

# 2009 ANNUAL REPORT



serviceability



# serviceability

## WHAT'S INSIDE



### CITY OF CLEVELAND MISSION STATEMENT

We are committed to improving the quality of life in the City of Cleveland by strengthening our neighborhoods, delivering superior services, embracing the diversity of our citizens, and making Cleveland a desirable, safe city in which to live, work, raise a family, shop, study, play and grow old.

### CLEVELAND DIVISION OF WATER MISSION STATEMENT

Cleveland Water delivers a reliable supply of high quality water and customer services to promote the public health and safety, economy and quality of life of Greater Cleveland.



## TO OUR CITIZENS

As one of the City's greatest assets, Cleveland's Division of Water delivers clean water to more than 1.5 million customers daily. Water is life and Cleveland Water earns high marks for providing clean, high quality drinking water. From Lake Erie to the tap, Cleveland Water's workforce works diligently to improve sustainable water management practices. Over the last 10 years, the Division invested more than \$800 million in capital projects including technology improvements, infrastructure, distribution, treatment, meter reading, billing and customer service. Cleveland Water is committed to doing what's best for its customers, communities and environment.

2009 presented the Division of Water and the City of Cleveland many opportunities to understand what is needed to continue to improve our service to our customers and management and staff began developing new procedures, implementing new technology and identifying ways to address customers' needs.

There's still more to do as we focus on the future. The Division's team has shown considerable determination in realizing its business transformation and I thank them for their tireless efforts and contributions.

Sincerely,

Frank G. Jackson  
Mayor, City of Cleveland





## TO OUR FRIENDS

Each year provides us with a sense of renewal and possibilities. One of City Council’s primary responsibilities is to protect and invest in core services that rate payers are entitled to. Given the challenging business and economic environment, we sharpened our pencils and our decision making which resulted in many positive changes. Our sense of community has not weakened; instead, our perseverance emboldens us to move our great City forward.

Cleveland Water’s experienced leadership team had the foresight to address an ambitious, multi-year, operational makeover and when complete, its transformation will better serve individuals, families, businesses and communities alike. The Division is replacing technology systems (customer billing, automated meter reading and geographic information systems) and providing cohesive training programs while continuing to deliver high quality, safe drinking water to its customers.

The future of Cleveland and the region depends on developing today’s young people as tomorrow’s leaders. That said, Cleveland’s Division of Water supports a variety of job-readiness activities such as the Student Technical



Enrichment Program which prepares students for college and careers in math, science, engineering and technology. As our young people display a natural curiosity about the world around them, they are today’s early adopters for recycling and conserving water which will influence the world in the years ahead.

We would like to thank and congratulate the hardworking men and women at Cleveland’s Division of Water as we look ahead with continued confidence.

Sincerely,

Martin J. Sweeney (left)  
Council President  
Cleveland City Council

Matthew Zone (right)  
Chairman, Public Utilities Committee  
Cleveland City Council



## TO OUR CUSTOMERS

Despite the tough economy in 2009, one of Cleveland Water's priorities addressed achieving better customer service by strengthening customer loyalty and improving customer encounters. It starts and ends with the customer perspective. Customers besieged us with questions and their feedback was clear on what we needed to do better. We're not only working on immediate solutions but deeper solutions. To us, deeper solutions are ways to prevent problems from ever happening again.

This year's annual report theme, **Serviceability**, is a commitment to building a companywide core competency of service excellence. Cleveland Water will achieve this by supporting our team and empowering them to excel. We are a customer-friendly company based on doing right by our customers. Customer encounters may be based on one or more of the following service attributes:

**Potability:** Cleveland Water not only treats water to make it safe to drink, but we continue to raise the bar to exceed water quality industry standards.

**Reliability:** Going from good to great is an investment, not an expense. The goal is to create lifelong relationships with customers while delivering affordable high-quality water.

**Accountability:** We are developing performance measurement criteria so all employees know how they are progressing against goals.

**Dependability:** Customers appreciate nice friendly voices that can solve problems timely and provide constructive answers to questions.

**Capability:** Managing our culture successfully requires hiring competent individuals and training and developing them to become more effective.

**Sustainability:** Service sustainability involves employees understanding the importance of their jobs and appreciating the responsibilities of other team members. Transforming individual accomplishments into team accomplishments sustains service excellence.

This year we learned important lessons about talking to customers and solving their problems. As a result, Cleveland Water is very optimistic about the progress we can make in the years ahead.

Sincerely,

Barry A. Withers (left)  
Director of Public Utilities

J. Christopher Nielson (right)  
Commissioner of Water

## 2009 Financial & Business Highlights

- Executed amendments to existing water service and economic development agreements with an additional three suburbs where Cleveland Water transferred ownership of their distribution mains.
- Those suburbs will be able to participate in the newly initiated suburban distribution system renewal program. Eligible projects will be evaluated, prioritized and scheduled for construction with at least \$10 million allocated annually for the foreseeable future. The number of suburban main replacement projects increased in 2009.
- In February, the Division refunded \$165.6 million of existing Series M 2004 water revenue bonds to stabilize volatile interest rates and reduce debt service expenses.
- Escrowed \$10 million from the 2009 budget to “pre-pay” debt service due in 2010.
- Awarded \$74.2 million and expended \$85.7 million for Capital Improvement Projects.
- Cleveland Water was awarded by the Ohio Environmental Protection Agency (OEPA) \$14 million in economic stimulus funds for the Division’s Baldwin Residuals and Fairmount Reservoir project. Cleveland’s award included \$5 million of American Recovery and Reinvestment Act funds which has principal forgiveness and \$9 million from the Drinking Water Assistance Fund loan fund which is a 20-year interest-free loan from Ohio EPA.
- Commenced design of the Division’s Automatic Meter Reading project.
- During the last quarter of 2009, the Division completed the changeover of its new Customer Care and Billing (CC&B) system.
- Entered into a contract with a service provider to offer a service line warranty protection program to our residential customers which will start in 2010 after the new CC&B system is fully operational. Product offerings will include water line replacement, sewer line repair and emergency in-home plumbing repair.

## 2009 Operating Highlights

- Maintained certification with the Partnership for Safe Water. The Partnership is a cooperative effort between the EPA, American Water Works Association, Association of Metropolitan Water Agencies, and other drinking water organizations that establishes a set of standards that far exceeds the minimum requirements of the Safe Drinking Water Act.
- Produced 80.4 billion gallons of water
- New training programs: 22
- Water quality tests: 144,940
- Leak complaints: 6,718
- Water main breaks: 1,575
- Repaired/Replaced water meters: 29,308
- Repaired/Replaced water hydrants: 3,724

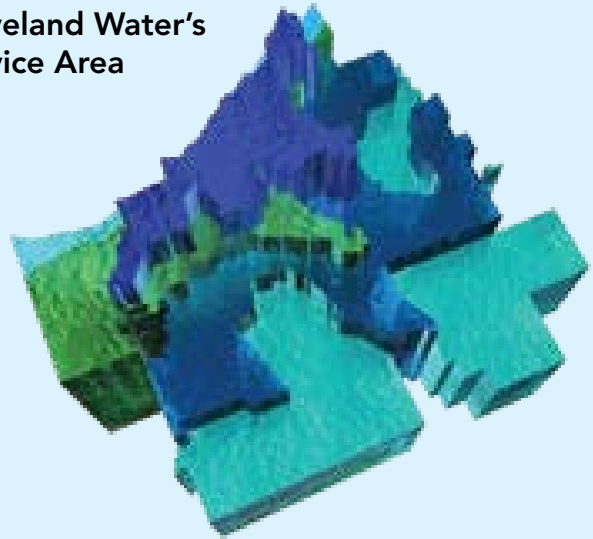
## Capital Projects Initiated in 2009:

- Crown Chemical Systems Upgrade
- Baldwin Residuals and Fairmount Reservoir Project
- Morgan Pretreatment and Residuals Project
- Secondary Sites Improvements
- Clean and Line Distribution Water Mains
- Tower City Vaults
- Keller II Water Tower
- 1201 Lakeside Avenue Site Renovations
- Aurora Road Water Main Improvements

## Capital Projects Completed in 2009:

- Morgan East Reservoir Project
- Crown Filter and Masonry Rehabilitation Project

## Cleveland Water's Service Area



### COMMUNITIES SERVED

Cleveland

#### Direct Service Suburbs

Bay Village	Gates Mills	Northfield Center Township
Beachwood	Glenwillow	North Olmsted
Bedford Heights	Highland Heights	North Randall
Bentleyville	Highland Hills	North Royalton
Boston Heights	Hinckley Township	Oakwood
Bratenahl	Hudson Village	Olmsted Falls
Brecksville	Hunting Valley	Olmsted Township
Broadview Heights	Independence	Orange
Brooklyn	Linndale	Parma
Brooklyn Heights	Lyndhurst	Parma Heights
Brook Park	Macedonia	Pepper Pike
Brunswick	Maple Heights	Reminderville
Brunswick Hills Township	Mayfield	Richfield Village
Cuyahoga Heights	Mayfield Heights	Richfield Township
East Cleveland	Middleburg Heights	Richmond Heights
Euclid	Moreland Hills	Rocky River
Fairview Park	Newburg Heights	Sagamore Hills
Garfield Heights	Northfield	Seven Hills

#### Master Meter Suburbs

Bedford
Chagrin Falls
Cleveland Heights
Lakewood
Geauga County
Portage County

#### Emergency Feed to

Lake County
Portage County
Medina County
Berea
Hudson

### LARGEST CUSTOMERS OF THE WATERWORKS SYSTEM – 2009

Consumer	Number of Accounts	Consumption (MCF)	Metered Sales Revenue	% Total Revenue
ArcelorMittal	53	143,018	\$3,517,229	1.7
Cuyahoga Metropolitan Housing Authority	726	112,455	2,540,441	1.2
Ford Motor Company	10	62,693	2,484,871	1.2
Stouffer's/Nestlé USA	5	30,585	1,589,097	0.7
NASA Glenn Research Center	6	38,284	1,511,564	0.7
Cleveland Clinic	64	50,261	1,289,683	0.6
Northeast Ohio Regional Sewer District	15	28,363	1,033,320	0.5
Alcoa Inc.	7	25,885	980,302	0.5
General Cinema Theatres	10	22,280	939,023	0.4
Great Lakes Canning, Inc.	2	16,335	850,332	0.4
<b>Totals</b>	<b>898</b>	<b>530,158</b>	<b>\$16,735,861</b>	<b>7.9</b>



## Lake Erie Facts

The Great Lakes roughly comprises 20% of the world's available freshwater

### GREAT LAKES FORMATION

The Great Lakes were formed from southward moving glaciers more than 25,000 years ago. These glaciers were about 6,600 feet thick and carved out huge earth cavities. When the ice melted and filled the newly-formed basins, it formed thousands of lakes including the Great Lakes.

### WHERE DOES OUR WATER COME FROM?

The region's water is collected from four intake cribs that are located 3-5 miles off Lake Erie's shoreline. Lake Erie gains water from the upstream Great Lakes — Superior, Michigan and Huron, runoff from rain and snow and loses water from evaporation or flowing downstream to Lake Ontario.

Our drinking water comes from Lake Erie and goes through several treatment steps at our waterworks plants to make it safe to drink, including screening (large debris removal), flocculation (a way to clump fine debris) and settling (clump removal), filtration and disinfection. Water is stored and gets pumped to its ultimate destination for immediate consumption and use. Potability is the process of making our water safe to drink.

- 241 miles long
- 574 feet elevation
- 38-57 miles wide
- Average depth is 62 feet
- An area of 9,940 square miles
- Its deepest point measures 210 feet

### A GLOBAL PERSPECTIVE

With the world's growing population and agricultural needs along with changing lifestyles, water demand may create a shortage unless humankind changes our behavior. More than a billion people do not have access to clean water and almost half of the world's estimated 7 billion don't have water piped to their homes. We are extremely fortunate that Lake Erie is at our doorstep and Cleveland Water takes its water stewardship very seriously. In fact, The Great Lakes Water Quality Agreement is a bi-national effort for a comprehensive restoration of the Great Lakes.

### The World's Water

97% salt water

2% frozen water

1% freshwater or groundwater

World's population has doubled over the past 50 years

# water's potability

## ENTERING LAKE ERIE'S DEAD ZONE

The dead zone lies beneath the surface of Lake Erie in the central basin extending from Sandusky to Erie, PA. The dead zone refers to a lack of oxygen in the water which is essential for aquatic life.

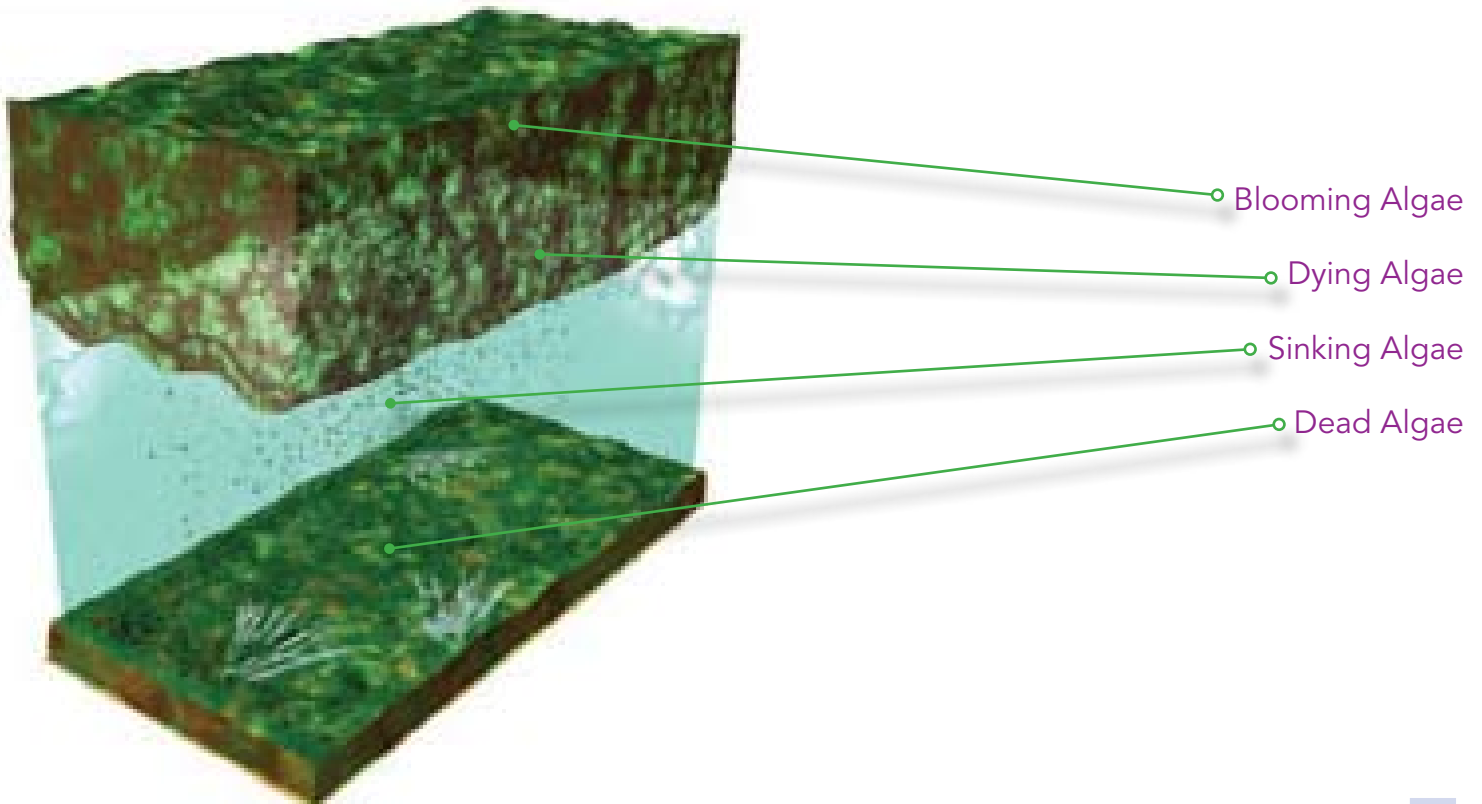
In the spring, algae thrive on phosphorous which enters Lake Erie as runoff during the spring rainy season from fertilizers applied to cropland. The algae multiply and spread atop Lake Erie, bloom and then sink to the bottom as they die. The smelly algae blooms' decomposition requires oxygen and by late summer, the zone's oxygen supply is depleted. The oxygen stranglehold threatens the fishing habitat. One theory suggests the influx of

non-native invasive species such as zebra and quagga mussels may have contributed to the problem.

