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, 2004 and 2003

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

TABLE OF CONTENTS

This Page is 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 basic financial statements of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of and for the years ended December 31, 2004 and December 31, 2003. These financial statements are the responsibility of the Division of Water Pollution Control'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 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, 2004 and December 31, 2003, 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, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2004 and December 31, 2003, 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.

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.

Betty Montgomery

Betty Montgomery
Auditor of State

May 31, 2005

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

This page intentionally left 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 (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 year ended December 31, 2004. Please read this information in conjunction with the Division's basic financial statements and footnotes that begin on page 16.

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 (NEORSD) 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'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 2004 DATA TO 2003 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2004 by $85,600,000 (net assets). Of this amount, $26,666,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets decreased by $290,000 during 2004. The primary reason for the decrease was an increase of $1,327,000 relating to maintenance expenses offset by a increase in operating revenues of $1,024,000.

- Regular sewage rates increased from $7.51 per thousand cubic feet in 2003 to $7.89 in 2004. Also, homestead sewage rates increased from $4.52 to $4.71 during the current year. As a result of this rate increase, charges for services increased by $1,024,000 in 2004.

FINANCIAL HIGHLIGHTS (Continued)

- During 2004, the Division's net capital assets increased by $1,085,000. The major additions during the year were for sewer line replacements and purchases of furniture, fixtures, equipment and vehicles, offset by depreciation expense.

- The Division's total debt decreased by 5.85% due to the continued 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 16 - 21 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 22 – 34 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is the condensed balance sheet information for the Division as of December 31, 2004 and 2003:

	2004	2003 (In thousands)	Increase/ (Decrease)
Assets:			
Capital assets, net	$ 65,049	$ 63,964	$ 1,085
Restricted assets	542		542
Current assets	78,639	75,763	2,876
Total assets	144,230	139,727	4,503
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	58,934	57,457	1,477
Unrestricted	26,666	28,433	(1,767)
Total net assets	85,600	85,890	(290)
Liabilities:			
Long-term obligations	5,723	6,135	(412)
Current liabilities	52,907	47,702	5,205
Total liabilities	58,630	53,837	4,793
Total net assets and liabilities	$ 144,230	$ 139,727	$ 4,503

CONDENSED BALANCE SHEET INFORMATION (Continued)

Current Assets: There was a $2,876,000 increase in current assets due to the increase in customer net accounts receivable of $4,289,000 related to the 2004 rate increase, an increase in Due from other City divisions of $600,000 attributed to the Division of Water and a decrease in cash and investments of $2,432,000 which was used for the division operations.

Capital assets: The Division's investment in capital assets as of December 31, 2004 amounted to $65,049,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was 1.7%, primarily due to utility plant sewer main renovations and purchases of furniture, fixtures, equipment and vehicles. A summary of the activity in the Division's capital assets during the year ended December 31, 2004 is as follows:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
		(In thousands)		
Land	$ 297	$	$	$ 297
Utility plant	108,920	2,192		111,112
Buildings,structures and improvments	2,561	6		2,567
Furniture, fixture, equipment & vehicles	6,527	1,811	(161)	8,177
Construction in progress	2,439	5,559	(4,003)	3,995
Total	120,744	9,568	(4,164)	126,148
Less: Accumulated depreciation	(56,780)	(4,479)	160	(61,099)
Capital assets, net	$ 63,964	$ 5,089	$ (4,004)	$ 65,049

During the year, utility plant sewer line capital additions were $2,192,000. Major capital projects/expenses for the year included:

- Ostend Avenue sewer replacement
- Larchwood Avenue sewer project
- Archmere Avenue sewer project
- East 71st St. area sewer system
- East 4th St. sewer repairs
- Construction and repair of different sewer lines
- Purchase of Vehicles and Trucks

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

Current Liabilities: Total current liabilities increased by $5,205,000. The major components of the increase were an increase of $4,581,000 in amounts due for billings on behalf of others resulting from the 2004 sewage rate increases and an increase of $977,000 in Due to other City departments.

