

# **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, 2002 and 2001**



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

**TABLE OF CONTENTS**

---

|  | <b>Page</b> |
|--|-------------|
| Independent Accountants' Report .....                            | 1           |
| Management's Discussion and Analysis .....                       | 3-8         |
| Balance Sheets .....   | 10-11       |
| Statements of Revenues, Expenses and Changes in Net Assets ..... | 13          |
| Statements of Cash Flows.....                                    | 14-15       |
| Notes to Financial Statements.....                               | 16-25       |

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**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 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, 2002 and December 31, 2001, as listed in the table of contents. 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 do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2002 and December 31, 2001, and the 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 as of December 31, 2002 and December 31, 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

June 26, 2003

**This page left intentionally blank.**

**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 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 fiscal year ended December 31, 2002. Please read this information in conjunction with the Division's basic financial statements and footnotes that begin on page 10.

Embarking with a rudimentary system in the late 1800's, 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 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 the maintenance of 18 pump/lift stations.

**FINANCIAL HIGHLIGHTS**

- The assets of the Division exceeded its liabilities at December 31, 2002 by \$83,109,000 (net assets). Of this amount, \$28,043,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.
- The Division's total net assets increased by \$1,619,000 during 2002. The increase in net assets is due to profit earned during the year. 94 percent of the Divisions revenue is from the sales of sewer service.
- During 2002, the Division made expenditures for capital improvements totaling \$5,442,000. The principal capital expenditures during the year were for sewer line replacements and maintenance totaling \$3,588,000 and the purchase of a Truck Mounted Video Sewer Inspection System for \$256,000.
- The Division's total debt decreased by \$619,000 (8.7 percent) during the current fiscal year. The key factor in this decrease was payments made by the Division per the repayment schedule.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**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 of Cleveland'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 10 - 15 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 16 – 25 of this report.

**CONDENSED BALANCE SHEET INFORMATION**

Provided below is condensed balance sheet information for the Division as of December 31, 2002 and 2001:

|   | <u>2002</u>              | <u>2001</u>              | <u>Increase/<br/>(Decrease)</u> |
|---|--------------------------|--------------------------|---------------------------------|
|   | (In thousands)           |                          |                                 |
| Assets:   |                          |                          |                                 |
| Capital assets                                  | \$ 61,797                | \$ 60,351                | \$ 1,446                        |
| Current assets                                  | <u>75,414</u>            | <u>76,584</u>            | <u>(1,170)</u>                  |
| Total assets                                    | <u><u>137,211</u></u>    | <u><u>136,935</u></u>    | <u><u>276</u></u>               |
| Net Assets and Liabilities:                     |                          |                          |                                 |
| Net assets:                                     |                          |                          |                                 |
| Invested in capital assets, net of related debt | 55,066                   | 53,212                   | 1,854                           |
| Unrestricted                                    | <u>28,043</u>            | <u>28,278</u>            | <u>(235)</u>                    |
| Total net assets                                | 83,109                   | 81,490                   | 1,619                           |
| Liabilities:                                    |                          |                          |                                 |
| Long-term obligations                           | 6,251                    | 6,754                    | (503)                           |
| Payable from restricted assets                  | 706                      | 100                      | 606                             |
| Current liabilities                             | <u>47,145</u>            | <u>48,591</u>            | <u>(1,446)</u>                  |
| Total liabilities                               | <u>54,102</u>            | <u>55,445</u>            | <u>(1,343)</u>                  |
| Total net assets and liabilities                | <u><u>\$ 137,211</u></u> | <u><u>\$ 136,935</u></u> | <u><u>\$ 276</u></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)**

**Current Assets:** The decrease in current assets is attributable to a decrease in accounts receivable held for other governmental entities. This also accounts for the decrease in current liabilities for amounts due for billing on behalf of others. Total cash and investments remained consistent with the prior year.