Researchers from the U.S. Environmental Protection Agency, National Oceanic and Atmospheric Administration, The Ohio State University, Heidelberg University and other organizations continue to investigate and search for answers to this phenomena. CWD is closely monitoring this situation to ensure that it does not affect our drinking water quality.

We all share responsibility for maintaining the balance of Lake Erie's treasured ecosystem and Cleveland Water serves as one of Lake Erie's caretakers and protectors.

### Lake Erie Dead Zone



# infrastructure network reliability

Since 1856, the backbone of Cleveland Water (CWD) is its infrastructure: water treatment plants, pumping stations, storage, trunk mains, pumps, pipes, valves and hydrants. Customers depend on CWD to ensure the integrity and reliability of Greater Cleveland's water distribution system.

Our distribution system is a complex network delivering a continuous supply of high-quality water cost effectively. Our network is aging gracefully, in large part, due to operators continually monitoring and assessing materials, technologies, environmental factors and life spans.

For local communities, the management of drinking water systems is primarily concerned with health and environmental issues. Many suburbs own their water distribution mains and are responsible for their upkeep and improvements. With a challenging economy and declining revenues, many officials struggle to keep pace with routine network improvements so projects may get postponed. Under amendments to the Suburban Water Service Agreements, the water infrastructure's improvements shift from municipalities to CWD for a win-win collaboration. Through 2009, 18 agreements

have been signed and about a dozen more are under review. Some of the terms are highlighted below.

- Municipalities transfer ownership (assets, easements and accessories) to CWD for a minimum of 20 years. Municipalities can opt-out in the 15th year with a five-year notice.
- CWD agrees to maintain and repair distribution mains.
- CWD invests up to \$10 million annually in a distribution main renewal program. Eligible projects are identified, assessed and prioritized based on project submittals within each budget cycle.
- Should businesses relocate from one community to another, the new community agrees to pay 50 percent future income tax revenues for five consecutive years to help ease the transition.

In 2009, there was 47,401 feet of replacement and 1,360 feet of clean and line work totaling \$8,256,715.







# information technology capability

At Cleveland Water (CWD), we continually review information technology best practices to solve our complex business operations. We are currently implementing an overarching customer service action plan that will greatly improve our customer service performance and thereby improve customer satisfaction.

A series of high-profile technology initiatives are directly impacting customer-facing operations. First, CWD deployed the Customer Care & Billing system (CC&B) in the fall of 2009. This project was the most complex technology initiative ever attempted reflecting five years of advance planning and preparation. The new system's capabilities feature:

- Improved meter-to-cash business processes
- Enhanced data tracking of customer information
- Administration of more complex rate structures
- Improved meter inventory management
- Additional payment options: by phone or online; print or view secure online statements is coming soon

Second, CWD is completely overhauling our call center technology and processes which will enhance the customer's telephone experience. New features to include:

- Improved Interactive Voice Response (IVR) menu options
- Replacing the onhold feature with virtual queuing — it retains a customer's place and provides an automated callback
- Automated messaging will notify customers about emergencies, services and news
- Advanced reporting uses business intelligence tools for improving operations management

Third, CWD is installing its Automatic Meter Reading (AMR). The AMR system consists of small interface devices that transmit meter read data wirelessly from a customer's location back to Cleveland Water. Once completed, this project will greatly improve customer service by providing timely and more frequent meter reads. This additional information automatically monitors customers' water usage patterns and informs CWD personnel when problems arise.

While the changeover to the new billing system created some disruptions, CWD simultaneously re-evaluated and improved many of our antiquated business processes.

Electronic recordkeeping of all infrastructure data is now a reality and benefits field crews in the following ways:

- Portability: Provide CWD field crews with the most up-to-date infrastructure information, work order and field activity data via laptops
- Data Sharing: Data snapshots can be easily loaded onto laptops remotely
- Data Security: User-friendly access to secured information

After conducting the Geographic Information System (GIS) pilot rollout, the project team further customized the GIS data based on field personnel feedback. Over the next few months, hands-on training to get field crews comfortable using the new technology and its applications will allow for a smooth transition.

Next, a new webGIS application will provide GIS staff with an updated interface, faster response times and expanded functionality and operational data. Soon after, CWD will introduce an Automated Vehicle Location system that's designed to manage CWD's mobile assets — reduce travel time, fuel costs and our carbon footprint and improve efficiencies in equipment dispatching.

# service reliability

As part of Cleveland Water's culture, we take great pride in earning a customer's reliance over a lifetime of positive experiences. Sustaining satisfied customers means making high-quality water available, accessible and affordable while providing service in a friendly, competent, consistent and timely manner.

Upon launching the Customer Care & Billing (CC&B) system, Customer Account Services (CAS) placed customers solely at the center of its decision making. However, as a result of the complexity of the new billing system implementation, gaps in its integration directly impacted a significant percentage of customers. A Billing Blitz team collaborated to troubleshoot and resolve customers' billing concerns. In addition, Customer Service Representatives were instructed to extend grace periods for abnormal balances and Community Service Fairs were held to address concerns with customers one-on-one.



Subsequently, a Special Projects Team recommended the following strategies, in part, to improve service reliability and accountability:

- Develop a Customer Service Action Plan
- Institute the Customer Service Code of Conduct Metrics
- Hire and train additional customer service representatives.

CAS manages Customer Service, Meter Reading, Billing, Collections as well as meter testing and replacement. Within the next year, CAS will sharpen its operation in the following areas:

- Reduce call wait times with 85 percent resolution on the first call
- Address phone capability defects
- Update policies and procedures
- Eliminate billing backlog & exceptions
- Increase self-service options such as online credit card bill payment
- Automate reading meters
- Replace non-working meters
- Cross train talent for retention & organizational change
- Continue talent management planning & development

## PROVIDING SPANISH LANGUAGE CUSTOMER SUPPORT

To better serve Cleveland's Hispanic/Latino community, dedicated Spanish-speaking Customer Service Representatives are available weekdays during normal

business hours by selecting the Spanish option when using the automated phone system. Additionally, Water Quality Reports are produced in Spanish.

# accountability

In 2009, customers encountered Cleveland Water in a variety of ways including:



Phone inquiries



Customer emails



Online credit card payment transactions



Community-sponsored events

Speaker Bureau engagements



Facebook friends



YouTube hits



New accounts

# workforce dependability

At Cleveland Water, we're working smarter and more efficiently than ever before. At the heart of our success is our intellectual capital, about 1,100 strong. Approximately a third of our talent will be eligible to retire within the next couple of years and succession planning ensures capturing and transferring knowledge without compromising organizational performance or business continuity. Focusing on the future means delivering all levels of service on demand.

## 1,100 Strong

As a citywide initiative, special project teams from the Department of Public Utilities were charged with sharing resources and eliminating work redundancies by implementing a rigorous four-step approach: Inquiry & Discovery, Root Cause Analysis, Solution Building and Final Recommendations. As a result, 120 operational adjustments were cited for implementation.

## MAKING HISTORY



For the first-time in the City of Cleveland's history, six City employees will be competing in the national American Water Works Association Meter Madness and Women's Pipe Tapping Competition next June. Thomas Burke and Debbie Morris qualified for the Meter Madness Competition and Coach Christopher Fitzpatrick along with team members Alexis Robinson, cranker; Elaine Penn, feeder; Cheronda Robinson, copper flarer; and Tanya Robinson, alternate, advanced to the Women's Pipe Tapping Competition.

To qualify, all advanced by winning their respective categories at the Ohio American Water Works Association event. Equally impressive, the pipe tapping team set a



new Ohio record with a time of 2:52.48. The Columbus-based, two-time national champs of the Men's Pipe Tapping team shared training tips and techniques with Cleveland's Ladies on the Lake team. In October, each winner was photographed with Mayor Frank G. Jackson to commemorate the achievements.



# youth employability

## TODAY'S YOUTH, TOMORROW'S LEADERS

For the last five years, Youth Opportunities Unlimited (Y.O.U.) has partnered with Mayor Frank G. Jackson's Summer Youth Employment Program and Cleveland's Division of Water. This collaborative effort employs up to 250 students between the ages of 14-18 each summer.

Demonstrating how education, language and math skills, translates to employment helps motivate students to stay in school. Recently, CWD added two sustainability projects to its summer jobs portfolio — assembling and installing conservation, 55-gallon rain barrels for Cleveland residents and building rain gardens around the City.

By capturing clean rainwater, it can be used for everyday outdoor tasks such as watering lawns and vegetable and flower gardens. Using rainwater reduces stormwater pollution and preserves the environment. To date, 539 rain barrels were assembled and installed, of which, 259 were completed this year.

Rain gardens lower the impact of impervious surfaces and polluted runoff because they are low-tech, inexpensive, aesthetically pleasing and averts sewers from potentially flooding. During the last three years, nine rain gardens have been built.



# business sustainability

This summer, Mayor G. Jackson initiated Sustainable Cleveland 2019, a 10-year initiative fostering a Greater Cleveland collaboration of companies and institutions committed to developing sustainable strategies as an economic engine and to reducing the City's ecological footprint. In September, Andrew Watterson was appointed the City's first Chief of Sustainability and advises the City on policies related to energy, facilities, fleet and purchasing management under the Office of Sustainability. On behalf of Mayor Jackson, Watterson also coordinates Sustainable Cleveland 2019.

Cleveland Water's first step is mapping our environmental footprint on a companywide level — what happens when treating and delivering water, maintaining and improving infrastructure, offering services, sharing resources, and consuming or using water. The next step involves assessing and quantifying the impacts of our activities in our day-to-day operations. Equally important, tracking indicators and reporting our progress will serve as the basis for a sustainable economic model going forward.

This ongoing commitment demands constant vigilance and preparedness as we adopt a formal sustainable process. The first table profiles sustainable practices for construction-related projects for the year and the second table depicts our recycling efforts.

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## BALDWIN RESIDUALS & FAIRMOUNT RESERVOIR PROJECT

- Crushed demolition materials used as onsite backfill instead of hauled to landfills
- High efficiency pumps, motors & Variable Frequency Drives (VFDs)
- Improved controls for chemical usage
- Water-cooled air conditioning units
- Low mow grass
- Recycled stone for landscaping use from the decommissioned Fairmount Reservoir

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## CROWN

- High efficiency pumps
- Upgraded HVAC system
- Improved controls for chemical usage
- Filter media recycling

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## MORGAN

- High efficiency pumps, motors, HVAC & VFDs
- Improved controls for chemical usage
- Low mow grass
- Crushed demolition materials used as onsite road base backfill instead of hauled to landfills
- Excavated material recycled and reused onsite
- Upgraded electrical
- Permeable pavers
- Replaced gaseous chlorine system with sodium hypochlorite system
- Onsite retention basin for stormwater runoff

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## FAIRMOUNT PUMP STATION

- High efficiency pumps, motors, HVAC & VFDs
- Low mow grass
- Onsite retention basin for stormwater runoff

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## KIRTLAND PUMP STATION

- LEED-certified specialty maintenance building
- High efficiency pumps, motors, HVAC & VFDs
- Low mow grass
- Permeable pavers

RECYCLABLE CATEGORY	MATERIALS	AMOUNT
Co-mingled Wastes	Iron & steel waterlines	4550 feet
	Steel	76.71 cubic yards
	Wood pilings	282 cubic yards
	Brass valves	1000 lbs
Construction & Demolition	Asphalt	896 cubic yards
	Plastic	25 cubic yards
	Soil	75 cubic yards
	Brick/sandstone/concrete/rubble	22,917 cubic yards
Paper Products	Mixed Paper	38.03 tons
	Office Paper	20.35 tons
	Newspaper & cardboard	0.14 tons
Scrap Metal	Aluminum	9.06 cubic yards
	Brass	350 lbs
	Copper	677 lbs
	Ferrous metals	377,040 lbs
	Lead/Copper cable	0
	Lighting fixtures	0
	Stainless steel	1659 lbs
Universal Wastes	Fluorescent bulbs	1200 bulbs
	Lead acid batteries	166 lbs
	Nickel cadmium batteries	17 lbs
Vehicles	Sold/Scrapped	0

# water quality drinkability

## IMPROVING WATER QUALITY FOR CONSUMER SAFETY

Cleveland Water joined the Partnership for Safe Water in 1995. The partnership is designed to improving drinking water quality by optimizing surface water treatment plants' performance. The partnership implements prevention programs above and beyond what current water quality rules and regulations mandate. The voluntary, four-phase program provides flexible technical tools allowing each plant to customize performance optimization at their own pace with limited capital spending. While the partnership consists of more than 200 members nationwide, Cleveland Water is only one of three Ohio members.

Program benefits include: benchmarking Cleveland Water's results against the program's national database, training for plant operators and customizing procedures, software and manuals for water quality improvements.

Looking ahead, Garrett A. Morgan and Crown Waterworks Plants are nominated as 2010 Five-Year Directors Awardees. Previous award recipient included Cleveland Water's Nottingham Waterworks Plant.



## H<sub>2</sub>O = LIFE EXHIBIT ATTRACTS OVER 40,000

In November, the H<sub>2</sub>O=Life interactive exhibit opened at the Great Lakes Science Center to explore the many ways water impacts life on Earth throughout history to present day. Part of the exhibit tells the local story between Cleveland and Lake Erie. Cleveland Water, Northeast Ohio Regional Sewer District and the Science Center supported programming to show visitors simple ways to help conserve water.

More than 10 water themes revealed 90 artifacts, models and hands-on exhibits demonstrating the relationship between life and water including: climate's impact on salt- or freshwater environments; the three physical states of water (liquid, solid and gas); the water cycle; and

managing ecosystems and climate change. A free lecture series and other support activities augmented the hugely-popular five-month exhibit.