Long-term debt: At the end of the current year, the Division had total debt outstanding of $5,886,000 associated with five OWDA construction loans and two OPWC construction 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, 2004 is summarized below:

	Balance January 1, 2004	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2004
			(In thousands)		
Ohio Water Development Authority Loans (OWDA)	$ 5,821	$	$	$ (347)	$ 5,474
Ohio Public Works Commission Loans (OPWC)	431			(19)	412
Total	$ 6,252	$	$	$ (366)	$ 5,886

Additional information on the Division's long-term debt can be found in Note B on pages 24 - 26.

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 $85,600,000 at December 31, 2004.

By far, the largest portion of the Division's net assets, $58,934,000 or 69%, 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 sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net assets, $26,666,000 or 31%, are unrestricted and may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2004 decreased its net assets by $290,000. Key elements of these increases (decreases) are summarized below:

	2004	2003	Increase/ (Decrease)
		(In thousands)	
Operating revenues	$ 19,902	$ 18,878	$ 1,024
Operating expenses	20,331	18,520	1,811
Operating income (loss)	(429)	358	(787)
Non-operating revenue (expense):			
Investment income	372	690	(318)
Interest expense	(235)	(256)	(21)
Workers' comp refund		7	(7)
Gain on disposal of capital assets		5	(5)
Other	2		2
Total non-operating revenue (expense), net	139	446	(307)
Capital and other contributions		1,977	(1,977)
Increase (Decrease) in net assets	(290)	2,781	(3,071)
Net assets, beginning of year	85,890	83,109	2,781
Net assets, end of year	$ 85,600	$ 85,890	$ (290)

Investment income in 2004 decreased by 46% due to the reduction of $1,890,000 of cash and cash equivalents and investments which was used to fund operations of the division.

Total operating revenues amounted to $19,902,000 of which $19,536,000 (98%) were from the sale of sewer services to customers. The Division also had $366,000 from miscellaneous services and sales.

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

The total operating expenses increased by $1,811,000. This increase was mainly due to increases of $1,327,000 in maintenance costs and $605,000 in depreciation expense.

COMPARISON OF 2003 DATA TO 2002 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2003 by $85,890,000 (net assets). Of this amount, $28,433,000 (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 $2,781,000 during 2003. The increase in net assets is primarily due to a grant of $1,977,000 received by the Division during the year.

- Total operating revenue of the Division decreased by $393,000 or 2%. Although a sewer rate increase of 4.9% occurred in 2003, the total sewer usage decreased by 5.9% in 2003. The sewer usage decrease was primarily due to several major users, such as ISG Steel and Ford Motor Company, reducing needed services.

- During 2003, the Division's net capital assets increased by $2,167,000. The major additions during the year were for sewer line replacements and purchases of furniture, fixtures, equipment and vehicles, offset by depreciation expense.

- The Division secured a new loan for $224,000 from OPWC for the Kerruish Park Storm Water Management Facility. Repayment on this loan began in July 2003 and will continue through the year 2022. Overall, the Division's total debt decreased by 4% due to the addition of this new loan that was offset by 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The basic financial statements of the Division can be found on pages 16 - 21 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 22 – 34 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is the condensed balance sheet information for the Division as of December 31, 2003 and 2002:

	2003	2002	Increase/ (Decrease)
		(In thousands)	
Assets:			
Capital assets, net	$ 63,964	$ 61,797	$ 2,167
Current assets	75,763	75,414	349
Total assets	139,727	137,211	2,516
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	57,457	55,066	2,391
Unrestricted	28,433	28,043	390
Total net assets	85,890	83,109	2,781
Liabilities:			
Long-term obligations	6,135	6,251	(116)
Current liabilities	47,702	47,851	(149)
Total liabilities	53,837	54,102	(265)
Total net assets and liabilities	$ 139,727	$ 137,211	$ 2,516

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Current Assets: There was a slight increase in current assets due to the increase in customer accounts receivable related to the 2003 rate increase, and an increase in Due from other City divisions of $136,000 attributed to the Division of Water.