**Capital assets:** The Division's investment in capital assets as of December 31, 2002 amounted to \$61,797,000 (net of accumulated depreciation). The total increase in the Division's investment in capital assets for the current fiscal year was 2.4 percent. A summary of the activity in the Division's capital assets during the year ended December 31, 2002 is as follows:

|                                   | <b>Balance<br/>January 1,<br/>2002</b> | <b>Additions</b> | <b>Reductions</b> | <b>Balance<br/>December 31,<br/>2002</b> |
|-----------------------------------|--|------------------|-------------------|--|
|                                   | <b>(In thousands)</b>                  |                  |                   |  |
| Land                              | \$ 297                                 | \$               | \$                | \$ 297                                   |
| Utility plant                     | 108,092                                | 3,298            | (186)             | 111,204                                  |
| Furniture, fixtures and equipment | 107                                    |                  |                   | 107                                      |
| Construction in progress          | 909                                    | 5,442            | (3,298)           | 3,053                                    |
| Total                             | 109,405                                | 8,740            | (3,484)           | 114,661                                  |
| Accumulated depreciation          | (49,054)                               | (4,192)          | 382               | (52,864)                                 |
| Net book value                    | \$ 60,351                              | \$ 4,548         | \$ (3,102)        | \$ 61,797                                |

During the year, capital expenses were \$5,442,000. Major capital projects/expenses for the year included:

- Westpark Road and Lydian Avenue sewer project
- Lee Road sewer rehabilitation and replacement
- East 143<sup>rd</sup> Street and Velma Avenue sewer replacement
- Melbourne Avenue sewer project
- Eddy Road and Taft Avenue sewer project
- Synder Avenue sewer replacement project
- Purchase of a Pearpoint Truck Mounted Video Sewer Inspection System

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

**Liabilities:** The Division paid a claim for \$900,000 in early 2002 that was accrued for at the end of 2001.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**CONDENSED BALANCE SHEET INFORMATION (Continued)**

*Long-term debt:* At the end of the current fiscal year, the Division had total debt outstanding of \$6,520,000 which includes the current portion of \$480,000. The loans are payable by revenues generated by the Division.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2002 is summarized below:

|  | <b>Balance<br/>January 1,<br/>2002</b> | <b>Debt<br/>Issued</b> | <b>Debt<br/>Refunded</b> | <b>Debt<br/>Retired</b> | <b>Balance<br/>December 31,<br/>2002</b> |
|--|--|------------------------|--------------------------|-------------------------|--|
| (In thousands)                                   |  |                        |                          |                         |  |
| Ohio Water Development<br>Authority Loans (OWDA) | \$ 6,895                               | \$                     | \$                       | \$ (606)                | \$ 6,289                                 |
| Ohio Public Works<br>Commission Loans (OPWC)     | 244                                    |                        |                          | (13)                    | 231                                      |
| <b>Total</b>                                     | <b>\$ 7,139</b>                        | <b>\$</b>              | <b>\$</b>                | <b>\$ (619)</b>         | <b>\$ 6,520</b>                          |

Additional information on the Division's long-term debt can be found in Note B on pages 18 - 20.

*Net Assets:* Net assets serves as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by \$83,109,000 at the close of the most recent fiscal year.

By far, the largest portion of the Division's net assets (66 percent) reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related, still-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 resources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net assets, \$28,043,000 or (34 percent), 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 2002 and 2001 increased its net assets by \$1,619,000 and \$887,000 respectively. Key elements of these increases are summarized below:

|  | <u>2002</u>      | <u>2001</u>      | <u>Increase/<br/>(Decrease)</u> |
|--|------------------|------------------|---------------------------------|
|  | (In thousands)   |                  |                                 |
| Operating revenues                         | \$ 19,271        | \$ 18,893        | \$ 378                          |
| Operating expenses                         | <u>18,272</u>    | <u>17,586</u>    | <u>686</u>                      |
| Operating income                           | <u>999</u>       | <u>1,307</u>     | <u>(308)</u>                    |
| Non-operating revenue (expense):           |                  |                  |                                 |
| Investment income                          | 832              | 1,683            | (851)                           |
| Interest expense                           | (260)            | (315)            | 55                              |
| Litigation expense                         |                  | (2,699)          | 2,699                           |
| Gain (loss) on disposal of capital assets  | (6)              |                  | (6)                             |
| Other                                      | <u>54</u>        | <u>911</u>       | <u>(857)</u>                    |
| Total non-operating revenue (expense), net | <u>620</u>       | <u>(420)</u>     | <u>1,040</u>                    |
| Increase in net assets                     | 1,619            | 887              | 732                             |
| Net assets, beginning of year              | <u>81,490</u>    | <u>80,603</u>    | <u>887</u>                      |
| Net assets, end of year                    | <u>\$ 83,109</u> | <u>\$ 81,490</u> | <u>\$ 1,619</u>                 |

The investment (interest) income in 2002 is 50% lower than 2001 due to lower interest rates.