# directory of officials

**Frank G. Jackson** Mayor  
**Ken Silliman** Chief of Staff  
**Darnell Brown** Chief Operating Officer  
**Valarie J. McCall** Chief of Government Affairs  
**Chris Warren** Chief of Regional Development



## CLEVELAND CITY COUNCIL

Martin J. Sweeney President  
 Patricia J. Britt Clerk of Council  
 Terrell H. Pruitt Ward 1  
 Nathaniel K. Wilkes Ward 2  
 Zachary Reed Ward 3  
 Kenneth L. Johnson Ward 4  
 Phyllis E. Cleveland Ward 5  
 Mamie J. Mitchell Ward 6  
 TJ Dow Ward 7  
 Shari L. Cloud Ward 8  
 Kevin Conwell Ward 9  
 Eugene R. Miller Ward 10  
 Michael D. Polensek Ward 11  
 Anthony Brancatelli Ward 12  
 Joe Cimperman Ward 13  
 Joseph Santiago Ward 14  
 Brian Cummins Ward 15  
 Kevin J. Kelley Ward 16  
 Matthew Zone Ward 17  
 Jay Westbrook Ward 18  
 Dona Brady Ward 19  
 Martin J. Sweeney Ward 20  
 Martin J. Keane Ward 21

## DEPARTMENT OF PUBLIC UTILITIES

Barry A. Withers Director  
 Ivan Henderson Interim Assistant Director

## DIVISION OF WATER

J. Christopher Nielson Commissioner

### Assistant Commissioners

Sharonda Denson Customer Account Services  
 Payton Hall Distribution & Maintenance  
 Alex Margevicius Engineering  
 Rolfe Porter Plant Operations  
 Melinda L. Raimann Budget & Finance  
 D. Michael Rotunno Information Technology Systems  
 Angela Smith Human Resources

## DIVISION OF UTILITIES FISCAL CONTROL

Dennis A. Nichols Commissioner  
 Keith Cromer Utilities Controller  
 Mary Webster Chief Auditor

# system & statistics

## FINANCIAL OPERATING HIGHLIGHTS

	2009	2008	2007	2006	2005
<b>Selected Financial Information</b> (\$ in thousands)					
Operating Revenue (metered sales and other)	<b>\$228,235</b>	\$242,181	\$240,628	\$209,978	\$222,635
Operations and Maintenance Expenses	<b>147,716</b>	143,833	140,210	132,879	123,931
Depreciation	<b>49,782</b>	41,857	38,993	37,582	36,259
Total Operating Expenses	<b>197,498</b>	185,690	179,203	170,461	160,190
Operating Income	<b>30,737</b>	56,491	61,425	39,517	62,445
Income Before Extraordinary Item	<b>10,084</b>	40,608	54,024	19,506	38,568
Net Assets	<b>1,006,836</b>	996,292	955,602	900,779	880,787
Total Assets	<b>1,951,424</b>	1,979,550	1,963,666	1,782,074	1,762,764
Property, Plant and Equipment, net	<b>1,415,809</b>	1,360,889	1,326,670	1,260,991	1,193,451
Current Assets	<b>291,679</b>	308,050	313,085	292,640	294,997
Accounts Receivable, net	<b>51,226</b>	37,137	31,254	26,700	26,065
Current Liabilities	<b>92,285</b>	85,740	77,002	70,528	68,215
Long-Term Debt	<b>852,303</b>	897,518	931,062	810,767	813,762

	2009	2008	2007	2006	2005
<b>Selected Operating Information</b> (Production & Metered Consumption)					
Total Metered Sales Revenue (\$ in thousands)	<b>\$224,385</b>	\$222,285	\$216,827	\$192,387	\$202,616
Annual Metered Consumption (1,000 mcf*)	<b>6,792</b>	7,070	7,403	7,263	7,654
Total Metered Accounts	<b>401,054</b>	412,583	414,449	417,387	420,498
Total Annual Water Produced (billion gallons)	<b>81</b>	85	87	81	86
Average Daily Pumpage (million gallons per day)	<b>220</b>	233	238	221	236
Maximum Daily Pumpage (million gallons per day)	<b>279</b>	291	340	299	335
Peak per Hour Pumpage Rate (million gallons per day)	<b>412</b>	421	502	472	491
Minimum per Hour Pumpage Rate (million gallons per day)	<b>113</b>	185	170	157	147
Number of Employees	<b>1,090</b>	1,134	1,127	1,113	1,167
Annual Precipitation	<b>36</b>	45	41	41	40

\* MCF equals one thousand cubic feet of water

	2009 <sup>(3)</sup>	2008	2007	2006	2005
<b>Collection Performance Information – Cash Basis</b> (Account Statistics)					
Customer Billings <sup>(1)</sup>	<b>\$230,455</b>	\$226,900	\$221,117	\$196,470	\$206,334
Account Collections	<b>203,466</b>	218,286	214,378	193,179	207,389
Accounts Receivable Balance at year end, net (Active Accounts Only)	<b>51,226</b>	35,076	28,362	23,561	21,779
Average Daily Billings	<b>631.4</b>	621.6	605.8	538.3	565.3
Account Receivable Outstanding over 90 days at Year End (Active Accounts Only) <sup>(2)</sup>	<b>26,638</b>	18,285	14,036	10,563	9,222
Accounts Receivable Turnover (times)	<b>4.5</b>	6.5	7.8	8.3	9.5
Billings Days Outstanding at Year End (Days)	<b>81.1</b>	56.4	46.8	44.0	38.5

<sup>(1)</sup> Includes flat rate charges for fire lines that are not metered.

<sup>(2)</sup> Active accounts do not include finals, prior owners and turnoffs.

<sup>(3)</sup> The new billing system no longer differentiates between active and inactive accounts. The 2009 figure represents the total Water A/R balance at year end, net of allowance for doubtful accounts.

## OPERATING RESULTS IN BRIEF

The Division of Water was created in 1853 and charged with the responsibility for collecting, treating, pumping and distributing water and providing related water service to customers within its service areas. The Division operates a major public water supply system which serves not only the City of Cleveland, but also 70 suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. The Division is an emergency standby provider for systems in three other counties. The present service area covers over 640 square miles and serves over 1.5 million people.

In 2009, the aggregate metered consumption of water in the City constituted 32% of the total metered

consumption in the service area, while consumption in the direct service communities and master meter communities constituted 59% and 9%, respectively.

Operating revenue in 2009 decreased to \$228.2 million from \$242.2 million in 2008 due to a decrease in water consumption of 3.9%. Operating expenses, exclusive of depreciation, increased 2.7% to \$147.7 million compared to \$143.8 million in 2008. The \$3.9 million increase in operating expenses in 2009 was primarily due to an increase in maintenance expenses.

## Summary of Historical Revenues, Expenses and Debt Service

	2009	2008	2007	2006	2005
Operating Revenues	<b>\$228,235</b>	\$242,181	\$240,628	\$209,978	\$222,635
Non-operating Revenues	<b>4,122</b>	10,479	17,364	13,925	7,719
Total Revenues	<b>232,357</b>	252,660	257,992	223,903	230,354
Operating Expenses (exclusive of depreciation):					
Operations	<b>92,905</b>	92,866	90,221	84,371	78,314
Maintenance	<b>54,811</b>	50,967	49,989	48,508	45,617
Total Operating Expenses (exclusive of depreciation)	<b>147,716</b>	143,833	140,210	132,879	123,931
Net Revenues	<b>84,641</b>	108,827	117,782	91,024	106,423
Debt Service on Outstanding Bonds	<b>65,145</b>	65,424	50,320	52,995	52,249
Balance Available after Payment of Debt Service	<b>19,496</b>	43,403	67,462	38,029	54,174
Coverage of Debt Service on Outstanding Bonds by Net Revenues	<b>1.30</b>	1.66	2.34	1.72	2.04

## Breakdown of Revenues and Expenses for 2009

Revenue	%	Expenses	%
Metered Sales-Direct Service Suburbs	63.5	Personnel	35.5
Metered Sales-Cleveland	19.8	Utilities	9.7
Metered Sales-Master Meters	7.7	Chemicals	3.1
Interest	1.8	Maintenance	8.1
Service Fees	1.0	Interest	11.9
Miscellaneous	6.2	Depreciation	22.2
Total	100.0	Supplies & Services	9.5
		Total	100.0

## CAPITAL FACILITIES

### Main Stations

	Crown	Morgan	Baldwin	Nottingham
<b>Capital Facilities</b>				
Raw Water Pumps	6	6	6	8
Low Service Pumps	4	5	–	4
First High Service Pumps	5	6	3	4
Second High Service Pumps	–	–	4	4
Raw Water Intake	1	1	1	1
Filters	12	28	20	18
Reservoirs	2	1	1	1

### Capacities (mgd)

Raw Water Intake	140	200	200	200
Raw Water Pumping	190	340	240*	264
Water Treatment	130	150	165	92
Potable Water Pumping	173	346	150	248
Reservoir (mg)	32.5	15	135	25

\* Kirtland

### Secondary Pump Stations

	Pumps	Capacities (mgd)
<b>Second High Service</b>		
Engle Road	5	45.0
Independence	4	11.5
Parma	6	123.9

### Third High Service

Cedar-Winchester	5	27.5
North Royalton	8	38.4
Darrow Road	4	8.0
Green Road	4	23.6
Pearl Road	4	20.6
Pleasant Valley	5	24.0
Shepard	4	6.2

### Booster Pump Stations

Broadway	5	47.9
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### Secondary Storage Facilities

	Type	Capacity (mill. gal.)
<b>Low Service</b>		
Bassett	West	Elevated Tower 0.5
<b>First High Service</b>		
Dover	West	Elevated Tower 2.0
Parma	West	Concrete Reservoir 23.0
Independence	East	Steel Tank 3.0
<b>Second High Service</b>		
Pearl Road	West	Steel Tank 1 10.0
		Steel Tank 2 5.0
Strongsville	West	Elevated Tower 1.0
Pleasant Valley	West	Concrete Reservoir 5.0
Brecksville	West	Elevated Tower 0.8
Green Road	East	Steel Tank 1 10.0
		Steel Tank 2 10.0
North Royalton	West	Concrete Reservoir 2.0
	West	Concrete Reservoir 3.0

### Third High Service

Keller	West	Elevated Tower 1.0
Blossom Hill	West	Elevated Tower 1 3.0
		Elevated Tower 2 0.5
Darrow Road	East	Elevated Tower 3.0
Ledge	East	Elevated Tower 0.5
Kinsman	East	Elevated Tower 2.0
South Twinsburg	East	Elevated Tower 1.0

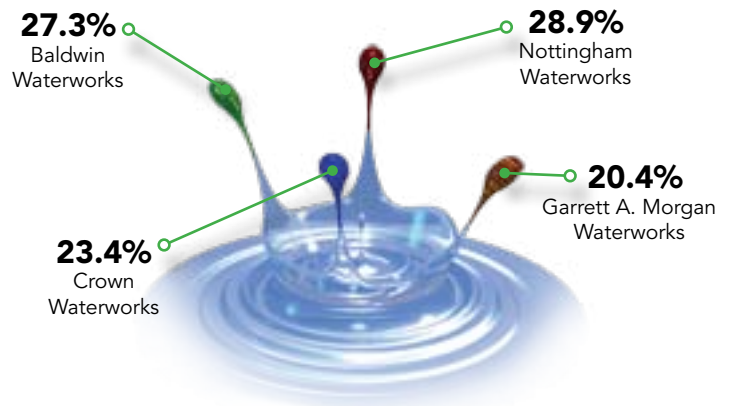
## WATER PRODUCTION SUMMARY 2005 – 2009

	2009	%	2008	2007	2006	2005
<b>Total Water Production</b> (billion gallons)	<b>80.4</b>		85.3	86.8	80.8	86.2
Maximum Daily Production (million gallons)	<b>278.7</b>		290.8	340.0	299.4	334.6
Average Daily Production (million gallons)	<b>220.1</b>		233.1	237.8	221.4	236.1
Peak Per Hour Pumpage Rate (million gallons per day)	<b>412.4</b>		420.8	501.6	472.3	491.4
Minimum Per Hour Pumpage Rate (million gallons per day)	<b>112.5</b>		184.7	169.5	157.1	147.2
<b>Total Production Per Treatment Plant</b> (billion gallons)						
Crown Waterworks Plant	<b>18.8</b>	23.4%	18.9	20.2	19.9	15.6
Garrett A. Morgan Waterworks Plant	<b>16.4</b>	20.4%	19.9	18.0	13.2	23.8
Baldwin Waterworks Plant	<b>22.0</b>	27.3%	22.1	25.1	24.1	22.8
Nottingham Waterworks Plant	<b>23.2</b>	28.9%	24.4	23.5	23.6	24.0
<b>Total Water Delivered Per Service District</b> (billion gallons)						
Low Service District	<b>20.8</b>	25.9%	23.5	22.9	21.3	22.3
First High Service District	<b>21.6</b>	26.9%	23.3	24.3	23.3	25.1
Second High Service District	<b>28.4</b>	35.3%	27.8	28.2	26.0	28.2
Third High Service District	<b>9.6</b>	11.9%	10.7	11.4	10.2	10.6

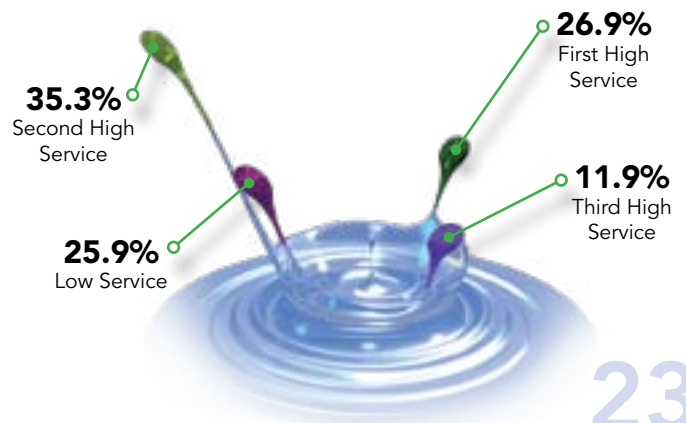
### Water Processed by Secondary Facilities – 2009

Secondary Facility	Net Water Processed (billion gallons)
<b>Second High Service</b>	
Engle	1.6
Independence	1.5
Parma	10.1
<b>SubTotal</b>	<b>13.2</b>
<b>Third High Service</b>	
Cedar/Winchester	2.6
North Royalton	1.8
Pearl	1.3
Pleasant Valley	1.4
Shepard	0.6
Darrow	0.1
Green	1.8
<b>SubTotal</b>	<b>9.6</b>
<b>Totals</b>	<b>22.8</b>