Capital assets: The Division's investment in capital assets as of December 31, 2003 amounted to $63,964,000 (net of accumulated depreciation). The total increase in the Division's investment in capital assets for the current fiscal year was 3.5%, primarily due to utility plant sewer main renovations and purchases of furniture, fixtures, equipment and vehicles. A summary of the activity in the Division's capital assets during the year ended December 31, 2003 is as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
	(In thousands)			
Land	$ 297	$	$	$ 297
Utility plant	105,224	6,485	(228)	111,481
Furniture, fixtures, equipment & vehicles	6,087	477	(37)	6,527
Construction in progress	3,053	3,840	(4,454)	2,439
Total	114,661	10,802	(4,719)	120,744
Less: Accumulated depreciation	(52,864)	(3,962)	46	(56,780)
Capital assets, net	$ 61,797	$ 6,840	$ (4,673)	$ 63,964

During the year, utility plant sewer line and maintenance capital additions were $6,485,000. Major capital projects/expenses for the year included:

- Fairville Avenue / West 190th Avenue sewer project
- Ostend Avenue sewer replacement
- Fairway Dr. area sewer project
- Purchase of Vehicles & Equipment
- Pump stations SCADA monitoring system
- Constructing & repairing different catch basins & sewers
- Information Technology Plan computerized system implementation
- Kerruish Park storm water retention basin improvement

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION (Continued)

Current Liabilities: Total current liabilities decreased by $149,000. The major components of the decrease were a $1,061,000 decrease in due to other City departments which was related to a more efficient reimbursement process by the Division, which was offset by an increase of $597,000 in amounts due from billings on behalf of others, and a $271,000 increase in accrued wages and benefits.

Long-term debt: At the end of the current year, the Division had total debt outstanding of $6,252,000. In 2003, the Division made its final principal payment of $134,000 that was associated with the OWDA construction loan. 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, 2003 is summarized below:

	Balance January 1, 2003	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2003
			(In thousands)		
Ohio Water Development Authority Loans (OWDA)	$ 6,289	$	$	$ (468)	$ 5,821
Ohio Public Works Commission Loans (OPWC)	231	224		(24)	431
Total	$ 6,520	$ 224	$	$ (492)	$ 6,252

Additional information on the Division's long-term debt can be found in Note B on pages 24 - 26.

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 $85,890,000 at the close of the most recent year.

By far, the largest portion of the Division's net assets, $57,457,000 or 67%, 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 sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net assets, $28,433,000 or 33%, are unrestricted and may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2003 and 2002 increased its net assets by $2,781,000 and $1,619,000, respectively. Key elements of these increases are summarized below:

	2003	2002	Increase/ (Decrease)
		(In thousands)	
Operating revenues	$ 18,878	$ 19,271	$ (393)
Operating expenses	18,520	18,272	248
Operating income	358	999	(641)
Non-operating revenue (expense):			
Investment income	690	832	(142)
Interest expense	(256)	(260)	(4)
Workers' comp refund	7	14	(7)
Gain (loss) on disposal of capital assets	5	(6)	11
Other		40	(40)
Total non-operating revenue (expense), net	446	620	(174)
Capital and other contributions	1,977		1,977
Increase in net assets	2,781	1,619	1,162
Net assets, beginning of year	83,109	81,490	1,619
Net assets, end of year	$ 85,890	$ 83,109	$ 2,781

Investment income in 2003 decreased by 17% due to lower interest rates and the need for cash liquidity in the Division of Water Pollution Control Agency Fund. The Division's investments, at December 31, 2003, decreased by $1,316,000 as compared to December 31, 2002.

The increase in net assets in 2003 is primarily due to the $1,977,000 grant from the Ohio Public Works Commission received in 2003.

Total revenues amounted to $21,557,000 of which $18,640,000 (86%) were from the sale of sewer services to customers. The grant of $1,977,000 from the Ohio Public Works Commission (OPWC) for the Kerruish Park Storm Water Management Facility constitutes 9% of all of the Division's revenue sources for 2003.

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

The total operating expenses increased by $248,000. The primary components were an increase in wages and benefits of $401,000, which was partially offset by a decrease of $116,000 in depreciation expense due to assets that became fully depreciated in 2002.