The increase in net assets in 2002 is 83 percent higher than the 2001 increase which is mainly the result of a \$2,699,000 decrease in litigation expense from 2001 to 2002.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

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

The following sewerage rate increases will have a positive impact on the financial position of the Division:

| <b>PER MCF<br/>(Thousand cubic feet)</b> |                |                  |
|--|----------------|------------------|
| <b>EFFECTIVE</b>                         | <b>REGULAR</b> | <b>HOMESTEAD</b> |
| January 1, 2002                          | \$7.16         | \$4.34           |
| January 1, 2003                          | \$7.51         | \$4.52           |
| January 1, 2004                          | \$7.89         | \$4.71           |
| January 1, 2005                          | \$8.28         | \$4.91           |

**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, 2002 and 2001**

|  | <i>(In thousands)</i> |                   |
|--|-----------------------|-------------------|
|  | <b>2002</b>           | <b>2001</b>       |
| <b>ASSETS</b>  |                       |                   |
| <b>CAPITAL ASSETS</b>  |                       |                   |
| Land   | \$ 297                | \$ 297            |
| Utility plant  | 111,204               | 108,092           |
| Furniture, fixtures and equipment  | <u>107</u>            | <u>107</u>        |
|  | 111,608               | 108,496           |
| Less: Accumulated depreciation   | <u>(52,864)</u>       | <u>(49,054)</u>   |
|  | 58,744                | 59,442            |
| Construction in progress   | <u>3,053</u>          | <u>909</u>        |
| <b>CAPITAL ASSETS, NET</b>   | 61,797                | 60,351            |
| <b>CURRENT ASSETS</b>  |                       |                   |
| Cash and cash equivalents  | 15,209                | 29,109            |
| Investments  | 18,098                | 4,053             |
| Receivables:   |                       |                   |
| Accounts receivable - net of estimated allowance for doubtful accounts<br>of \$513,216 in 2002 and \$898,258 in 2001 | 37,280                | 39,397            |
| Unbilled revenue   | 1,952                 | 1,918             |
| Due from other City of Cleveland departments, divisions or funds   | 2,567                 | 1,818             |
| Accrued interest receivable  | 81                    | 57                |
| Materials and supplies - at average cost   | <u>227</u>            | <u>232</u>        |
| <b>TOTAL CURRENT ASSETS</b>  | <u>75,414</u>         | <u>76,584</u>     |
| <b>TOTAL ASSETS</b>  | <u>\$ 137,211</u>     | <u>\$ 136,935</u> |

(Continued)

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES DIVISION OF WATER POLLUTION CONTROL

### BALANCE SHEETS

December 31, 2002 and 2001

|   | <i>(In thousands)</i> |                   |
|---|-----------------------|-------------------|
|   | 2002                  | 2001              |
| <b>NET ASSETS AND LIABILITIES</b>                                   |                       |                   |
| <b>NET ASSETS</b>   |                       |                   |
| Invested in capital assets, net of related debt                     | \$ 55,066             | \$ 53,212         |
| Unrestricted  | 28,043                | 28,278            |
| <b>TOTAL NET ASSETS</b>   | <b>83,109</b>         | <b>81,490</b>     |
| <b>LIABILITIES</b>  |                       |                   |
| <b>LONG-TERM OBLIGATIONS—excluding amounts due within one year:</b> |                       |                   |
| OWDA loans  | 5,821                 | 6,317             |
| OPWC loan   | 219                   | 231               |
| Accrued wages and benefits  | 211                   | 206               |
| <b>TOTAL LONG-TERM OBLIGATIONS</b>                                  | <b>6,251</b>          | <b>6,754</b>      |
| <b>PAYABLE FROM RESTRICTED ASSETS</b>                               | 706                   | 100               |
| <b>CURRENT LIABILITIES</b>  |                       |                   |
| Current portion of long-term debt, due within one year              | 480                   | 591               |
| Accounts payable  | 223                   | 208               |
| Amounts due for billing on behalf of others                         | 42,256                | 43,472            |
| Due to other City of Cleveland departments, divisions or funds      | 3,113                 | 2,340             |
| Current portion of accrued wages and benefits                       | 1,008                 | 1,015             |
| Other accrued expenses  | 65                    | 965               |
| <b>TOTAL CURRENT LIABILITIES</b>                                    | <b>47,145</b>         | <b>48,591</b>     |
| <b>TOTAL LIABILITIES</b>  | <b>54,102</b>         | <b>55,445</b>     |
| <b>TOTAL NET ASSETS AND LIABILITIES</b>                             | <b>\$ 137,211</b>     | <b>\$ 136,935</b> |

See notes to financial statements.