### Total Production Per Treatment Plant (billion gallons)



### Total Water Delivered Per Service District (billion gallons)



**2009 METERED SALES REVENUE, METERED CONSUMPTION AND NUMBER OF ACCOUNTS\***

Municipality	Metered Sales Revenue	Percentage of Revenue	Metered Consumption (MCF)	Percentage of Consumption	Total Accounts	Percentage of Accounts
Cleveland	\$46,535,137	21.85	2,173,475	32.00	118,000	29.42
<b>Direct Service Suburbs</b>						
Parma	\$9,919,349	4.66	276,457	4.07	29,253	7.29
Strongsville	7,933,333	3.72	200,792	2.96	15,365	3.83
Euclid	7,421,318	3.48	222,627	3.28	15,521	3.87
Solon	6,936,653	3.26	164,188	2.42	7,894	1.97
Westlake	6,257,416	2.94	179,422	2.64	10,529	2.63
Brook Park	6,140,145	2.88	168,332	2.48	7,534	1.88
Shaker Heights	5,017,781	2.36	125,814	1.85	8,272	2.06
Brunswick	4,662,034	2.19	112,292	1.65	11,383	2.84
Mayfield Heights	4,568,699	2.14	99,596	1.47	5,585	1.39
North Olmsted	4,114,229	1.93	128,046	1.89	10,617	2.65
North Royalton	4,051,849	1.90	101,270	1.49	9,530	2.38
Twinsburg	4,024,018	1.89	89,572	1.32	6,102	1.52
Cuyahoga Heights	3,906,352	1.83	115,190	1.70	321	0.08
Beachwood	3,857,482	1.81	80,926	1.19	3,328	0.83
Garfield Heights	3,728,002	1.75	104,745	1.54	10,948	2.73
Middleburg Heights	3,636,145	1.71	93,297	1.37	5,583	1.39
East Cleveland	3,539,691	1.66	89,456	1.32	4,266	1.06
Rocky River	3,285,704	1.54	96,384	1.42	6,762	1.69
Warrensville Heights	3,017,381	1.42	70,864	1.04	3,608	0.90
Broadview Heights	2,962,120	1.39	71,640	1.05	6,185	1.54
Maple Heights	2,903,434	1.36	83,353	1.23	9,471	2.36
South Euclid	2,715,230	1.27	77,548	1.14	8,636	2.15
Brecksville	2,379,109	1.12	58,369	0.86	5,015	1.25
Parma Heights	2,375,450	1.12	164,588	2.42	6,279	1.57
Bedford Heights	2,309,849	1.08	55,377	0.82	2,721	0.68
Lyndhurst	2,245,460	1.05	58,915	0.87	5,766	1.44
Northfield Center Twp.	2,186,732	1.03	52,689	0.78	5,397	1.35
Brooklyn Village	2,053,651	0.96	64,226	0.95	4,045	1.01
Richmond Heights	2,053,651	0.96	52,110	0.77	3,433	0.86
Independence	2,001,288	0.94	52,464	0.77	2,985	0.74
Fairview Park	1,910,554	0.90	64,192	0.95	6,012	1.50
Macedonia	1,900,526	0.89	44,848	0.66	4,229	1.05
Bay Village	1,827,977	0.86	59,367	0.87	6,187	1.54
Twinsburg Township	1,691,415	0.79	33,292	0.49	802	0.20
University Heights	1,608,972	0.76	40,791	0.60	3,490	0.87
Pepper Pike	1,560,096	0.73	34,574	0.51	2,146	0.53
Highland Heights	1,503,387	0.71	39,605	0.58	3,327	0.83
Seven Hills	1,473,621	0.69	41,207	0.61	4,739	1.18
Olmsted Township	1,345,205	0.63	40,182	0.59	3,008	0.75
Walton Hills	1,137,357	0.53	26,769	0.39	1,021	0.25
Mayfield Village	1,023,722	0.48	25,009	0.37	1,263	0.31
Olmsted Falls	800,968	0.38	25,164	0.37	2,393	0.60
Moreland Hills	770,555	0.36	16,297	0.24	987	0.25
Orange Village	693,531	0.33	14,648	0.22	811	0.20
Newburg Heights	643,677	0.30	17,833	0.26	787	0.20
Oakwood	639,320	0.30	16,519	0.24	1,275	0.32
Gates Mills	583,662	0.27	13,191	0.19	844	0.21
Richfield Township	558,132	0.26	11,683	0.17	520	0.13

Municipality	Metered Sales Revenue	Percentage of Revenue	Metered Consumption (MCF)	Percentage of Consumption	Total Accounts	Percentage of Accounts
Valley View	479,645	0.23	13,837	0.20	886	0.22
North Randall	478,713	0.22	10,902	0.16	189	0.05
Highland Hills	476,997	0.22	9,912	0.15	164	0.04
Northfield	464,909	0.22	11,478	0.17	1,255	0.31
Hunting Valley	419,269	0.20	8,353	0.12	181	0.05
Bratenahl	372,390	0.17	10,156	0.15	403	0.10
Reminderville	355,439	0.17	9,183	0.14	1,186	0.30
Hinckley Township	318,741	0.15	7,279	0.11	705	0.18
Woodmere	301,449	0.14	6,144	0.09	169	0.04
Brooklyn Heights	262,484	0.12	8,009	0.12	551	0.14
Glenwillow	167,844	0.08	4,071	0.06	224	0.06
Hudson	116,812	0.05	2,783	0.04	260	0.06
Boston Heights	101,339	0.05	4,431	0.07	217	0.05
Chester Township	89,129	0.04	573	0.01	19	0.00
Brunswick Hills Township	85,588	0.04	2,129	0.03	278	0.07
Bentleyville	61,946	0.03	1,644	0.02	148	0.04
Berea	20,897	0.01	529	0.01	3	0.00
Linndale	12,339	0.01	417	0.01	52	0.01
Novelty	855	0.00	18	0.00	1	0.00
<b>SubTotal</b>	\$148,463,017	69.69	3,987,568	58.71	283,054	70.58

### Master Meter and Emergency Standby Suburbs

Cleveland Heights	\$7,625,919	3.58	254,867	3.75	N/A	0.00
Lakewood	6,258,561	2.94	242,788	3.57	N/A	0.00
Bedford	2,946,852	1.38	98,755	1.45	N/A	0.00
Chagrin Falls	849,036	0.40	25,059	0.37	N/A	0.00
Geauga County	321,742	0.15	8,740	0.13	N/A	0.00
Hudson	18,187	0.01	432	0.01	N/A	0.00
Lake County	2,994	0.00	85	0.00	N/A	0.00
Portage County	265	0.00	6	0.00	N/A	0.00
<b>SubTotal</b>	\$18,023,556	8.46	630,732	9.29	N/A	0.00

<b>Total Metered Sales</b>	\$213,021,710	100.00	6,791,775	100.00	401,054	100.00
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### Customer Service Charge Revenue

Cleveland	\$3,343,338
Direct Service Suburbs	8,019,899
<b>Total Customer Service Charge Revenue</b>	\$11,363,237

**Total Water Sales Revenue** **\$224,384,947**

\* Revenue, consumption and account figures do not include any adjustments for erroneous bills.

## OUTSTANDING DEBT

Series	Issued	Original Principal Amount	Purpose	Outstanding as of 12/31/09
Series A	1977	\$80,000,000	Waterworks Improvements	\$0
Series B	1983	50,000,000	Waterworks Improvements	0
Series C	1985	57,500,000	Waterworks Improvements	0
Series D	1986	119,065,000	Refunded Series B Bonds and Series C Bonds subject to optional redemption	0
Series E	1987	153,315,000	Waterworks Improvements	0
Series F	1992			
	1992A	172,100,000	Waterworks Improvements	0
	1992B	118,550,000	Refunded a portion of Series E Bonds subject to optional redemption	0
Series G	1993	228,170,000	Refunded a portion of Series A Bonds, Series D Bonds, Series E Bonds and Series F, 1992A Bonds	107,760,000
Series H	1996	204,885,000	Waterworks Improvements and refunded portion of the Series E bonds, Series F, 1992A and Series F, 1992B Bonds	2,095,000
Series I	1998	305,650,000	Waterworks Improvements and refunded a portion of the Series E bonds, Series F, 1992A Bonds and Series H, 1996 Bonds	0
Series J	2001	92,595,000	Refunded all of the outstanding Series F, 1992A and Series F 1992B Bonds as well as a portion of Series G Bonds and Series H Bonds	53,050,000
Series K	2002	138,050,000	Waterworks Improvements and refunded the Series D Bonds	57,305,000
Series L	2002	90,000,000	Waterworks Improvements	0
Series M	2004	175,000,000	Refunded portions of the Series H Bonds, Series I Bonds and Series K Bonds	0
Series N	2005	64,480,000	Refunded portions of the Series H Bonds and Series I Bonds	45,855,000
Series O	2007	143,570,000	Waterworks Improvements	138,725,000
Series P	2007	134,510,000	Refunded portions of the Series I Bonds	135,410,000
Series Q	2008	90,800,000	Refunded all of the outstanding Series L Bonds	90,800,000
Series R	2009	54,735,000	Refunded portions of the Series M Bonds	54,735,000
Series S	2009	26,295,000	Refunded portions of the Series M Bonds	26,295,000
Series T	2009	84,625,000	Refunded portions of the Series M Bonds	84,625,000
OEPA/OWDA Loans			OWDA/OEPA Loans payable annually through 2031	103,858,000
<b>Total</b>				<b>\$900,513,000</b>

## Debt Service Schedule (dollars)

Year	Total Annual Debt Service	Year	Total Annual Debt Service	Year	Total Annual Debt Service
2010	\$79,013,053.86	2020	\$63,647,150.24	2030	\$23,335,228.82
2011	92,164,751.50	2021	63,277,177.31	2031	22,404,201.40
2012	92,096,496.50	2022	50,841,623.32	2032	21,918,296.62
2013	85,547,579.00	2023	50,824,714.48	2033	21,523,319.33
2014	81,162,730.88	2024	50,383,912.54	2034	9,268,375.00
2015	78,293,789.00	2025	50,956,334.78	2035	9,259,375.00
2016	76,343,142.12	2026	46,948,803.40	2036	9,250,375.00
2017	76,694,163.99	2027	34,461,877.04	2037	9,240,375.00
2018	63,970,201.49	2028	31,767,483.49		
2019	63,807,020.23	2029	24,582,177.02		

## AVERAGE CHEMICAL VALUES FOR THE CLEVELAND DIVISION OF WATER 2009 FINISHED WATER SUMMARY

Results and Maximum Contaminant Levels (MCLs) in milligrams per Liter (mg/L) except as noted.

Contaminant	MCL	Cleveland Water	Contaminant	MCL	Cleveland Water
<b>Volatile Organics</b>			<b>Synthetic Organics</b>		
Benzene	0.005	ND	Alachlor	0.002	ND
Bromobenzene	NR	ND	Atrazine	0.003	ND
Bromochloromethane	NR	ND	Simazine	0.004	ND
Bromomethane	NR	ND	<b>Inorganics</b>		
Carbon tetrachloride	0.005	ND	Aluminum	NR	ND
Chlorobenzene	0.1	ND	Antimony	0.006	ND
Chloroethane	NR	ND	Arsenic	0.01	ND
Chloromethane	NR	ND	Barium	2	ND
2-Chlorotoluene	NR	ND	Beryllium	0.004	ND
4-Chlorotoluene	NR	ND	Cadmium	0.005	ND
Dibromomethane	NR	ND	Chromium	0.1	ND
1,2-Dichlorobenzene	0.6	ND	Copper (90th percentile) <sup>5</sup>	1.3	0.01
1,3-Dichlorobenzene	0.6	ND	Cyanide	0.2	ND
1,4-Dichlorobenzene	0.6	ND	Fluoride	4	1
Dichlorodifluoromethane	NR	ND	Iron	NR	ND
1,1-Dichloroethane	NR	ND	Lead (90th percentile) <sup>5</sup>	0.015	0.004
1,2-Dichloroethane	0.005	ND	Manganese	NR	0.009
1,1-Dichloroethene	0.007	ND	Mercury	0.002	ND
cis-1,2-Dichloroethene	0.07	ND	Molybdenum	NR	ND
trans-1,2-Dichloroethene	0.1	ND	Nickel	0.1	ND
Dichloromethane	0.005	ND	Nitrate	10	0.4
1,2-Dichloropropane	0.005	ND	Potassium	NR	ND
1,3-Dichloropropane	NR	ND	Selenium	0.05	ND
2,2-Dichloropropane	NR	ND	Silica	NR	1.8
1,1-Dichloropropene	NR	ND	Silver	NR	ND
1,3-Dichloropropene	NR	ND	Sodium	NR	10.7
Ethylbenzene	0.7	ND	Strontium	NR	0.16
Hexachlorobutadiene	NR	ND	Thallium	0.002	ND
Isopropylbenzene	NR	ND	Vanadium	NR	ND
4-Isopropyltoluene	NR	ND	Zinc	NR	0.019
Napthalene	NR	ND	<b>Miscellaneous</b>		
n-Propylbenzene	NR	ND	Chloride	250	18
Styrene	0.1	ND	Total Dissolved Solids	500	160
1,1,1,2-Tetrachloroethane	NR	ND	Odor	3	1
1,1,2,2-Tetrachlorethane	NR	ND	Magnesium	NR	7.1
Toluene	1	ND	Calcium	NR	33
1,1,1-Trichloroethane	0.2	ND	Total Organic Carbon	TT <sup>4</sup>	1.9
Tetrachloroethene	0.005	ND	pH	>7.0	7.0-7.6
1,2,3-Trichlorobenzene	NR	ND	Alkalinity	NR	80
1,2,4-Trichlorobenzene	0.07	ND	Orthophosphate	>0.8	0.8-1.3
Trichloroethene	0.005	ND	Hardness (as CaCO <sub>3</sub> )	NR	120
1,1,2-Trichloroethane	0.005	ND	Turbidity (NTU) <sup>3</sup>	0.3	0.05
Trichlorofluoromethane	NR	ND	Total Coliform <sup>2</sup>	<5%	1.9%
1,2,3-Trichloropropane	NR	ND	<b>Disinfection By-Products</b>		
Vinyl chloride	0.002	ND	Total Trihalomethanes	0.08	0.026
Xylenes, total	10	ND	Haloacetic Acids 5	0.06	0.037
m-Xylene	NR	ND	<b>Radionuclides</b>		
o-Xylene	NR	ND	Beta Emitters (pCi/L) <sup>1</sup>	50	ND
p-Xylene	NR	ND	Alpha Emitters (pCi/L)	15	ND

ND = Not Detected    NR = Not Regulated

<sup>1</sup> EPA considers 50 pCi/L to the level of concern for beta emitters.

<sup>2</sup> Up to 5% monthly of all samples can be positive.

<sup>3</sup> Nephelometric Turbidity Unit - 95% of all samples taken must be less than 0.3 NTU, and no sample may be above 1 NTU.

<sup>4</sup> Treatment technique required rather than the necessity to meet a Maximum Contaminant Level.

<sup>5</sup> Based on first draw samples from customer taps. These are Action Levels rather than Maximum Contaminant Levels.

## WATER RATE SCHEDULE\*

For the years 2007 through 2010

In dollars per thousand cubic feet of water (MCF).