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 (Thousand cubic feet)		
EFFECTIVE	**REGULAR**	**HOMESTEAD**
January 1, 2003	$7.51	$4.52
January 1, 2004	$7.89	$4.71
January 1, 2005	$8.28	$4.91

The Division, along with the Division of Water is conducting a study to identify and quantify a need for future rate increase.

The installation of a 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, 2004 and 2003

	(*In thousands*) 2004	2003
ASSETS		
CAPITAL ASSETS		
Land	$ 297	$ 297
Utility plant	111,112	108,920
Buildings, structures and improvements	2,567	2,561
Furniture, fixtures, equipment and vehicles	8,177	6,527
	122,153	118,305
Less: Accumulated depreciation	(61,099)	(56,780)
	61,054	61,525
Construction in progress	3,995	2,439
CAPITAL ASSETS, NET	65,049	63,964
RESTRICTED ASSETS		
Cash and cash equivalents	542	
CURRENT ASSETS		
Cash and cash equivalents	11,599	16,620
Investments	19,371	16,782
Receivables:		
Accounts receivable - net of estimated allowance for doubtful accounts of $521,000 in 2004 and $340,000 in 2003	41,659	37,370
Unbilled revenue	2,228	1,948
Due from other City of Cleveland departments, divisions or funds	3,303	2,703
Accrued interest receivable	118	99
Materials and supplies - at average cost	361	241
TOTAL CURRENT ASSETS	78,639	75,763
TOTAL ASSETS	$ 144,230	$ 139,727

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 2004 and 2003

	(In thousands) 2004	2003
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 58,934	$ 57,457
Unrestricted	26,666	28,433
TOTAL NET ASSETS	85,600	85,890
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
OWDA loans	5,111	5,474
OPWC loans	383	407
Accrued wages and benefits	229	254
TOTAL LONG-TERM OBLIGATIONS	5,723	6,135
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	392	371
Accounts payable	145	247
Construction payable	663	835
Amounts due for billing on behalf of others	47,434	42,853
Due to other City of Cleveland departments, divisions or funds	3,029	2,052
Current portion of accrued wages and benefits	1,179	1,279
Other accrued expenses	65	65
TOTAL CURRENT LIABILITIES	52,907	47,702
TOTAL LIABILITIES	58,630	53,837
TOTAL NET ASSETS AND LIABILITIES	$ 144,230	$ 139,727

(Concluded)

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, 2004 and 2003

	(*In thousands*) 2004	2003
OPERATING REVENUES		
Charges for services	$ 19,902	$ 18,878
TOTAL OPERATING REVENUES	19,902	18,878
OPERATING EXPENSES		
Operations	7,629	7,750
Maintenance	8,223	6,896
Depreciation	4,479	3,874
TOTAL OPERATING EXPENSES	20,331	18,520
OPERATING INCOME (LOSS)	(429)	358
NON-OPERATING REVENUE (EXPENSE)		
Investment income	372	690
Interest expense	(235)	(256)
Workers comp refund		7
Gain on disposal of capital assets		5
Other	2	
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	139	446
INCOME (LOSS) BEFORE CAPITAL AND OTHER CONTRIBUTIONS	(290)	804
Capital and other contributions		1,977
INCREASE (DECREASE) IN NET ASSETS	(290)	2,781
NET ASSETS, beginning of year	85,890	83,109
NET ASSETS, end of year	$ 85,600	$ 85,890

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, 2004 and 2003

	(In thousands) 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 18,202	$ 18,772
Cash payments to suppliers for goods or services	(6,332)	(6,504)
Cash payments to employees for services	(8,506)	(7,868)
Agency activity on behalf of other sewer authorities	728	(530)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,092	3,870
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Workers compensation refund		7
Litigation settlement		(39)
NET CASH USED FOR NONCAPITAL FINANCING ACTIVITIES	-	(32)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(5,734)	(3,667)
Principal paid on long-term debt	(366)	(492)
Interest paid on long-term debt	(236)	(256)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,336)	(4,415)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(12,007)	(32,266)
Proceeds from sale and maturity of investment securities	9,360	33,589
Interest received on investments	412	665
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(2,235)	1,988
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,479)	1,411
CASH AND CASH EQUIVALENTS, beginning of year	16,620	15,209
CASH AND CASH EQUIVALENTS, end of year	$ 12,141	$ 16,620