**This page intentionally left blank.**

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES DIVISION OF WATER POLLUTION CONTROL STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS For the Years Ended December 31, 2002 and 2001

|   | <i>(In thousands)</i> |                  |
|---|-----------------------|------------------|
|   | <u>2002</u>           | <u>2001</u>      |
| <b>OPERATING REVENUES</b>                         |                       |                  |
| Charges for services                              | \$ 19,271             | \$ 18,893        |
| <b>TOTAL OPERATING REVENUES</b>                   | <u>19,271</u>         | <u>18,893</u>    |
| <b>OPERATING EXPENSES</b>                         |                       |                  |
| Operations  | 6,897                 | 7,012            |
| Maintenance                                       | 7,385                 | 6,715            |
| Depreciation                                      | <u>3,990</u>          | <u>3,859</u>     |
| <b>TOTAL OPERATING EXPENSES</b>                   | <u>18,272</u>         | <u>17,586</u>    |
| <b>OPERATING INCOME</b>                           | <u>999</u>            | <u>1,307</u>     |
| <b>NON-OPERATING REVENUE (EXPENSE)</b>            |                       |                  |
| Investment income                                 | 832                   | 1,683            |
| Interest expense                                  | (260)                 | (315)            |
| Litigation expense                                |                       | (2,699)          |
| Loss on disposal of capital assets                | (6)                   |                  |
| Other   | <u>54</u>             | <u>911</u>       |
| <b>TOTAL NON-OPERATING REVENUE (EXPENSE), NET</b> | <u>620</u>            | <u>(420)</u>     |
| <b>INCREASE IN NET ASSETS</b>                     | <u>1,619</u>          | <u>887</u>       |
| <b>NET ASSETS, beginning of year</b>              | <u>81,490</u>         | <u>80,603</u>    |
| <b>NET ASSETS, end of year</b>                    | <u>\$ 83,109</u>      | <u>\$ 81,490</u> |

See notes to financial statements.

**DEPARTMENT OF PUBLIC UTILITIES  
DIVISION OF WATER POLLUTION CONTROL  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2002 and 2001**

|   | <i>(In thousands)</i> |                  |
|---|-----------------------|------------------|
|   | <b>2002</b>           | <b>2001</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                           |                       |                  |
| Cash received from customers  | \$ 18,475             | \$ 18,625        |
| Cash payments to suppliers for goods or services                      | (6,011)               | (6,185)          |
| Cash payments to employees for services                               | (7,473)               | (7,307)          |
| Agency activity on behalf of other sewer authorities                  | <u>(1,605)</u>        | <u>(2,995)</u>   |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                      | 3,386                 | 2,138            |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                |                       |                  |
| Workers compensation refund   | 23                    | 306              |
| Litigation settlement   | <u>(900)</u>          | <u>(1,799)</u>   |
| <b>NET CASH USED FOR NONCAPITAL<br/>FINANCING ACTIVITIES</b>          | (877)                 | (1,493)          |
| <b>CASH FLOWS FROM CAPITAL AND RELATED<br/>FINANCING ACTIVITIES</b>   |                       |                  |
| Acquisition and construction of capital assets                        | (5,001)               | (2,129)          |
| Principal paid on long-term debt                                      | (619)                 | (531)            |
| Interest paid on long-term debt                                       | <u>(260)</u>          | <u>(316)</u>     |
| <b>NET CASH USED FOR CAPITAL AND<br/>RELATED FINANCING ACTIVITIES</b> | (5,880)               | (2,976)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                           |                       |                  |
| Purchase of investment securities                                     | (27,761)              |                  |
| Proceeds from sale and maturity of investment securities              | 16,396                | 15,544           |
| Interest received on investments                                      | <u>836</u>            | <u>1,848</u>     |
| <b>NET CASH PROVIDED BY<br/>(USED FOR) INVESTING ACTIVITIES</b>       | <u>(10,529)</u>       | <u>17,392</u>    |
| <b>NET INCREASE (DECREASE) IN<br/>CASH AND CASH EQUIVALENTS</b>       | (13,900)              | 15,061           |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>                   | <u>29,109</u>         | <u>14,048</u>    |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>                         | <u>\$ 15,209</u>      | <u>\$ 29,109</u> |

