 for future capital expenditures at December 31, 2009 and 2008, respectively. It is anticipated that these commitments will be financed from the Division's cash balances. However, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE E – DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System: All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans as described below:

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2009 and 2008. The rate was 9.50% in 2007 and employer contribution rates were 14.00% of covered payroll in 2009 and 2008. The rate was 13.85% in 2007. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2009, 2008 and 2007 were approximately \$612,000, \$493,000 and \$537,000 each year, respectively. The required payments due in 2009, 2008 and 2007 have been made.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE F – OTHER POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: All full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS maintains a cost-sharing multiple employer defined benefit postemployment health care plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Postemployment Benefit (OPEB) as described in GASB Statement 45. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2009 and 2008. It was 13.85% in 2007. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll. Active members do not make contributions to the OPEB Plan. OPERS Postemployment Health Care plan was established under and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Employer contribution rates to fund postemployment health care benefits were 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009, 7.00% in 2008, 5.00% from January 1, 2007 to June 30, 2007 and 6.00% from July 1, 2007 to December 31, 2007. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions for 2009 to OPERS to fund postemployment benefits were approximately \$443,000.

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

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT

Contingent Liabilities: Various claims are pending against the City involving the Division for personal injuries, property damage and other matters. The City is responsible for the suits. The City's management is of the opinion that ultimate settlement of such claims will not result in a material adverse effect on the Division's financial position, results of operations or cash flows.

Risk Management: The Division is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Division is generally self-insured. No material losses, including incurred but not reported losses, occurred in 2009 or 2008.

The City provides the choice of four separate health insurance plans for its employees. These plans are provided by two different insurers through commercial insurance. Operating funds are charged a monthly rate per employee, by type of coverage. The Division participates in the State of Ohio workers' compensation retrospective rating program.

In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are re-evaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Claims liability for the Division is immaterial.

NOTE H - RELATED PARTY TRANSACTIONS

Revenues and Accounts Receivable: The Division provides sewer services to the City, including its various departments and divisions. Standard consumption rates are charged, except for the Division of Fire, public buildings and certain other facilities owned by the City, which by ordinance are provided free sewer services.

Billing and collection services for the Division are performed by the Division of Water for a fee. This fee is based on the number of billings made on behalf of the Division during the year at the same rates as charged to other users of the billing system. Fees incurred to the Division of Water for such services were approximately \$2,298,000 and \$2,141,000 in 2009 and 2008, respectively.

**CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL**

**NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2009 and 2008**

NOTE H - RELATED PARTY TRANSACTIONS (Continued)

Operating Expenses: The Division is provided various intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs for the years ended December 31, 2009 and 2008 were as follows:

	(In thousands)	
	2009	2008
Electricity purchases	\$ 234	\$ 195
Street construction and maintenance	234	189
City administration	475	458
Motor vehicle maintenance	449	624
Utilities administration and fiscal control	405	477
Employee and other services provided by the Division of Water	762	532

NOTE I - CUYAHOGA COUNTY REAL PROPERTY TAXES

The Division is required by ordinance to keep records of the estimated property taxes which would be payable to Cuyahoga County were it subject to such taxes. The estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$7,825 and \$8,201 for the years ended December 31, 2009 and 2008, respectively.



Mary Taylor, CPA
Auditor of State

CITY OF CLEVELAND – WATER POLLUTION CONTROL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 17, 2010**