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004 and 2003

	(In thousands) 2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (429)	$ 358
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,479	3,874
Changes in assets and liabilities:		
Accounts receivable, net	(4,289)	(90)
Accrued and unbilled revenue	(280)	4
Due from other City of Cleveland departments, divisions or funds	(600)	(136)
Materials and supplies, net	(120)	(14)
Accounts payable	(102)	24
Amounts due for billings on behalf of others	4,581	597
Due to other City of Cleveland departments, divisions or funds	977	(1,061)
Accrued wages and benefits	(125)	314
TOTAL ADJUSTMENTS	4,521	3,512
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,092	$ 3,870

(Concluded)

See notes to financial statements.

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's") 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 affected 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2004 and 2003

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 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 year 2004 and 2003. 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, 2004 and 2003.

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	5 to 75 years
Furniture, fixtures, equipment and vehicles	5 to 15 years

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. 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.

NOTE B - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2004 and 2003 is as follows:

	Interest Rate	Original Issuance	2004	2003
			(In thousands)	
Water Pollution Control loans – due in annual installments of $155,990 to $582,790, including interest through 2017	4.04% - 4.18%	$ 7,897	$ 5,474	$ 5,821
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	0%	481	412	431
		$ 8,378	5,886	6,252
Less:				
Current portion			(392)	(371)
Total Long-Term Debt			$ 5,494	$ 5,881

NOTE B - LONG-TERM DEBT (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2004 are as follows:

	Balance January 1, 2004	Increase	Decrease	Balance December 31, 2004	Due Within One Year
			(In thousands)		
Water Pollution Control loans – due in annual installments of $155,990 to $582,790, including interest through 2017	$ 5,821	$	$ (347)	$ 5,474	$ 363
Ohio Public Works Commission Loans payable annually through 2022	431		(19)	412	29
Total loans	6,252	-	(366)	5,886	392
Accrued wages and benefits	1,533		(125)	1,408	1,179
Total	$ 7,785	$ -	$ (491)	$ 7,294	$ 1,571

.

Summary: Changes in long-term obligations for the year ended December 31, 2003 are as follows:

	Balance January 1, 2003	Increase	Decrease	Balance December 31, 2003	Due Within One Year
			(In thousands)		
Ohio Water Development Authority:					
Construction loans were due in annual installments of $282,000 including interest, through 2003	$ 134	$	$ (134)	$	$
Water Pollution Control loans – due in annual installments of $477,966 to $582,790, including interest through 2017	6,155		(334)	5,821	347
Ohio Public Works Commission Loan payable annually through 2022	231	224	(24)	431	24
Total loans	6,520	224	(492)	6,252	371
Accrued wages and benefits	1,219	314		1,533	1,279
Total	$ 7,739	$ 538	$ (492)	$ 7,785	$ 1,650

NOTE B - LONG-TERM DEBT (Continued)

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

	Principal	Interest	Total
		(In thousands)	
2005	$ 392	$ 221	$ 613
2006	401	206	607
2007	416	190	606
2008	433	174	607
2009	450	157	607
2010-2014	2,528	506	3,034
2015-2019	1,221	63	1,284
2020-2024	45		45
Total	$ 5,886	$ 1,517	$ 7,403

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

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, 2004.

In addition, the Division had two OPWC loan awards as of December 31, 2004. 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.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at the years ended December 31, 2004 and December 31, 2003 totaled $458,000 and $5,870,000 and the Division's bank balances were $195,000 and $5,596,000, 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.

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.

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.