1 MCF = 7,500 gallons.

			2007	2008	2009	2010
<b>Cleveland</b>						
	Regular	1st MCF	\$9.62	\$10.63	<b>\$11.59</b>	\$12.58
		Additional MCFs	20.57	22.73	<b>24.78</b>	26.90
	Homestead	All MCFs	4.27	4.72	<b>5.15</b>	5.59
	Quarterly Service Charge		7.00	7.00	<b>7.00</b>	7.00
<b>East Cleveland**</b>						
Low/1st High Service	Regular	1st MCF	N/A	\$27.00	<b>\$27.00</b>	\$27.00
		Additional MCFs	N/A	46.00	<b>46.00</b>	46.00
	Homestead	All MCFs	N/A	27.00	<b>25.00</b>	23.00
	Quarterly Service Charge		N/A	7.00	<b>7.00</b>	7.00
2nd High Service	Regular	1st MCF	N/A	32.00	<b>31.00</b>	30.00
		Additional MCFs	N/A	47.00	<b>48.00</b>	50.00
	Homestead	All MCFs	N/A	30.00	<b>27.00</b>	24.00
	Quarterly Service Charge		N/A	7.00	<b>7.00</b>	7.00
<b>Direct Service Suburbs</b>						
Low/1st High Service	Regular	1st MCF	\$16.35	\$17.54	<b>\$18.54</b>	\$19.50
		Additional MCFs	34.97	37.50	<b>39.65</b>	41.70
	Homestead	All MCFs	7.26	7.79	<b>8.24</b>	8.66
	Quarterly Service Charge		7.00	7.00	<b>7.00</b>	7.00
2nd High Service	Regular	1st MCF	18.76	20.20	<b>21.44</b>	22.64
		Additional MCFs	40.11	43.19	<b>45.84</b>	48.42
	Homestead	All MCFs	8.33	8.97	<b>9.53</b>	10.06
	Quarterly Service Charge		7.00	7.00	<b>7.00</b>	7.00
3rd High Service	Regular	1st MCF	21.55	23.17	<b>24.57</b>	25.91
		Additional MCFs	46.08	49.55	<b>52.53</b>	55.41
	Homestead	All MCFs	9.56	10.29	<b>10.92</b>	11.52
	Quarterly Service Charge		7.00	7.00	<b>7.00</b>	7.00
<b>Master Meter Suburbs (All MCFs)</b>						
Bedford			\$26.06	\$28.09	<b>\$29.84</b>	\$31.54
Chagrin Falls			29.60	31.89	<b>33.86</b>	35.76
Cleveland Heights			26.00	28.04	<b>29.79</b>	31.50
East Cleveland**			22.66	N/A	<b>N/A</b>	N/A
Lakewood			22.66	24.33	<b>25.75</b>	27.10
Geauga County			32.54	34.84	<b>36.81</b>	38.72
<b>Emergency Standby Suburbs (All MCFs)</b>						
Berea			\$30.16	\$33.33	<b>\$36.33</b>	\$39.44
Lake County			29.33	32.41	<b>35.34</b>	38.36
Lorain County			30.16	33.33	<b>36.33</b>	39.44
North Ridgeville			24.02	26.54	<b>28.94</b>	31.41
Medina County			34.96	38.63	<b>42.12</b>	45.72
Summit County			34.96	38.63	<b>42.12</b>	45.72
Hudson Village			34.96	38.63	<b>42.12</b>	45.72
Portage County			34.96	38.63	<b>42.12</b>	45.72

\* All rates are quarterly rates except Master Meter, which are billed monthly.

\*\* East Cleveland has a separately negotiated direct service rate that applies until it is phased into the Direct Service Suburbs rate schedule after 2012.



Images of the word "water" in different languages projected on a dramatic fog screen greeted visitors as they entered the H<sub>2</sub>O=Life exhibition.



1201 Lakeside Avenue, Cleveland, OH 44114  
216.664.2444 • 216.664.3330 Fax  
[www.clevelandwater.com](http://www.clevelandwater.com)

city of cleveland, ohio  
department of public utilities  
division of water

REPORT ON AUDITS OF FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008



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# independent accountants' report

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



**Mary Taylor, CPA**  
**Auditor of State**

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

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

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

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

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

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

June 28, 2010

# management's discussion and analysis

## General

As management of the City of Cleveland's (the City) Department of Public Utilities, Division of Water (the Division), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2009 and 2008. Please read this information in conjunction with the Division's financial statements and footnotes that begin on page 15.

The Division was created in 1853 and charged with the responsibility of collecting, treating, pumping and distributing potable water and providing related water service to customers within its service areas. The Division operates a major public water supply system, the eighth largest in the United States, serving not only the City, but also 70 suburban municipalities in Cuyahoga, Medina, Summit and Geauga counties. The Division is an emergency standby provider for systems in three other counties. The present service area covers over 640 square miles and serves over 1.5 million people. In 2009, the aggregate metered consumption of water in the City constituted 32% of the total metered consumption in the service area, while consumption in the direct service communities and master meter communities constituted 58% and 10%, respectively.

Cleveland's Division of Water (CWD) services not only the City of Cleveland but also 69 other surrounding suburbs, five master

meter suburbs and eight emergency standby municipalities. CWD provides water to 407,023 city and suburban accounts in the Cleveland metropolitan area. CWD also sells water for resale to master meter municipalities that operate their own distribution systems, and provide billing and payment services for the Northeast Ohio Regional Sewer District and other sewer municipalities. During 2009, the Division of Water provided services to 109,616 accounts located within Cleveland and 297,407 accounts located in direct service municipalities. Water provided to each master meter municipality is metered at each municipality's boundary. Consumers within the City of Cleveland accounted for 21% of the Division of Water's metered sales revenue, while the direct service and master meter municipalities accounted for 70% and 9% of metered sales revenue, respectively.

The Division of Water and the Division of Utilities Fiscal Control provide a complete array of processing services including billing, processing payments, mailing delinquency notices, terminating water service on delinquent accounts and distributing the money collected to the municipalities. The Division of Utilities Fiscal Control processes approximately 6,000 bills daily, which include bills for water, water and sewer, final notices and delinquent notices.

## Comparison Of Current Year's And Prior Years' Data

### Financial Highlights

- The assets of the Division exceeded its liabilities (net assets) by \$1,006,836,000, \$996,292,000 and \$955,602,000 at December 31, 2009, 2008 and 2007, respectively. Of these amounts, \$225,340,000, \$247,760,000 and \$252,494,000 (unrestricted net assets) at December 31, 2009, 2008 and 2007, respectively, may be used to meet the Division's ongoing obligations to customers and creditors.
- In 2009, the operating revenues of the Division decreased by \$13,946,000 due to a decrease in water pumpage of 4.7%. The major users of water consumption are Forest City,

ISG-Cleveland, Cuyahoga Metropolitan Housing Authority, Ford Motor Company, Cleveland Clinic Foundation, NASA Lewis Research Center and North East Ohio Regional Sewer District. In 2008, the operating revenues of the Division increased by \$1,553,000 due to a rate increase of approximately 7.3%, which was partially offset by a decrease for billed consumption of 4.5%. Billed consumption decreased for several major users, such as Ford Motor Company, North East Ohio Regional Sewer District, Cuyahoga Metropolitan Housing Authority and Cleveland Clinic Foundation.

## Financial Highlights (continued)

- The Division's overall net assets increased by \$10,544,000, \$40,690,000 and \$54,823,000 in 2009, 2008 and 2007, respectively.
- The Division had increases in capital assets, net of accumulated depreciation, of \$54,920,000, \$34,219,000 and \$65,679,000 in 2009, 2008 and 2007, respectively. The major additions during these years were related to the renovation projects at the Morgan, Baldwin and Nottingham sites.
- The total long-term debt of the Division decreased \$45,440,000 in 2009. This decrease is attributed to \$32,087,000, of debt retired and \$179,845,000 debt defeasance which was offset by the issuance of \$165,655,000 Series R, S and T Bonds and the receipts on four Ohio Water Development Authority loans totaling \$837,000. The total long-term debt of the Division decreased \$25,909,000 in 2008. This decrease is attributed to \$24,796,000, of debt retired and \$99,480,000 debt defeased which was offset by the issuance of \$90,800,000 Series Q Bonds and the receipts of two Ohio Water Development Authority loans totaling \$7,567,000. The total long-term debt of the Division increased by \$116,037,000 in 2007. This increase is attributed to the issuance of \$143,570,000 Series O and \$135,410,000 Series P Water Revenue Bonds and the receipt of five Ohio Water Development Authority Loans totaling \$10,923,000, which was offset by \$21,546,000 of debt retired and \$152,320,000 of debt defeased.

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## 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 Fund, in which the City accounts for the operations of the Department of Public Utilities Division of Water.

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 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 financial statements of the Division can be found on pages 15 - 19 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 financial statements. The notes to the financial statements can be found on pages 20 - 38 of this report.

## Condensed Balance Sheet Information

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

(In thousands)	2009	2008	2007
<b>Assets:</b>			
Capital assets, net	\$ 1,415,809	\$ 1,360,889	\$ 1,326,670
Restricted assets	238,324	304,530	316,814
Unamortized bond issuance costs	5,612	6,081	7,097
Current assets	291,679	308,050	313,085
<b>Total assets</b>	<b>1,951,424</b>	<b>1,979,550</b>	<b>1,963,666</b>
<b>Net Assets and Liabilities:</b>			
Net Assets:			
Invested in capital assets, net of related debt	682,816	649,739	613,294
Restricted for debt service	98,680	98,793	89,814
Unrestricted	225,340	247,760	252,494
<b>Total net assets</b>	<b>1,006,836</b>	<b>996,292</b>	<b>955,602</b>
Liabilities:			
Long-term obligations	852,303	897,518	931,062
Current liabilities	92,285	85,740	77,002
<b>Total liabilities</b>	<b>944,588</b>	<b>983,258</b>	<b>1,008,064</b>
<b>Total net assets and liabilities</b>	<b>\$ 1,951,424</b>	<b>\$ 1,979,550</b>	<b>\$ 1,963,666</b>

**TOTAL ASSETS:** The Division's investment in capital assets as of December 31, 2008 amounted to \$1,360,889,000 (net of accumulated depreciation) which is an increase of \$34,219,000. The Division's plant enhancements continue to be the primary reason for the increase in capital assets. Utility plant had net additions of \$54,869,000, buildings, structures and improvements had net additions \$4,977,000 and furniture, fixtures, equipment and vehicles had net additions of \$74,111,000. Also, net construction in progress decreased by \$59,027,000 due to the finish of several major projects: electric power backups, Morgan filter improvements and Baldwin plant improvements.

The Division's investment in capital assets as of December 31, 2007 amounted to \$1,326,670,000 (net of accumulated depreciation) which is an increase of \$65,679,000. The Division's plant enhancements continue to be the primary reason for the increase in capital assets. Utility plant had net additions of \$27,822,000, buildings, structures and improvements had net

additions of \$8,697,000 and furniture, fixtures, equipment and vehicles had net additions of \$8,940,000. Also, net construction in progress increased by \$56,937,000 due to continuing renovations to the Morgan, Baldwin and Nottingham plants.

The reduction in restricted assets of \$12,284,000 is mainly attributed to the plant enhancement projects that decreased cash and investment balances.

The decrease in current assets of \$16,371,000 was primarily due to additions of \$14,089,000 in accounts receivable, \$7,803,000 in due from other City of Cleveland departments, \$4,021,000 in restricted cash and cash equivalents and \$824,000 in materials and supplies, offset by a decrease of \$33,281,000 in investments at fair value, \$5,270,000 in unbilled revenue, \$3,972,000 in cash and cash equivalents, \$301,000 in accrued interest receivable and \$284,000 in prepaid expense.

# management's discussion and analysis

## Condensed Balance Sheet Information (continued)

**CAPITAL ASSETS:** The Division's investment in capital assets, as of December 31, 2009 amounted to \$1,415,809,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was approximately 4.0%. The Division's investment in capital assets, as of December 31, 2008 amounted to

\$1,360,889,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was approximately 2.6%. A summary of the activity in the Division's capital assets during the years ended December 31, 2009 and 2008 is as follows:

(In thousands)	Balance January 1, 2009	Additions	Reductions	Balance December 31, 2009
Land	\$ 5,463	\$	\$	\$ 5,463
Land improvements	16,973	88		17,061
Utility plant	1,138,883	14,532	(581)	1,152,834
Buildings, structures and improvements	218,194	226		218,420
Furniture, fixtures, equipment and vehicles	214,331	72,160	(785)	285,706
Construction in progress	313,802	100,380	(82,663)	331,519
<b>Total</b>	<b>1,907,646</b>	187,386	(84,029)	2,011,003
Less: Accumulated depreciation	(546,757)	(49,782)	1,345	(595,194)
<b>Capital assets, net</b>	<b>\$ 1,360,889</b>	\$ 137,604	\$ (82,684)	\$ 1,415,809

## Condensed Balance Sheet Information (continued)

(In thousands)	Balance January 1, 2008	Additions	Reductions	Balance December 31, 2008
Land	\$ 5,463	\$	\$	\$ 5,463
Land improvements	16,973			16,973
Utility plant	1,084,014	56,712	(1,843)	1,138,883
Buildings, structures and improvements	213,217	4,977		218,194
Furniture, fixtures, equipment and vehicles	140,220	75,177	(1,066)	214,331
Construction in progress	372,829	74,559	(133,586)	313,802
<b>Total</b>	1,832,716	211,425	(136,495)	1,907,646
Less: Accumulated depreciation	( 506,046)	(41,857)	1,146	(546,757)
<b>Capital assets, net</b>	<b>\$ 1,326,670</b>	<b>\$ 169,568</b>	<b>\$ ( 135,349)</b>	<b>\$ 1,360,889</b>

Major events during 2009 affecting the Division's capital assets included the following:

- The construction, renovations, and plant enhancements on the Morgan, Baldwin and Nottingham facilities, the rehabilitation of the Fairmount and Kirtland pump stations and the rehabilitation of water mains amounted to \$95,000,000. The major programs are: Security Enhancements Program, Plant Enhancement Program, Pump Station Enhancement Program, the Customer Information System, the purchase of office equipment and vehicles for \$86,500,000 and water main rehabilitation for \$8,500,000.

Major events during 2008 affecting the Division's capital assets included the following:

- The construction, renovations and plant enhancements on the Morgan, Baldwin and Nottingham facilities and the rehabilitation of water mains amounted to \$64,000,000. The major programs are: Security Enhancements Program, Plant Enhancement Program, Electrical Power Reliability Program, the Customer Information System, the purchase of office equipment and vehicles for \$45,000,000 and water main rehabilitation for \$6,200,000.

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

**LIABILITIES:** In 2009, the factors for the Division's net decrease in long-term obligations of \$45,215,000 is attributed to the additional fee on Ohio Water Development Authority Loans of \$837,000, the issuance of \$165,655,000 of new bonds, an increase in the unamortized discount and premium of \$4,742,000. These amounts were offset by \$32,087,000 of debt retirement, \$179,845,000 of debt defeased, an increase in unamortized loss of debt refunding of \$677,000 and a decrease in long-term accrued wages and benefits of \$104,000.

In 2008, the factors for the Division's net decrease in long-term obligations of \$33,544,000 is attributed to the receipt of Ohio Water Development Authority Loans of \$7,567,000, the issuance of \$90,800,000 of new bonds, a decrease in the unamortized discount and premium of \$2,036,000 and a decrease in long-term accrued wages and benefits of \$21,000. These amounts were offset by \$24,796,000 of debt retirement, \$99,480,000 of debt defeased and a decrease in unamortized loss of debt refunding of \$2,304,000.

## Condensed Balance Sheet Information (continued)

**CURRENT LIABILITIES:** In 2009, total current liabilities increased by \$6,545,000. The significant components of the change were increases to the current portion of long-term debt obligations of \$5,090,000, payable from restricted assets of \$4,021,000 and customer deposits and other liabilities of \$1,175,000. These increases were offset by reductions of accrued interest of \$3,055,000, accounts payable of \$150,000, current portion of accrued wages and benefits of \$483,000 and \$53,000 due to other City of Cleveland departments, divisions or funds.

In 2008, total current liabilities increased by \$8,738,000. The significant components of the change were increases to the current portion of long-term debt of \$7,882,000, accounts payable of \$389,000, current portion of accrued wages and benefits of \$630,000, accrued interest of \$2,982,000 and customer deposits and other liabilities of \$309,000. These increases were offset by reductions of \$2,825,000 payable from restricted assets and \$629,000 due to other City of Cleveland departments, divisions or funds. There was also an increase in the current portion of long-term obligations of \$7,882,000.