(Continued)

# CITY OF CLEVELAND, OHIO

## DEPARTMENT OF PUBLIC UTILITIES DIVISION OF WATER POLLUTION CONTROL STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2002 and 2001

|  | <i>(In thousands)</i> |                 |
|--|-----------------------|-----------------|
|  | <u>2002</u>           | <u>2001</u>     |
| <b>RECONCILIATION OF OPERATING INCOME TO<br/>NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |                       |                 |
| <b>OPERATING INCOME</b>  | \$ 999                | \$ 1,307        |
| Adjustments to reconcile operating income<br>to net cash provided by operating activities: |                       |                 |
| Depreciation   | 3,990                 | 3,859           |
| Changes in assets and liabilities:   |                       |                 |
| Accounts receivable, net   | 510                   | (6,418)         |
| Unbilled revenue   | (34)                  | 243             |
| Due from other City of Cleveland departments, divisions or funds                           | (749)                 | (861)           |
| Materials and supplies, net  | 5                     | 1               |
| Accounts payable   | 15                    | 208             |
| Amounts due for billing on behalf of others  | (1,216)               | 5,040           |
| Due to other City of Cleveland departments, divisions or funds                             | 773                   | (1,837)         |
| Accrued wages and benefits   | (7)                   | (304)           |
| Other accrued expenses   | (900)                 | 900             |
| <b>TOTAL ADJUSTMENTS</b>   | <u>2,387</u>          | <u>831</u>      |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <u>\$ 3,386</u>       | <u>\$ 2,138</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, 2002 and 2001**

**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 (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. Effective January 1, 2002, the Division changed its financial reporting by implementing the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB), *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*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These "Reporting Model" statements affect the way the Division prepares and presents financial information. As a result of the implementation of these new GASB statements, the amount previously reported as the Division's equity is now reported as the Division's net assets in the accompanying balance sheets, and the net assets are divided into two categories as follows:

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

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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)  
For the Years Ended December 31, 2002 and 2001**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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, non-capital 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 a 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.

The City has invested funds in STAROhio during fiscal year 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 December 31, 2002 and 2001.

**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 fixed 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, and equipment 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                     | 5 to 75 years |
| Furniture, fixtures and equipment | 5 to 10 years |

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

**NOTES TO FINANCIAL STATEMENTS (Continued)  
For the Years Ended December 31, 2002 and 2001**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*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 unless written approval for carryover of vacation time is obtained. Sick days not taken may be accumulated until retirement. An employee is paid one-third of accumulated sick leave upon retirement, calculated at current wage rates, with the balance being forfeited.

**NOTE B - LONG-TERM DEBT**

Long-term debt outstanding at December 31, 2002 and 2001 is as follows:

|   | <u>Interest Rate</u> | <u>Original<br/>Issuance</u> | <u>2002</u>     | <u>2001</u>     |
|---|----------------------|------------------------------|-----------------|-----------------|
|   | (In thousands)       |                              |                 |                 |
| Ohio Water Development Authority:   |                      |                              |                 |                 |
| Construction loans due in annual installments of \$282,000 including interest, through 2003                           | 5.25% - 6.25%        | \$ 3,803                     | \$ 134          | \$ 391          |
| Water pollution control loans – due in annual installments of \$477,966 to \$582,790, including interest through 2017 | 4.04% - 4.18%        | 7,897                        | 6,155           | 6,504           |
| Ohio Public Works Commission Loan payable annually through 2020   | 0%                   | <u>257</u>                   | <u>231</u>      | <u>244</u>      |
|   |                      | <u>\$ 11,957</u>             | 6,520           | 7,139           |
| Less:   |                      |                              |                 |                 |
| Current portion   |                      |                              | <u>(480)</u>    | <u>(591)</u>    |
| Total Long-Term Debt  |                      |                              | <u>\$ 6,040</u> | <u>\$ 6,548</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, 2002 and 2001**

