



**CITY OF CLEVELAND - DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF CLEVELAND - DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
CUYAHOGA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Honorable Jane L. Campbell, Mayor,
Members of Council and the Audit Committee:

We have audited the accompanying financial statements of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Ohio, as of and for the years ended December 31, 2001 and December 31, 2000. These financial statements are the responsibility of the Division of Water Pollution Control's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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.

As discussed in Note A, the financial statements present only the Division of Water Pollution Control and are not intended to present fairly the financial position of the City of Cleveland and the results of the City of Cleveland's operations and cash flows of its proprietary fund types 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, as of December 31, 2001 and December 31, 2000, and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note I, the Division of Water Pollution Control adopted Governmental Accounting Standards Board Statements Nos. 33 and 36, as of and for the year ended December 31, 2001.

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Jim Petro
Auditor of State

August 16, 2002

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CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 2001 and 2000

	(in thousand of dollars)	
	December 31,	
	2001	2000
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Land	\$ 297	\$ 297
Utility plant in service	108,092	106,323
Furniture, fixtures and equipment	107	107
	108,496	106,727
Less: accumulated depreciation	49,054	45,522
	59,442	61,205
Construction in progress	909	484
PROPERTY, PLANT AND EQUIPMENT, NET	60,351	61,689
CURRENT ASSETS		
Cash and cash equivalents	29,109	14,048
Investments at market	4,053	20,239
Accounts receivable- net of allowance for doubtful accounts of \$898,000 in 2001 and \$574,000 in 2000	39,397	32,938
Unbilled revenue	1,918	2,161
Due from other City of Cleveland departments, divisions or funds	1,818	957
Accrued interest receivable	57	274
Materials and supplies-at average cost	232	233
TOTAL CURRENT ASSETS	76,584	70,850
TOTAL ASSETS	\$ 136,935	\$ 132,539

		<i>(in thousands of dollars)</i>	
		December 31,	
		2001	2000
EQUITY AND LIABILITIES			
EQUITY			
Contributions in aid of construction		\$ 40,154	\$ 40,154
Contributed capital		3,445	3,445
Retained earnings		37,891	37,004
	TOTAL EQUITY	<u>81,490</u>	<u>80,603</u>
LIABILITIES			
	LONG TERM DEBT-excluding amounts due within one year	6,548	6,866
	PAYABLE FROM RESTRICTED ASSETS	100	324
CURRENT LIABILITIES			
	Current portion of long-term debt	591	546
	Accounts payable	208	
	Amounts due for billings on behalf of others	43,472	38,432
	Due to other City of Cleveland departments, divisions or funds	2,340	4,177
	Accrued expenses	965	65
	Accrued wages and benefits	1,221	1,526
	TOTAL CURRENT LIABILITIES	<u>48,797</u>	<u>44,746</u>
	TOTAL EQUITY AND LIABILITIES	<u>\$ 136,935</u>	<u>\$ 132,539</u>

See notes to financial statements.

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CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF INCOME AND RETAINED EARNINGS
For the Years Ended December 31, 2001 and 2000

		<i>(in thousands of dollars)</i>	
		For the	
		Years Ended December 31,	
		2001	2000
OPERATING REVENUES			
Charges for services		\$ 18,893	\$ 18,235
TOTAL OPERATING REVENUES		18,893	18,235
OPERATING EXPENSES			
Operations		7,012	6,486
Maintenance		6,715	7,043
Depreciation		3,859	3,905
TOTAL OPERATING EXPENSES		17,586	17,434
OPERATING INCOME		1,307	801
NON-OPERATING INCOME (EXPENSE)			
Workers compensation refund		314	
Litigation settlement		(2,699)	
Contributed capital and other contributions		597	
Interest income		1,683	2,217
Interest expense		(315)	(288)
TOTAL NON-OPERATING INCOME (EXPENSE), NET		(420)	1,929
NET INCOME		887	2,730
RETAINED EARNINGS, beginning of year		37,004	34,274
RETAINED EARNINGS, end of year		\$ 37,891	\$ 37,004

See notes to financial statements.

CITY OF CLEVELAND
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001 and 2000

	<i>(in thousands of dollars)</i>	
	For the	
	Years Ended December 31,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 18,625	\$ 18,091
Cash payments to suppliers for goods or services	(6,185)	(6,168)
Cash payments to employees for services	(7,307)	(6,652)
Agency activity on behalf of other sewer authorities, net	(2,995)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,138	5,271
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Litigation settlement	(1,799)	
Workers compensation refund	306	
NET CASH (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	(1,493)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(2,129)	(1,487)
Principal paid on long-term debt	(531)	(461)
Interest paid on long-term debt	(316)	(288)
NET CASH (USED FOR) CAPITAL AND RELATED FINANCING ACTIVITIES	(2,976)	(2,236)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities		(4,498)
Proceeds from sale and maturity of investment securities	15,544	6,249
Interest received on investments	1,848	1,501
NET CASH PROVIDED BY INVESTING ACTIVITIES	17,392	3,252
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,061	6,287
Cash and cash equivalents, beginning of year	14,048	7,761
Cash and cash equivalents, end of year	\$ 29,109	\$ 14,048
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY		
Fixed assets acquired by capital contribution	\$ 597	\$ 269