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**LONG-TERM DEBT:** At the end of 2009, the Division had total long-term debt outstanding of \$900,513,000. All bonds and notes are backed by the revenues generated by the Division. The Ohio Water Development Authority (OWDA) loans do not have a lien on revenues of the Division.

At the end of 2008, the Division had total long-term debt outstanding of \$945,953,000. All bonds and notes are backed by the revenues generated by the Division. The Ohio Water Development Authority (OWDA) loans do not have a lien on revenues of the Division.

# management's discussion and analysis

## Condensed Balance Sheet Information (continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2009 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

(In thousands)	Balance January 1, 2009	Debt Issued	Debt Defeased	Debt Retired	Balance December 31, 2009
<b>Water Revenue Bonds</b>					
Series G, 1993	\$ 107,760	\$	\$	\$	\$ 107,760
Series H, 1996	7,990			(5,895)	2,095
Series I, 1998	3,530			(3,530)	-
Series J, 2001	53,385			(335)	53,050
Series K, 2002	61,605			(4,300)	57,305
Series M, 2004	172,335		(171,030)	(1,305)	-
Series N, 2005	64,220		(8,815)	(9,550)	45,855
Series O, 2007	141,095			(2,370)	138,725
Series P, 2007	135,410				135,410
Series Q, 2008	90,800				90,800
Series R, 2009		54,735			54,735
Series S, 2009		26,295			26,295
Series T, 2009		84,625			84,625
<b>Ohio Water Development</b>					
Authority Loans	107,823	837		(4,802)	103,858
<b>Total</b>	<b>\$ 945,953</b>	<b>\$ 166,492</b>	<b>\$ (179,845)</b>	<b>\$ (32,087)</b>	<b>\$ 900,513</b>

# management's discussion and analysis

## Condensed Balance Sheet Information (continued)

The activity in the Division's debt obligations outstanding during the year ended December 31, 2008 is summarized below (excluding unamortized discounts, premiums and losses on debt refundings):

(In thousands)	Balance January 1, 2008	Debt Issued	Debt Defeased	Debt Retired	Balance December 31, 2008
<b>Water Revenue Bonds</b>					
Series G, 1993	\$ 107,760	\$	\$	\$	\$ 107,760
Series H, 1996	14,280			(6,290)	7,990
Series I, 1998	16,655		(7,005)	(6,120)	3,530
Series J, 2001	56,240			(2,855)	53,385
Series K, 2002	65,740			(4,135)	61,605
Series L, 2002	90,000		(90,000)		-
Series M, 2004	172,335				172,335
Series N, 2005	64,480			(260)	64,220
Series O, 2007	143,570		(2,475)		141,095
Series P, 2007	135,410				135,410
Series Q, 2008		90,800			90,800
<b>Ohio Water Development</b>					
Authority Loans	105,392	7,567		(5,136)	107,823
<b>Total</b>	<b>\$ 971,862</b>	<b>\$ 98,367</b>	<b>\$ (99,480)</b>	<b>\$ (24,796)</b>	<b>\$ 945,953</b>

The bond ratings for the Division's outstanding revenue bonds as of December 31, 2009 are as follows:

Moody's Investors Service	Standard & Poor's
Aa1	AA

The ratio of net revenue available for debt service to debt service requirements (revenue bond coverage) is a useful indicator of the Division's debt position to management, customers and creditors. The Division's revenue bond coverage for 2009, 2008 and 2007 was 130%, 166% and 234%, respectively.

Additional information on the Division's long-term debt can be found in Note B on pages 23 - 30.

## Condensed Balance Sheet Information (continued)

**NET ASSETS:** Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceed liabilities by \$1,006,836, \$996,292,000 and \$955,602,000 at December 31, 2009, 2008 and 2007, respectively.

Of the Division's net assets, \$682,816,000 or 67.8% and \$649,739,000, or 65.2% at December 31, 2009 and 2008, respectively, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related, 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.

An additional portion of the Division's net assets, \$98,680,000 or 9.8% and \$98,793,000, or 9.9% at December 31, 2009 and 2008, respectively, represents resources that are subject to external restrictions. These funds are set aside for the payment of revenue bonds or represent unspent bond proceeds relating to capital projects. The remaining balance of unrestricted net assets, \$225,340,000 or 22.4% and \$247,760,000 or 24.9% at December 31, 2009 and 2008, respectively, 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 2009 and 2008 increased its net assets by \$10,544,000 and \$40,690,000, respectively. The following table identifies the key elements of the Division's results of operations as of and for the years ended December 31, 2009, 2008 and 2007:

(In thousands)	2009	2008	2007
Operating revenues	\$ 228,235	\$ 242,181	\$ 240,628
Operating expenses	197,498	185,690	179,203
Operating income	30,737	56,491	61,425
Non-operating revenue (expense):			
Investment income	4,122	10,479	17,364
Interest expense	(26,787)	( 27,633)	(25,541)
Amortization of bond issuance costs, premiums and discounts	1,937	1,267	729
Workers' compensation refund	10	16	47
Gain (Loss) on disposal of capital assets	65	(12)	
Total non-operating revenue (expense), net	(20,653)	(15,883)	(7,401)
Income (loss) before other contributions	10,084	40,608	54,024
Capital and other contributions	460	82	799
Increase in net assets	10,544	40,690	54,823
Net assets, beginning of year	996,292	955,602	900,779
<b>Net assets, end of year</b>	<b>\$ 1,006,836</b>	<b>\$ 996,292</b>	<b>\$ 955,602</b>

**OPERATING REVENUE:** In 2009, total operating revenues decreased by \$13,946,000 due to a decrease in pumpage of 4.7%. The major users of water are as follows: Forest City, ISG-Cleveland, Cuyahoga Metropolitan Housing Authority, Ford Motor Company, Cleveland Clinic Foundation, NASA Lewis Research Center and North East Ohio Regional Sewer District.

In 2008, total operating revenues increased by \$1,553,000 due to an increase of water service rates of approximately 7.3% which was partially offset by a decrease in billed consumption of 4.5%. Billed consumption decreased in several major users, such as Ford Motor Company, North East Ohio Regional Sewer District, Cuyahoga Metropolitan Housing Authority and Cleveland Clinic Foundation.

# management's discussion and analysis

## Condensed Statement Of Revenues, Expenses And Changes In Net Assets Information (continued)

**OPERATING EXPENSES:** In 2008, the overall increase in operating expenses of \$6,487,000 was due to a \$2,645,000 increase in operations expense, \$978,000 increase in maintenance expenses and \$2,864,000 increase for depreciation expense.

In 2007, the overall increase in operating expenses of \$8,742,000 was due to a \$5,850,000 increase in operations expense, \$1,481,000 increase in maintenance expenses and \$1,411,000 increase for depreciation expense.

**NON-OPERATING REVENUE (EXPENSE):** The major changes in 2009 were a decrease of \$6,357,000 in investment income (attributed to declining interest rates) and an increase of \$846,000 in interest expense.

In 2008, the major changes were a decrease of \$6,885,000 in investment income (attributed to declining interest rates) and an increase of \$2,092,000 in interest expense.

## Factors Expected To Impact The Division's Future Financial Position Or Results Of Operations

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

CLEVELAND - PER MCF (Thousand cubic feet)			CLEVELAND - PER ADDITIONAL MCF (Thousand cubic feet)	
EFFECTIVE	REGULAR	HOMESTEAD	REGULAR	HOMESTEAD
January 1, 2008	\$10.63	\$4.72	\$22.73	\$4.72
January 1, 2009	\$11.59	\$5.15	\$24.78	\$5.15
January 1, 2010	\$12.58	\$5.59	\$26.90	\$5.59

DIRECT SERVICE SUBURBS - PER MCF (Thousand cubic feet)			DIRECT SERVICE SUBURBS - PER ADDITIONAL MCF (Thousand cubic feet)	
EFFECTIVE	REGULAR	HOMESTEAD	REGULAR	HOMESTEAD
January 1, 2008	\$17.54-\$23.17	\$7.79-\$10.29	\$37.50-\$49.55	\$7.79-\$10.29
January 1, 2009	\$18.54-\$24.57	\$8.24-\$10.92	\$39.65-\$52.53	\$8.24-\$10.92
January 1, 2010	\$19.50-\$25.91	\$8.66-\$11.52	\$41.70-\$55.41	\$8.66-\$11.52

City Council passed Ordinance No. 778-006 on June 5, 2006, authorizing annual rate increases thru 2010, which will increase operating revenues to adequately cover anticipated operating expenditures.

## **Factors Expected To Impact The Division's Future Financial Position Or Results Of Operations** (continued)

On April 23, 2010, Moody's Investor Service adjusted some of the ratings on City of Cleveland bonds in conjunction with its recalibration of U.S. municipal bond issues. Water's revenue bonds were assigned an Aa1 (stable) rating on the new scale.

The Division of Water submitted legislation to City Council which would authorize the issuance of not to exceed \$50,000,000 in water revenue obligations. The legislation was passed by City Council on May 10, 2010. Proceeds of these obligations will be used to fund a portion of the cost of acquiring and installing an automated meter reading system.

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## **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



## balance sheets

(In thousands)	2009	2008
<b>Assets</b>		
<b>Capital Assets</b>		
Land	\$ 5,463	\$ 5,463
Land improvements	17,061	16,973
Utility plant	1,152,834	1,138,883
Buildings, structures and improvements	218,420	218,194
Furniture, fixtures, equipment and vehicles	285,706	214,331
	<b>1,679,484</b>	1,593,844
Less: Accumulated depreciation	<b>(595,194)</b>	(546,757)
	<b>1,084,290</b>	1,047,087
Construction in progress	331,519	313,802
<b>Capital Assets, Net</b>	<b>1,415,809</b>	1,360,889
<b>Restricted Assets</b>		
Cash and cash equivalents	235,087	298,962
Investments	3,085	5,208
Accrued interest receivable	152	360
<b>Total Restricted Assets</b>	<b>238,324</b>	304,530
<b>Unamortized Bond Issuance Costs</b>	<b>5,612</b>	6,081
<b>Current Assets</b>		
Cash and cash equivalents	158,526	162,498
Restricted cash and cash equivalents	15,057	11,036
Investments	25,640	58,921
Receivables:		
Accounts receivable - net of allowance for doubtful accounts of \$12,467,000 in 2009 and \$14,241,000 in 2008	51,226	37,137
Unbilled revenue	24,010	29,280
Due from other City of Cleveland departments, divisions or funds	10,812	3,009
Accrued interest receivable	398	699
Materials and supplies - at average cost, net of allowance for obsolescence of \$125,000 in 2009 and \$600,000 in 2008	4,109	3,285
Prepaid expenses	1,901	2,185
<b>Total Current Assets</b>	<b>291,679</b>	308,050
<b>Total Assets</b>	<b>\$ 1,951,424</b>	\$ 1,979,550

(continued)

## balance sheets

(In thousands)	2009	2008
<b>Net Assets And Liabilities</b>		
<b>Net Assets</b>		
Invested in capital assets, net of related debt	\$ 682,816	\$ 649,739
Restricted for debt service	98,680	98,793
Unrestricted	225,340	247,760
<b>Total Net Assets</b>	<b>1,006,836</b>	996,292
<b>Liabilities</b>		
<b>Long-Term Obligations - excluding amounts due within one year</b>		
Revenue bonds	751,739	792,455
OWDA loans	98,619	103,014
Accrued wages and benefits	1,945	2,049
<b>Total Long-Term Obligations</b>	<b>852,303</b>	897,518
<b>Current Liabilities</b>		
Current portion of long-term debt, due within one year	37,184	32,094
Accounts payable	3,503	3,653
Current payable from restricted assets	15,057	11,036
Due to other City of Cleveland departments, divisions or funds	2,521	2,574
Accrued interest	16,255	19,310
Current portion of accrued wages and benefits	11,307	11,790
Other accrued expenses	393	393
Customer deposits and other liabilities	6,065	4,890
<b>Total Current Liabilities</b>	<b>92,285</b>	85,740
<b>Total Liabilities</b>	<b>944,588</b>	983,258
<b>Total Net Assets And Liabilities</b>	<b>\$ 1,951,424</b>	\$ 1,979,550

See notes to financial statements.

(concluded)

For the Years Ended December 31, 2009 and 2008

# statements of revenues, expenses and changes in net assets

(In thousands)	2009	2008
<b>Operating Revenues</b>		
Charges for services	\$ 228,235	\$ 242,181
<b>Total Operating Revenues</b>	<b>228,235</b>	242,181
<b>Operating Expenses</b>		
Operations	92,905	92,866
Maintenance	54,811	50,967
Depreciation	49,782	41,857
<b>Total Operating Expenses</b>	<b>197,498</b>	185,690
<b>Operating Income</b>	<b>30,737</b>	56,491
<b>Non-Operating Revenue (Expense)</b>		
Investment income	4,122	10,479
Interest expense	(26,787)	(27,633)
Amortization of bond issuance costs, premiums, and discounts	1,937	1,267
Workers' compensation refund	10	16
Gain (loss) on disposal of capital assets	65	(12)
<b>Total Non-Operating Revenue (Expense), Net</b>	<b>(20,653)</b>	(15,883)
<b>Income (Loss) Before Other Contributions</b>	<b>10,084</b>	40,608
<b>Capital And Other Contributions</b>	<b>460</b>	82
<b>Increase In Net Assets</b>	<b>10,544</b>	40,690
<b>Net Assets, beginning of year</b>	<b>996,292</b>	955,602
<b>Net Assets, end of year</b>	<b>\$ 1,006,836</b>	\$ 996,292

See notes to financial statements.

# statements of cash flows

(In thousands)	2009	2008
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 214,672	\$ 232,489
Cash payments to suppliers for goods or services	(69,127)	(62,328)
Cash payments to employees for services	(79,788)	(78,520)
<b>Net Cash Provided By Operating Activities</b>	<b>65,757</b>	91,641
<b>Cash Flows From Noncapital Financing Activities</b>		
Capital and other contributions	460	82
Workers' compensation refund	10	16
<b>Net Cash Provided By Noncapital Financing Activities</b>	<b>470</b>	98
<b>Cash Flows From Capital And Related Financing Activities</b>		
Acquisition and construction of capital assets	(86,822)	(61,932)
Proceeds of OWDA loan		7,500
Principal paid on long-term debt	(30,291)	(24,959)
Interest paid on long-term debt	(44,343)	(42,708)
Cash paid to escrow agent for refunding	(181,819)	(100,333)
Proceeds of bonds, premiums and discounts	174,057	90,800
<b>Net Cash Provided By (Used For) Capital And Related Financing Activities</b>	<b>(169,218)</b>	(131,632)
<b>Cash Flows From Investing Activities</b>		
Purchase of investment securities	(14,250)	
Proceeds from sale and maturity of investment securities	48,176	45,864
Interest received on investments	5,239	16,353
<b>Net Cash Provided By (Used For) Investing Activities</b>	<b>39,165</b>	62,217
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<b>(63,826)</b>	22,324
<b>Cash And Cash Equivalents, beginning of year</b>	<b>472,496</b>	450,172
<b>Cash And Cash Equivalents, end of year</b>	<b>\$ 408,670</b>	\$ 472,496

(continued)

# statements of cash flows

(In thousands)

	2009	2008
<b>Reconciliation Of Operating Income To Net Cash Provided By Operating Activities</b>		
<b>Operating Income</b>	<b>\$ 30,737</b>	\$ 56,491
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	<b>49,782</b>	41,857
Changes in assets and liabilities:		
Accounts receivable, net	<b>(14,089)</b>	(5,883)
Unbilled revenue	<b>5,270</b>	(845)
Due from other City of Cleveland departments, divisions or funds	<b>(7,803)</b>	(243)
Materials and supplies, net	<b>(824)</b>	(226)
Prepaid expenses	<b>284</b>	(101)
Accounts payable	<b>(150)</b>	389
Due to other City of Cleveland departments, divisions or funds	<b>(53)</b>	(629)
Accrued wages and benefits	<b>(587)</b>	609
Customer deposits and other liabilities	<b>3,190</b>	222
<b>Total Adjustments</b>	<b>35,020</b>	35,150
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 65,757</b>	\$ 91,641

(concluded)

See notes to financial statements.