**NOTE B - LONG-TERM DEBT (Continued)**

**Summary:** Changes in long-term obligations for the year ended December 31, 2002 are as follows:

|   | Balance<br>January 1,<br>2002 | Increase  | Decrease        | Balance<br>December 31,<br>2002 | Due<br>Within<br>One Year |
|---|-------------------------------|-----------|-----------------|---------------------------------|---------------------------|
| (In thousands)  |                               |           |                 |                                 |                           |
| Ohio Water Development Authority:   |                               |           |                 |                                 |                           |
| Construction loans due in annual installments of \$282,000 including interest, through 2003                           | \$ 391                        | \$        | \$ (257)        | \$ 134                          | \$ 134                    |
| Water pollution control loans – due in annual installments of \$477,966 to \$582,790, including interest through 2017 | 6,504                         |           | (349)           | 6,155                           | 334                       |
| Ohio Public Works Commission Loan payable annually through 2020   | 244                           |           | (13)            | 231                             | 12                        |
| Total loans   | 7,139                         |           | (619)           | 6,520                           | 480                       |
| Accrued wages and benefits  | 1,221                         |           | (2)             | 1,219                           | 1,008                     |
| Total   | <u>\$ 8,360</u>               | <u>\$</u> | <u>\$ (621)</u> | <u>\$ 7,739</u>                 | <u>\$ 1,488</u>           |

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

|                | Principal       | Interest        | Total           |
|----------------|-----------------|-----------------|-----------------|
| (In thousands) |                 |                 |                 |
| 2003           | \$ 480          | \$ 257          | \$ 737          |
| 2004           | 360             | 236             | 596             |
| 2005           | 375             | 221             | 596             |
| 2006           | 389             | 206             | 595             |
| 2007           | 405             | 191             | 596             |
| 2008-2012      | 2,284           | 694             | 2,978           |
| 2013-2017      | 2,188           | 206             | 2,394           |
| 2018-2022      | 39              | -               | 39              |
| Total          | <u>\$ 6,520</u> | <u>\$ 2,011</u> | <u>\$ 8,531</u> |

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

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

**NOTES TO FINANCIAL STATEMENTS (Continued)  
For the Years Ended December 31, 2002 and 2001**

**NOTE B - LONG-TERM DEBT (Continued)**

**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 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 1<sup>st</sup> 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 seven SRF loan awards related to projects as of December 31, 2002 and 2001. In addition, the Division had one OPWC Loan Award related to a project as of December 31, 2002 and 2001, respectively.

**NOTE C - DEPOSITS AND INVESTMENTS**

**Deposits:** The Division's carrying amount of deposits at the years ended December 31, 2002 and December 31, 2001 totaled (\$503,000) and \$736,000 and the Division's bank balances were \$517,000 and \$479,000, respectively. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, \$470,000 of the 2002 and the entire 2001 balance were insured or collateralized with securities held by the City or by its agent in the City's name. The remaining balance of \$47,000 at December 31, 2002 was uncollateralized as defined by the GASB because it was secured by a collateral pool held at the Federal Reserve Bank in the name of the respective depository bank which pledges a pool of collateral against all public deposits it holds, as permitted under Ohio law.

**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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)  
For the Years Ended December 31, 2002 and 2001**

**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

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 credit risk 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 and 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.

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 since they have a maturity of three months or less:

| <u>Type of Investment</u>      | <u>Risk Category</u> | <u>2002 Fair Value</u> | <u>2002 Cost</u> | <u>2001 Fair Value</u> | <u>2001 Cost</u>  |
|--------------------------------|----------------------|------------------------|------------------|------------------------|-------------------|
| (In thousands)                 |                      |                        |                  |                        |                   |
| U.S. Agency Obligations        | 1                    | \$ 18,098              | \$ 18,047        | \$ 4,054               | \$ 3,962          |
| STAROhio                       | n/a                  | 14,676                 | 14,676           | 28,372                 | 28,372            |
| Investment in Mutual Funds     | n/a                  | <u>1,036</u>           | <u>1,036</u>     | <u>          </u>      | <u>          </u> |
| Total Investments              |                      | 33,810                 | 33,759           | 32,426                 | 32,334            |
| Total Deposits                 |                      | <u>(503)</u>           | <u>(503)</u>     | <u>736</u>             | <u>736</u>        |
| Total Deposits and Investments |                      | <u>\$ 33,307</u>       | <u>\$ 33,256</u> | <u>\$ 33,162</u>       | <u>\$ 33,070</u>  |