(in thousands of dollars)
 For the
 Years Ended December 31,
 2001 2000

**RECONCILIATION OF OPERATING INCOME TO
 NET CASH PROVIDED BY OPERATING ACTIVITIES**

	\$	\$
OPERATING INCOME	1,307	801
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,859	3,905
Loss on disposal of equipment	41	
Change in assets and liabilities:		
Accounts receivable, net	(6,459)	(3,314)
Unbilled revenue	243	231
Due from other City of Cleveland departments, divisions or funds	(861)	129
Materials and supplies	1	68
Accounts payable	208	(141)
Amounts due for billings on behalf of others	5,040	2,290
Due to other City of Cleveland departments, divisions or funds	(1,837)	622
Accrued expenses	900	1
Accrued wages and benefits	(304)	679
TOTAL ADJUSTMENTS	<u>831</u>	<u>4,470</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,138</u>	<u>\$ 5,271</u>

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2001 and 2000

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Division of Water Pollution Control (“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 (“City”) primary government. The Division was created for the purpose of providing sewage services to customers and to maintain the local sewer system of the City of Cleveland. The following is a summary of the more significant accounting policies.

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

The Division of Water provides billing and collection services for sewage fees and assessments charged by the Division of Water Pollution Control and other municipalities. The accounts receivable from users, cash received in payment thereof and the liability for amounts billed on behalf of these systems, but not remitted, are included in the accounts of the Division. Cash and investments collected and due to other municipalities included in the accompanying balance sheets totaled \$9,424,000 and \$11,814,000 at December 31, 2001 and 2000, respectively.

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.

Statement of Cash Flows: The Division utilizes the direct method of reporting for the statement of cash flows as defined by the Government 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, non-capital financing, capital and related financing, and investing 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 a maturity of three months or less when purchased and include certificates of deposits, U.S. Treasury bills, Star Ohio (See Note H) and repurchase agreements. The City’s policy is to enter into repurchase agreements with local commercial banks and to obtain confirmation of securities pledged.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
For the Year Ended December 31, 2001 and 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. Investment fair values at year-end are based on market quotes, where available.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2001 and 2000. 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, 2001 and 2000.

Restricted Assets: Proceeds from debt and amounts set aside in various fund accounts for payment of debt are classified as restricted assets since their use is limited by the loan agreements.

Fixed Assets and Depreciation: Property, plant and equipment are stated on the basis of historical cost, or if contributed, at fair market value at the date received. Depreciation for the Proprietary Fund types is determined by allocating the cost of fixed assets over the estimated useful lives of the assets using the straight-line method. A fixed asset is defined as a tangible item with a useful life of five years or more and a value equal to or greater than \$5,000, with the exception of computer equipment and software which have a value equal to or greater than \$1,500. When property is 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 in service	6 to 100 years
Buildings, structures and improvements	10 to 65 years
Furniture, fixtures and equipment	5 to 33 years

Contributed Capital: Contributed capital represents contributions from the City of Cleveland which are not subject to mandatory repayment.

Contributions in Aid of Construction: Contributions in aid of construction represent federal and other grants which are not subject to repayment. The Division participates in the State Issue 2 program and the Local Transportation Improvement Program. Through these programs, the State of Ohio ("State") provides financial assistance to the Division for its storm water detention facilities. The Ohio Public Works Commission ("OPWC") is the State agency which oversees the allocation of State bond proceeds and tax revenue to selected projects which have met funding requirements. Upon approval by the OPWC, the Division and the State create project agreements establishing each entity's financial contribution toward each project. As of December 31, 2001 and 2000, the State funded \$6,695,000 and \$6,098,000 respectively, for storm water detention facilities.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31 is as follows:

	<u>Interest Rate</u>	<u>Outstanding Principal Amount</u>	
		<u>2001</u>	<u>2000</u>
		<i>(in thousands of dollars)</i>	
Ohio Water Development Authority			
Construction Loans due in annual installments of \$282,000 including interest, through 2003	5.25%-6.25%	\$ 391	\$ 634
Water Pollution Control Loans - due in annual installments of \$295,000 to \$521,000 including interest, through 2017	4.04%-4.18%	6,748	6,778
		<u>\$ 7,139</u>	<u>\$ 7,412</u>
Less:			
Current portion		(591)	(546)
Total Long-Term Debt		<u>\$ 6,548</u>	<u>\$ 6,866</u>

Minimum principal and interest payments on long-term debt for the next five years and thereafter are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<i>(in thousand of dollars)</i>		
2002	\$ 591	\$ 286	\$ 877
2003	479	257	736
2004	359	236	595
2005	373	221	594
2006	388	206	594
Thereafter	<u>4,949</u>	<u>1,091</u>	<u>6,040</u>
	<u>\$ 7,139</u>	<u>\$ 2,297</u>	<u>\$ 9,436</u>

The Ohio Water Department Authority Construction Loans are payable from the revenues derived from operations of the Water Pollution Control system.