# notes to financial statements

## Note A – Summary Of Significant Accounting Policies

The Division of Water (the Division) is reported as an Enterprise Fund of the City of Cleveland's Department of Public Utilities and is a part of the City of Cleveland's (the City) primary government. The Division was created for the purpose of supplying water 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. In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is effective for the year ended December 31, 2007.

The Division has determined that GASB Statement No. 45 has no impact on its financial statements as of December 31, 2007. Effective January 1, 2007, the City implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Intra-Entity Transfers of Assets and Future Revenue*, which is effective for the year ended December 31, 2007. GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the Division; however, additional disclosure related to revenues pledged for the repayment of revenue bonds has been provided in Note B – Long-Term Debt. In November 2006, GASB issued Statement No. 49, *Accounting*

*and Financial Reporting for Pollution Remediation Obligations*, which is effective for the year ended December 31, 2008. The Division has determined that GASB Statement No. 49 has no impact on its financial statements as of December 31, 2008. In May 2007, GASB issued Statement No. 50, *Pension Disclosure — an amendment of GASB Statements No. 25 and No. 27*, which is effective for the year ended December 31, 2008. The Division has determined that GASB Statement No. 50 has no impact on its financial statements as of December 31, 2009 and the proper disclosures have been made. In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, which is effective for the year ended December 31, 2009. The City has determined that GASB Statement No. 52 has no impact on its financial statements as of December 31, 2009.

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

- Amount invested in capital assets, net of related debt
- Amount restricted for debt service
- 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.

# notes to financial statements

## Note A – Summary Of Significant Accounting Policies (continued)

**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 water to residential, commercial and industrial customers based upon actual water consumption. Water rates are authorized by City Council and billings are made on a cyclical basis. Estimates for services between the ends of the various cycles and the end of the year are recorded as unbilled revenue.

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

**CASH AND CASH EQUIVALENTS:** Cash and cash equivalents represent cash on hand and cash deposits maintained by the City Treasurer on behalf of the Division. Cash equivalents are defined as highly liquid investments with 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 prices.

The City has invested funds in STAROhio during 2009 and 2008. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2009 and 2008.

**RESTRICTED ASSETS:** Proceeds from debt and amounts set aside in various fund accounts for payment of revenue bonds are classified as restricted assets since their use is limited by the bond indentures.

# notes to financial statements

## Note A – Summary Of Significant Accounting Policies (continued)

### 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 land, furniture, fixtures, equipment and vehicles and \$10,000 for all other assets. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in operations. The estimated useful lives are as follows:

Utility plant	10 to 100 years
Land improvements	20 to 100 years
Buildings, structures and improvements	20 to 60 years
Furniture, fixtures, equipment and vehicles	5 to 50 years

The Division’s policy is to capitalize interest on construction projects up to the point in time that the project is substantially completed. Capitalized interest is included in the cost of the assets and is depreciated on the straight-line basis over the estimated useful lives of such assets. The Division applies Statement of Financial Accounting Board Standards No. 62, *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*, for its revenue bonds. This statement requires capitalization of interest

cost of eligible borrowings, less interest earned on investment of the related bond proceeds from the date of borrowing until the assets constructed from the bond proceeds are ready for their intended use.

For 2009 and 2008, total interest costs incurred amounted to \$43,983,000 and \$48,425,000, respectively, of which \$16,995,000 and \$15,995,000, respectively, was capitalized, net of interest income of \$201,000 in 2009 and \$4,797,000 in 2008.

### BOND ISSUANCE COSTS, DISCOUNTS AND UNAMORTIZED LOSSES ON DEBT REFUNDINGS:

Bond issuance costs are recorded as deferred expenses, and unamortized original issuance discounts are netted against long-term debt. Both are amortized over the lives of the related bonds. Unamortized losses on debt refundings are netted against long-term debt and are amortized over the shorter of the remaining life of the defeased bond or the newly issued bond.

**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 time 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.

# notes to financial statements

## Note B – Long-Term Debt

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

(In thousands)	Interest Rate	Issuance	2009	2008
<b>Water Revenue Bonds</b>				
Series G, 1993, due through 2021	5.50%	\$ 228,170	<b>\$ 107,760</b>	\$ 107,760
Series H, 1996, due through 2026	5.40%-5.75%	204,885	<b>2,095</b>	7,990
Series I, 1998, due through 2009	5.25%	305,650		3,530
Series J, 2001, due through 2016	4.00%-5.38%	92,595	<b>53,050</b>	53,385
Series K, 2002, due through 2021	3.50%-5.25%	138,050	<b>57,305</b>	61,605
Series M, 2004, due through 2033	3.53% Swap Rate	175,000		172,335
Series N, 2005, due through 2023	3.50%-5.00%	64,480	<b>45,855</b>	64,220
Series O, 2007, due through 2037	4.25%-5.00%	143,570	<b>138,725</b>	141,095
Series P, 2007, due through 2028	4.00%-5.00%	135,410	<b>135,410</b>	135,410
Series Q, 2008, due through 2033	Variable	90,800	<b>90,800</b>	90,800
Series R, 2009, due through 2033	3.55% Swap Rate	54,735	<b>54,735</b>	
Series S, 2009, due through 2033	3.60% Swap Rate	26,295	<b>26,295</b>	
Series T, 2009, due through 2021	2.00%-5.00%	84,625	<b>84,625</b>	
Ohio Water Development Authority Loans payable annually through 2031	3.20%-4.14%	146,162	<b>103,858</b>	107,823
		\$ 1,890,427	<b>900,513</b>	945,953
<b>Adjustments</b>				
Unamortized discount and premium			<b>20,026</b>	15,284
Unamortized loss on debt refunding			<b>(32,997)</b>	(33,674)
Current portion			<b>(37,184)</b>	(32,094)
<b>Total Long-Term Debt</b>			<b>\$ 850,358</b>	\$ 895,469

# notes to financial statements

## Note B – Long-Term Debt (continued)

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

(In thousands)	Balance January 1, 2009	Increase	Decrease	Balance December 31, 2009	Due Within One Year
Water Revenue Bonds					
Series G, 1993, due through 2021	\$ 107,760	\$	\$	\$ 107,760	\$ 12,930
Series H, 1996, due through 2026	7,990		(5,895)	2,095	75
Series I, 1998, due through 2009	3,530		(3,530)		
Series J, 2001, due through 2016	53,385		(335)	53,050	350
Series K, 2002, due through 2021	61,605		(4,300)	57,305	4,495
Series M, 2004, due through 2033	172,335		(172,335)		
Series N, 2005, due through 2023	64,220		(18,365)	45,855	12,810
Series O, 2007, due through 2037	141,095		(2,370)	138,725	
Series P, 2007, due through 2028	135,410			135,410	
Series Q, 2008, due through 2033	90,800			90,800	
Series R, 2009, due through 2033		54,735		54,735	
Series S, 2009, due through 2033		26,295		26,295	
Series T, 2009, due through 2021		84,625		84,625	1,285
Ohio Water Development Authority Loans payable annually through 2029	107,823	837	(4,802)	103,858	5,239
Total revenue bonds/loans	945,953	166,492	(211,932)	900,513	37,184
Accrued wages and benefits	13,839	287	(874)	13,252	11,307
<b>Total</b>	<b>\$ 959,792</b>	<b>\$ 166,779</b>	<b>\$ (212,806)</b>	<b>\$ 913,765</b>	<b>\$ 48,491</b>

## notes to financial statements

**Note B – Long-Term Debt** (continued)**SUMMARY:** Changes in long-term obligations for the year ended December 31, 2008 are as follows:

(In thousands)	Balance January 1, 2008	Increase	Decrease	Balance December 31, 2008	Due Within One Year
Water Revenue Bonds					
Series G, 1993, due through 2021	\$ 107,760	\$	\$	\$ 107,760	\$
Series H, 1996, due through 2026	14,280		(6,290)	7,990	5,895
Series I, 1998, due through 2009	16,655		(13,125)	3,530	3,530
Series J, 2001, due through 2016	56,240		(2,855)	53,385	335
Series K, 2002, due through 2021	65,740		(4,135)	61,605	4,300
Series L, 2002	90,000		(90,000)		
Series M, 2004, due through 2033	172,335			172,335	1,305
Series N, 2005, due through 2023	64,480		(260)	64,220	9,550
Series O, 2007, due through 2037	143,570		(2,475)	141,095	2,370
Series P, 2007, due through 2028	135,410			135,410	
Series Q, 2008, due through 2033		90,800		90,800	
Ohio Water Development Authority Loans payable annually through 2029	105,392	7,567	(5,136)	107,823	4,809
Total revenue bonds/loans	971,862	98,367	(124,276)	945,953	32,094
Accrued wages and benefits	13,230	770	(161)	13,839	11,790
<b>Total</b>	<b>\$ 985,092</b>	<b>\$ 99,137</b>	<b>\$ (124,437)</b>	<b>\$ 959,792</b>	<b>\$ 43,884</b>

# notes to financial statements

## Note B – Long-Term Debt (continued)

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

(In thousands)	Principal	Interest	Total
2010	\$ 37,184	\$ 40,982	\$ 78,166
2011	43,602	39,127	82,729
2012	54,786	36,910	91,696
2013	50,686	34,460	85,146
2014	48,609	32,153	80,762
2015-2019	230,452	126,653	357,105
2020-2024	201,075	76,146	277,221
2025-2029	150,134	38,284	188,418
2030-2034	83,808	14,852	98,660
2035-2037	25,775	1,975	27,750
<b>Total</b>	<b>\$ 926,111</b>	<b>\$ 441,542</b>	<b>\$1,367,653</b>

The above schedule of minimum principal and interest payments on long-term debt includes the amortization on nine loans provided to the City of Cleveland by the Ohio Water Development Authority (OWDA).

OWDA provided the City with the amount expected to be financed, the interest rate, initial repayment date and other significant items(s) for each of the nine loans. From the information received, the City prepared a detailed amortization schedule for each loan based upon the amount expected to be financed. However, the amortization schedule is tentative and will be adjusted if, and when, OWDA revises the amount to be financed.

Further, OWDA requires the City to begin making semi-annual payments for each loan based on the agreed upon initial repayment date, regardless of whether the City has received all loan proceeds or has completed the project(s).

In 2009, the Division added a fee from OWDA of \$165,713 out of an expected \$12,005,871 loan for the Morgan Pretreatment and Residuals project and \$31,390 out of an expected \$9,000,000 for the Baldwin Residuals and Fairmount Reservoir. Both are 20 year loans with the first at an interest rate of 3.52% with payments beginning in 2010 and the second is a zero percent interest loan. In addition, the outstanding balances on the Division's OWDA loans for the Morgan Filter Rehabilitation and Morgan Reservoir increased by \$535,210 and \$104,757, respectively, in 2009.

# notes to financial statements

## Note B – Long-Term Debt (continued)

Therefore, at December 31, 2009, the amount financed on these nine loan projects, less principal payments made, totaled \$129,456,000 and was reflected in the debt service payment schedule. However, the total on the actual loan balances received by the City was \$103,858,000 as reflected on the schedules of long-term debt outstanding and changes in long-term debt obligations as of December 31, 2009. The difference of \$25,598,000 will be received or accrued in future year(s).

The Division has defeased certain Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. In 2009, the Division deposited cash in the amount of \$9,256,000 in an escrow account for the payment of future debt service requirements. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Division's financial statements. The aggregate amount of defeased debt outstanding at December 31, 2009 and 2008 is as follows:

(In thousands)	2009	2008
<b>Bond Issue</b>		
Series G, 1993	\$	\$ 12,290
Series I, 1998	<b>7,005</b>	7,005
Series K, 2002	<b>68,325</b>	68,325
Series N, 2005	<b>8,815</b>	
Series O, 2007	<b>2,475</b>	2,475

In 1996, the City authorized the adoption of the eighth supplemental indenture to amend and restate the existing indenture, subject to the receipt of consent of the requisite number of bondholders. With the issuance of the Series J bonds, the City reached the 66.7% consent required to enact the Amended and Restated Indenture. Effective October 5, 2001, all outstanding bonds and any future bonds are secured by the Amended and Restated Indenture. Under the new indenture, the bonds are no longer secured by a mortgage lien. All bonds are secured by the Division's net revenues and by the pledged funds.

The Division's indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for fees to customers be in sufficient amounts, as defined, to satisfy the obligations under the indenture

agreements. In addition, special provisions exist regarding covenant violations, redemption of principal and maintenance of properties in good condition.

The indenture requires that at all times the Division will charge rates and fees for the products and services of the waterworks system, so that revenues will be at least sufficient to provide funds for the payment in each year of the necessary operating and maintenance expenses of the waterworks system and the greater of (1) an amount equal to 1.25 times the payments of principal, premium, if any, and interest on the revenue bonds then outstanding due in that year or (2) an amount sufficient to maintain the required balances in all funds and accounts created under the indenture. As of December 31, 2009 and 2008, the Division was in compliance with the terms and requirements of the bond indenture.

# notes to financial statements

## Note B – Long-Term Debt (continued)

The indenture establishes the following fund accounts for the application of revenues:

**REVENUE FUND:** All revenues will be deposited into this fund and will be used for payment of current operating expenses and deposits into other funds. An amount equal to one-sixth of the operating expenses, before depreciation, for the preceding fiscal year must be maintained in this fund.

**DEBT SERVICE FUND:** Deposits will be made from the revenue fund to cover succeeding principal and interest payments as they become due on the revenue bonds.

**DEBT SERVICE RESERVE FUND:** Deposits will be made to this fund if the amount in the debt service fund at any time is less than the debt service reserve requirement. Amounts in the fund were deposited from the proceeds of the revenue bonds and represent the maximum annual debt service requirement of these bonds.

**CONTINGENCY FUND:** The balance in this fund must be maintained at \$3,500,000.

**CONSTRUCTION FUND:** Proceeds from the revenue bonds were deposited into this fund to be used,

along with earnings from investments of amounts held therein, for the payment of capital costs. Capital costs include all costs of additions, extensions, renewals, replacements, alterations, betterments and any other capital improvements to the waterworks system. Amounts held in this fund are subject to a lien in favor of bondholders and may be used to pay principal of outstanding revenue bonds to the extent that amounts in all other funds are insufficient. No payment need be made into a fund if the amounts in such fund are equal to the required fund balance, if any.

Amounts held in any fund may be invested by the City Treasurer or the trustee in permitted investments. However, the use of funds is limited by the bond indenture and, accordingly, the funds are classified as restricted assets in the accompanying financial statements.

In December 2009, the Division utilized cash on hand to defease \$8,815,000 principal amount of outstanding Series N bonds. The Division placed \$9,256,000 in an irrevocable trust account which will be used to pay principal and interest on the defeased bonds. As a result the bonds are considered defeased and the liability for the bonds has been removed from long-term debt.