STAROhio investments and investments in mutual funds are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)  
For the Years Ended December 31, 2002 and 2001**

**NOTE D – CAPITAL ASSETS**

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

|   | <b>Balance<br/>January 1,<br/>2002</b> | <b>Additions</b> | <b>Reductions</b> | <b>Balance<br/>December 31,<br/>2002</b> |
|---|--|------------------|-------------------|--|
|   | <b>(In thousands)</b>                  |                  |                   |  |
| Capital assets, not being depreciated:      |  |                  |                   |  |
| Land  | \$ 297                                 | \$               | \$                | \$ 297                                   |
| Construction in progress                    | <u>909</u>                             | <u>5,442</u>     | <u>(3,298)</u>    | <u>3,053</u>                             |
| Total capital assets, not being depreciated | 1,206                                  | 5,442            | (3,298)           | 3,350                                    |
| Capital assets, being depreciated:          |  |                  |                   |  |
| Utility plant                               | 108,092                                | 3,298            | (186)             | 111,204                                  |
| Furniture, fixtures and equipment           | <u>107</u>                             | <u></u>          | <u></u>           | <u>107</u>                               |
| Total capital assets, being depreciated     | 108,199                                | 3,298            | (186)             | 111,311                                  |
| Less: Accumulated depreciation              | <u>(49,054)</u>                        | <u>(4,192)</u>   | <u>382</u>        | <u>(52,864)</u>                          |
| Total capital assets being depreciated, net | <u>59,145</u>                          | <u>(894)</u>     | <u>196</u>        | <u>58,447</u>                            |
| Capital assets, net                         | <u>\$ 60,351</u>                       | <u>\$ 4,548</u>  | <u>\$ (3,102)</u> | <u>\$ 61,797</u>                         |

*Commitments:* The Division has outstanding commitments at December 31, 2002 for approximately \$9,600,000 of future capital expenditures. 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.

**NOTE E - EMPLOYEES RETIREMENT PLAN**

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board (the "Board"). OPERS 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. OPERS issues a stand-alone financial report, which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)  
For the Years Ended December 31, 2002 and 2001**

**NOTE E - EMPLOYEES RETIREMENT PLAN (Continued)**

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 and 2001 employer pension contribution rate for the Division was 13.55 percent of covered payroll. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Division's required contributions to OPERS for the years ended December 31, 2002, 2001, and 2000 were \$765,000, \$711,000 and \$724,000, respectively. The required payments due in 2002, 2001, and 2000 have been made.

**NOTE F - OTHER POST EMPLOYMENT BENEFITS**

The Ohio Public Employees Retirement System (OPERS) 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 Post Employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 and 2001 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent in 2002 and 4.30 percent in 2001 was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no-change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 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 402,041 at December 31, 2001. The Division's actual contributions for 2002, which were used to fund postretirement benefits were \$282,000. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the 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.

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

**NOTES TO FINANCIAL STATEMENTS (Continued)  
For the Years Ended December 31, 2002 and 2001**

**NOTE F - OTHER POST EMPLOYMENT BENEFITS (Continued)**

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 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 2002.

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 City participates in the State of Ohio workers' compensation program to provide workers' compensation benefits to its employees.

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 of Cleveland, 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 of Cleveland, 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 paid to the Division of Water for such services were approximately \$2,239,000 and \$2,269,000 in 2002 and 2001, 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, 2002 and 2001**

**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 were as follows:

|  | <b>(In thousands)</b> |             |
|--|-----------------------|-------------|
|  | <b>2002</b>           | <b>2001</b> |
| Electricity purchases  | \$ 187                | \$ 131      |
| Street construction and maintenance                              | 228                   | 178         |
| City administration  | 181                   | 224         |
| Motor Vehicle Maintenance  | 264                   | 305         |
| Utilities Administration and Fiscal Control                      | 218                   | 218         |
| Employee and other services provided<br>by the Division of Water | 470                   | 819         |

**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 \$13,200 and \$14,100 for the years ended December 31, 2002 and 2001, respectively.