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, that along with 20% state matching funds, are used 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.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE B - LONG TERM DEBT - Continued

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 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 seven SRF loan awards related to projects as of December 31, 2001 and 2000. In addition, the Division had one OPWC Loan Award related to a project as of December 31, 2001.

NOTES C-EMPLOYEES' RETIREMENT PLAN

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For calendar year 2000, PERS instituted a temporary employer rate rollback for state and local governments. The 2001 and 2000 employer pension contribution rates for the Division were 13.55 and 10.84 percent of covered payroll, respectively. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Division's required contributions to PERS for the years ended December 31, 2001, 2000, and 1999 were \$711,000, \$724,000, and \$637,000, respectively. The required amounts have been contributed for 2001, 2000, and 1999.

NOTE D-OTHER POST EMPLOYMENT BENEFITS

The Public Employees Retirement System of Ohio (PERS) provides 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 available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employers' contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE D-OTHER POST EMPLOYMENT BENEFITS - Continued

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employee) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The number of active contributing participants was 411,076. The Division's actual contributions for 2001 which were used to fund postemployment benefits were \$225,690. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

NOTE E-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 lawsuits. In accordance with GASB Statement No. 10, claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. 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.

The Division paid \$1,799,000 and accrued \$900,000 for litigation expense for the year ended December 31, 2001.

The Division received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Division. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Division at December 31, 2001.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE F-RELATED PARTY TRANSACTIONS

The Division provides sewage services to the City of Cleveland, including its various departments and divisions. All non self-supporting municipal functions of the City are provided free sewage service.

The Division of Water performs billing and collection services for the Division. The fee for these services was 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. In 2001 and 2000, the expense of the billing services was approximately \$2,269,000 and \$2,180,000, respectively.

The Division is provided various other intra-city services. Charges are based on actual use or on a reasonable pro-rata basis. The more significant costs, included in the statements of income, for the years ended December 31 were as follows:

	2001	2000
	<i>(in thousands of dollars)</i>	
Employee and other services provided		
by the Division of Water	\$ 819	\$ 312
City administration	224	120
Motor vehicle maintenance	305	331
Street maintenance	178	211
Electricity	131	148
Utilities Administration and Fiscal Control	218	174

NOTE G-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. For the year ended December 31, 2001 and 2000, the estimated property taxes for the Division, based on book value of real estate at the current tax rates, would have been approximately \$14,100 and \$14,200, respectively.

NOTE H-DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at years ended December 31, 2001 and December 31, 2000 totaled \$736,000 and \$1,186,000 and the Division's bank balances were \$479,000 and \$2,700,000. The differences represent outstanding warrants payable and normal reconciling items. These amounts were insured or collateralized with securities held by the City or by its agent in the City's name.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE H - DEPOSITS AND INVESTMENTS - Continued

Investments: The City's investment policies are governed by the 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; State Treasury Asset Reserve Fund (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 State Treasury Asset Reserve Fund (STAROhio). Generally, investments are recorded in segregated accounts by way of book entry through the bank's commercial or trust department and are kept at the Federal Reserve Bank in the depository institution's 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.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements", requires the City to categorize its investments into one of three categories:

Category 1: includes insured or registered, or securities held by the City or its agent in the City's name.

Category 2: includes uninsured or unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3: includes uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the City's name.

CITY OF CLEVELAND, OHIO
DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
NOTES TO FINANCIAL STATEMENTS-Continued
For the Years Ended December 31, 2001 and 2000

NOTE H - DEPOSITS AND INVESTMENTS - Continued

The categorized investments shown in the following table include those which are classified as cash and cash equivalents in the balance sheet in accordance with the provisions of GASB Statement No. 9:

Type of Investment	Category	2001 Fair Value	2001 Cost	2000 Fair Value	2000 Cost
<i>(in thousands of dollars)</i>					
U.S. Agency Obligations	1	\$ 4,054	\$ 3,962	\$ 20,239	\$ 20,202
State Treasury Asset					
Reserve Fund (STAROhio)	n/a	28,372	28,372	12,862	12,862
Total Investments		\$ 32,426	\$ 32,334	\$ 33,101	\$ 33,064
Total Deposits		736	736	1,186	1,186
Total Deposits and Investments		\$ 33,162	\$ 33,070	\$ 34,287	\$ 34,250

Certain investments included above are classified as cash and cash equivalents in the accompanying balance sheets since they have a maturity of three months or less.

STAROhio is an investment pool created pursuant to Ohio statutes and managed by the Treasurer of the State of Ohio. STAROhio investments are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 3.

NOTE I - CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2001, the Division implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues" (an amendment of GASB Statement No. 33). In general, GASB Statement Nos. 33 and 36 establish accounting and financial reporting standards which address when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. These statements did not have a material impact on the Division's beginning retained earnings as previously reported.

Cash received or receivables recognized that were previously recorded as contributed capital are now recorded as non-operating revenues.