NOTE C - 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 since they have a maturity of three months or less:

Type of Investment	Risk Category	2004 Fair Value	2004 Cost	2003 Fair Value	2003 Cost
			(In thousands)		
U.S. Agency Obligations	1	$ 19,371	$ 19,632	$ 16,782	$ 16,724
STAROhio	n/a	8,529	8,529	9,695	9,695
Investment in Mutual Funds	n/a	3,154	3,154	1,055	1,055
Total Investments		31,054	31,315	27,532	27,474
Total Deposits		458	458	5,870	5,870
Total Deposits and Investments		$ 31,512	$ 31,773	$ 33,402	$ 33,344

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, 2004 and 2003

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2004 was as follows:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 297	$	$	$ 297
Construction in progress	2,439	5,559	(4,003)	3,995
Total capital assets, not being depreciated	2,736	5,559	(4,003)	4,292
Capital assets, being depreciated:				
Utility plant	108,920	2,192		111,112
Buildings,structures and improvements	2,561	6		2,567
Furniture, fixtures, equipment and vehicles	6,527	1,811	(161)	8,177
Total capital assets, being depreciated	118,008	4,009	(161)	121,856
Less: Accumulated depreciation	(56,780)	(4,479)	160	(61,099)
Total capital assets being depreciated, net	61,228	(470)	(1)	60,757
Capital assets, net	$ 63,964	$ 5,089	$ (4,004)	$ 65,049

NOTE D - CAPITAL ASSETS (Continued)

Capital Asset Activity: Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance January 1, 2003	Additions	Reductions	Balance December 31, 2003
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 297	$	$	$ 297
Construction in progress	3,053	3,840	(4,454)	2,439
Total capital assets, not being depreciated	3,350	3,840	(4,454)	2,736
Capital assets, being depreciated:				
Utility plant	105,224	6,485	(228)	111,481
Furniture, fixtures, equipment and vehicles	6,087	477	(37)	6,527
Total capital assets, being depreciated	111,311	6,962	(265)	118,008
Less: Accumulated depreciation	(52,864)	(3,962)	46	(56,780)
Total capital assets being depreciated, net	58,447	3,000	(219)	61,228
Capital assets, net	$ 61,797	$ 6,840	$ (4,673)	$ 63,964

Commitments: The Division had outstanding commitments of approximately $6,780,000 and $7,464,000 for future capital expenditures at December 31, 2004 and 2003, 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.

NOTE E - EMPLOYEES RETIREMENT PLAN

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 (TP) – a cost-sharing, multiple-employer defined benefit pension plan.
2) The Member-Directed Plan (MD) – 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 (CO) – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment

NOTE E - EMPLOYEES RETIREMENT PLAN (Continued)

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 Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System 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) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 8.5% and employer contribution rates were 13.55% of covered payroll. The Division's required employer contributions to OPERS for all plans for the years ending December 31, 2004, 2003 and 2002 were approximately $836,000, $784,000 and $765,000 each year, respectively. The required payments due in 2004, 2003 and 2002 have been made.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability and survivor benefits as well as postretirement health care coverage 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 postretirement 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 recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) 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. The Ohio Revised Code provides statutory authority for employer contributions. The Division's contribution rate was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2003 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number

NOTE F - OTHER POST-EMPLOYMENT BENEFITS (Continued)

of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (and beyond) health care costs were assumed to increase at 4% (the projected inflation rate). OPEBs are advance-funded on an actuarially determined basis. At year-end 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The employer contribution rates are the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2004 which were to fund postemployment benefits were approximately $247,000. $10.5 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2003. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $26.9 billion and $16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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 2004 or 2003.

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.

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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 paid to the Division of Water for such services were approximately $2,262,000 and $2,230,000 in 2004 and 2003, respectively.

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:

	(In thousands)	
	2004	**2003**
Electricity purchases	$ 208	$ 178
Street construction and maintenance	187	189
City administration	302	285
Motor Vehicle Maintenance	306	391
Utilities Administration and Fiscal Control	227	181
Employee and other services provided by the Division of Water	303	448

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 $11,690 and $12,823 for the years ended December 31, 2004 and 2003, respectively.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF CLEVELAND
DIVISION OF 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
JULY 14, 2005