# notes to financial statements

## Note B – Long-Term Debt (continued)

Effective February 12, 2009, the City issued \$54,735,000 Water Revenue Bonds, Series R, and \$26,295,000 Water Revenue Bonds, Series S. Proceeds of these bonds were used to currently refund \$54,340,000 and \$26,055,000, respectively, of outstanding Series M Bonds, in order to address the increased interest rates incurred on the bonds as a result of the downgrade of the bond insurer and liquidity provider. The Series R and Series S Bonds were issued as weekly variable rate demand bonds. The Series R Bonds are secured by a direct pay letter of credit issued by BNP Paribas and the Series S Bonds are secured by a letter of credit provided by Allied Irish Banks, p.l.c. In conjunction with the issuance of the Series R and Series S Bonds, the City issued \$84,625,000 Water Revenue Bonds, Series T, effective February 25, 2009 to currently refund the remaining \$90,635,000 Series M Bonds. The Series T Bonds were issued as fixed rate bonds and produced \$9.6 million of debt service savings or an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$7.6 million or 8.4%. Upon the issuance of the Series R, Series S and Series T Bonds, the Series M Bonds were defeased and the liability for these bonds has been removed from long-term debt. Additionally, in conjunction with these refundings, the interest rate swap associated with the Series M Bonds was transferred to the Series Q, Series R and Series S Bonds.

On November 6, 2008, the City issued \$90,800,000 Water Revenue Bonds, Series Q. These bonds were issued to currently refund all of the outstanding \$90,000,000 Water Revenue Bonds,

Series L. Proceeds were used to fund an escrow deposit that refunded the Series L Bonds and to pay costs of issuance. Net proceeds of the Series Q Bonds in the amount of \$90,273,770, together with other available funds in the amount of \$100,000, were placed in an irrevocable escrow account and were used to pay the principal and interest on the refunded bonds on November 21, 2008. As a result, the refunded bonds were defeased and the liability for these bonds has been removed from long-term debt. The City completed the refunding in order to address the increased interest rates incurred on the Series L Bonds because of the downgrade of the bond insurer and the resulting termination of the liquidity facility. The Series Q Bonds were issued as weekly variable rate demand obligations with the payment of principal and interest secured by a letter of credit provided by Bank of America, N.A.

The City has pledged future Water System revenues, net of specified operating expenses, to repay \$796,655,000 in various Water Improvement Revenue Bonds issued in various years since 1993. Proceeds from the bonds provided financing for Water System improvements. The bonds are payable from water system net revenues and are payable through 2037. Annual principal and interest payments on the bonds are expected to require less than 77 percent of net revenues. The total principal and interest remaining to be paid on the various Water Improvement Revenue Bonds is \$1,198,685,000. Principal and interest paid for the current year and total net revenues were \$65,146,000 and \$84,641,000, respectively.

### INTEREST RATE SWAP TRANSACTIONS:

Upon the refunding of the Series M Bonds in 2009, the Division's swap is now associated with the Series Q, Series R and Series S Bonds.

**Terms:** Simultaneously with the issuance of the City's \$175,000,000 Water Revenue Bonds, Series M, on August 10, 2004, the City entered into floating to fixed rate swap agreements with notional amounts equal to the total declining balance of the Series M Bonds. Bear Stearns Financial Products Inc. (Bear Stearns),

(which has been acquired by JPMorgan Chase Bank, N.A. (JPM)), is the counterparty on a two-thirds pro-rata share of the transaction and Morgan Stanley Capital Services Inc. (Morgan Stanley) is the counterparty on a one-third pro-rata share of the transaction.

Under the original swap agreements for the Series M Bonds, the Water System was the fixed rate payor, paying a fixed rate of 3.533%. Each counterparty is a floating rate payor, with each paying the Water System 61.25% of one month LIBOR plus a spread of 28 basis points. Net payments were exchanged semiannually on January 1 and July 1. The obligation of

# notes to financial statements

## Note B – Long-Term Debt (continued)

the Water System to make periodic payments (but not any termination payment) is secured by a pledge of and lien on the net revenues of the Water System on a parity with the pledge and lien securing the payment of debt service on the bonds. Both the bond debt service payments on the Series M bonds and the periodic swap payments are insured by Financial Security Assurance (FSA). As part of the refunding of the Series M Bonds, the City amended and restated the original swap agreements to (a) eliminate the swap insurance and related insurer rights, (b) modify the payment frequency, (c) transfer the original swap agreement from Bear Stearns to JPM and (d) split each original swap agreement into two separate interest rate swaps in order to hedge separate series of bonds. The original Bear Stearns swap which has been assumed by JPM hedges the entire principal amount of Series R and certain maturities of the Series Q Bonds. The original Morgan Stanley swap hedges the entire principal amount of Series S and a portion of the Series Q Bonds. The floating rate received by the City was not altered. However, the fixed rate paid by the City was adjusted to 3.553% for the JPM swap and 3.5975% for the Morgan Stanley swap. The termination date for the swaps associated with the Series Q is January 1, 2021 while the termination date for the Series R and Series S swaps is January 1, 2033. Net payments are now exchanged monthly.

**Objective:** The City entered into the swaps in order to maximize the savings associated with the refunding of the bonds. The actual savings to be realized by the Water System will depend upon the payments made on the variable rate bonds and the payments received under the swap agreement.

**Basis Risk:** By entering into swaps based upon the 30 day LIBOR rate of interest, the City has undertaken basis risk associated with a change in tax rates and structure. While the average relationship between Securities Industry Financial Markets

Association (SIFMA) (tax-exempt) and LIBOR (taxable) interest rates has been 67%, this relationship may not always apply. If the payments received from the counterparties are less than the amount paid on the variable rate bonds, the Water System must make up the difference in addition to paying the fixed rate resulting from the swap. As a result of the turmoil in the financial markets during 2008 and 2009, the SIFMA/LIBOR ratio was significantly higher than 67% for portions of the year. In addition, a reduction in federal income tax rates might increase the percentage relationship between SIFMA and LIBOR and may potentially increase the cost of the financing.

**Counterparty Risk:** The City selected highly rated counterparties in order to minimize this risk. However, in the wake of the subprime mortgage crisis, Bear Stearns was acquired by JPM. The portion of the City's swap with Bears Stearns as the counterparty has been assumed by JPM. Over the long-term it is possible that the credit strength of JPM and/or Morgan Stanley could change and this event could trigger a termination payment on the part of the City.

**Termination Risk:** The swap agreement may be terminated prior to its stated termination date under certain circumstances. Upon termination, a payment may be owed by the City to JPM and Morgan Stanley, or by JPM and Morgan Stanley to the City, depending upon the prevailing economic circumstances at the time of the termination. The City obtained insurance to mitigate much of the risk associated with termination due to the event of a rating downgrade of the Water System.

**Fair Value:** The fair value of the swaps at December 31, 2009 and December 31, 2008 as reported by JPM and Morgan Stanley totaled \$13,077,000 and \$28,346,000 respectively which would be payable by the City.

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## OHIO WATER DEVELOPMENT AUTHORITY (OWDA) LOANS:

These loans are payable from net revenues derived from the Waterworks System. These obligations do not have a lien on revenues of the Division. The Division received an increase in

OWDA loans in the amount of \$837,000 and \$7,567,000 during 2009 and 2008, respectively. The current loans are being paid directly to the contractor by the State of Ohio, but accounted for as if the Division received and disbursed those monies.

# notes to financial statements

## Note C – Deposits And Investments

**DEPOSITS:** The carrying amount of the Division's deposits at December 31, 2009 and 2008 totaled \$57,791,000 and \$62,376,000, respectively, and the Division's bank balances were \$57,330,000 and \$62,232,000, respectively. The differences represent 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, \$57,330,000 and \$62,232,000 of the bank balances at December 31, 2009 and 2008, respectively, 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; State Treasury Asset Reserve (STAROhio); guaranteed investment contracts and repurchase transactions. Such repurchase transactions must be purchased from financial institutions or registered broker/dealers and 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 bank's commercial or trust department and are kept at the Federal Reserve Bank in the depository institution's separate custodial account for the City, apart from the assets of the depository institution. Ohio statute prohibits the use of reverse repurchase agreements.

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

**INTEREST RATE RISK:** As a means of limiting its exposure to fair value losses caused by rising interest rates, the Division invests primarily in short-term investments maturing within five years from the date of purchase. The intent is to avoid the need to sell securities prior to maturity. Investment maturities are disclosed on page 32.

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

# notes to financial statements

## Note C – Deposits And Investments (continued)

**CREDIT RISK:** The Division's investments as of December 31, 2009 and 2008 include U.S. Agencies, repurchase agreements, STAROhio, mutual funds and guaranteed investment contracts. The Division maintains the highest ratings for their investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in STAROhio and Allegiant Government Money Market Funds carry a rating of AAAM, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service.

The Division has no investment policy that would further limit its investment choices.

### CONCENTRATION OF CREDIT RISK:

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

(In thousands)	2009		2008		Investment Maturities		
	Fair Value	2009 Cost	Fair Value	2008 Cost	Less than One Year	1 - 5 Years	5 Years or More
Type of Investment							
U.S. Agency Obligations	\$ 28,725	\$ 27,997	\$ 64,129	\$ 61,923	\$ 12,104	\$ 16,621	\$
Repurchase Agreement	14,320	14,320	14,285	14,285	14,320		
STAROhio	59,907	59,907	57,606	57,606	59,907		
Investment in Mutual Funds	239,802	239,802	301,379	301,379	239,802		
Guaranteed Investment Contracts	36,850	36,850	36,850	36,850		36,850	
<b>Total Investments</b>	<b>379,604</b>	<b>378,876</b>	474,249	472,043	326,133	53,471	-
<b>Total Deposits</b>	<b>57,791</b>	<b>57,791</b>	62,376	62,376	57,791		
<b>Total Deposits and Investments</b>	<b>\$437,395</b>	<b>\$436,667</b>	\$536,625	\$534,419	\$383,924	\$ 53,471	\$ -

As of December 31, 2009, the investments in U.S. Agency Obligations, repurchase agreements, STAROhio, mutual funds and guaranteed investment contracts are approximately 7%, 4%, 16%, 63% and 10%, respectively, of the Division's total investments. As of December 31, 2008, the investments in U.S. Agency Obligations, repurchase agreements, STAROhio, mutual funds and guaranteed investment contracts are

approximately 13%, 3%, 12%, 64% and 8%, respectively, of the Division's total investments.

The City's current guaranteed investment contracts are not categorized as investments on the financial statements because they are reserved against future debt service requirements and may need to be liquidated prior to maturity.

# notes to financial statements

## Note D – Capital Assets

**CAPITAL ASSET ACTIVITY:** Capital asset activity for the year ended December 31, 2009 was as follows:

(In thousands)	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
<b>Capital assets, not being depreciated</b>				
Land	\$ 5,463	\$	\$	\$ 5,463
Construction in progress	313,802	100,380	(82,663)	331,519
<b>Total capital assets, not being depreciated</b>	<b>319,265</b>	100,380	(82,663)	<b>336,982</b>
<b>Capital assets, being depreciated:</b>				
Land improvements	16,973	88		17,061
Utility plant	1,138,883	14,532	(581)	1,152,834
Buildings, structures and improvements	218,194	226		218,420
Furniture, fixtures, equipment and vehicles	214,331	72,160	(785)	285,706
<b>Total capital assets, being depreciated</b>	<b>1,588,381</b>	87,006	(1,366)	<b>1,674,021</b>
Less: Accumulated depreciation	(546,757)	(49,782)	1,345	(595,194)
<b>Total capital assets being depreciated, net</b>	<b>1,041,624</b>	37,224	(21)	<b>1,078,827</b>
<b>Capital assets, net</b>	<b>\$ 1,360,889</b>	\$ 137,604	\$ (82,684)	<b>\$ 1,415,809</b>

# notes to financial statements

## Note D – Capital Assets (continued)

**CAPITAL ASSET ACTIVITY:** Capital asset activity for the year ended December 31, 2008 was as follows:

(In thousands)	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
<b>Capital assets, not being depreciated</b>				
Land	\$ 5,463	\$	\$	\$ 5,463
Construction in progress	372,829	74,559	(133,586)	313,802
<b>Total capital assets, not being depreciated</b>	<b>378,292</b>	<b>74,559</b>	<b>(133,586)</b>	<b>319,265</b>
Capital assets, being depreciated:				
Land improvements	16,973			16,973
Utility plant	1,084,014	56,712	(1,843)	1,138,883
Buildings, structures and improvements	213,217	4,977		218,194
Furniture, fixtures, equipment and vehicles	140,220	75,177	(1,066)	214,331
<b>Total capital assets, being depreciated</b>	<b>1,454,424</b>	<b>136,866</b>	<b>(2,909)</b>	<b>1,588,381</b>
Less: Accumulated depreciation	(506,046)	(41,857)	1,146	(546,757)
<b>Total capital assets being depreciated, net</b>	<b>948,378</b>	<b>95,009</b>	<b>(1,763)</b>	<b>1,041,624</b>
<b>Capital assets, net</b>	<b>\$ 1,326,670</b>	<b>\$ 169,568</b>	<b>\$ (135,349)</b>	<b>\$ 1,360,889</b>

**COMMITMENTS:** The Division has outstanding commitments at December 31, 2009 and 2008 of approximately \$205,811,000 and \$226,284,000, respectively, for future capital expenditures, 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.

# notes to financial statements

## Note E – Defined Benefit Pension Plan

### OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM:

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

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. Member contribution rates were 10.00% in 2009 and 2008. The rate was 9.50% in 2007 and employer contribution rates were 14.00% of covered payroll in 2009 and 2008. The rate was 13.85% in 2007. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2009, 2008 and 2007 were approximately \$4,975,000, \$3,969,000 and \$4,575,000 each year, respectively. The required payments due in 2009, 2008 and 2007 have been made.

# notes to financial statements

## Note F – Other Postemployment Benefits

### OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM:

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health

care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. The employer contribution rates were 14.00% of covered payroll in 2009 and 2008. It was 13.85% in 2007. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll.

Active members do not make contributions to the OPEB Plan. OPERS Postemployment Health Care plan was established under and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. Member contribution rates used to fund postemployment benefits were 7.00% from January 1, 2009 through March 31, 2009 and 5.50% from April 1, 2009 through December 31, 2009, 7.00% in 2008, 5.00% from January 1, 2007 to June 30, 2007 and 6.00% from July 1, 2007 to December 31, 2007. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The Division's actual contributions for 2009 to OPERS to fund postemployment benefits were approximately \$3,597,000.

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

# notes to financial statements

## Note G – Contingent Liabilities And Risk Management

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

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

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

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

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

# notes to financial statements

## Note H – Related Party Transactions

### REVENUES AND ACCOUNTS

**RECEIVABLE:** The Division provides water 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 water services.

The Division performs billing and collection services for the Division of Water Pollution Control for a fee. This fee is based on the number of billings made on behalf of that division during the year at the same rates as charged to other users of the billing

system. Revenue realized from the Division of Water Pollution Control for such services was approximately \$2,298,000 and \$2,141,000 in 2009 and 2008, respectively. The Division also provides miscellaneous services to other departments and divisions of the City. Revenue realized from such services was approximately \$3,080,000 and \$2,596,000 in 2009 and 2008, 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)	<b>2009</b>	2008
Electricity purchases	\$ 12,318	\$ 12,741
City administration	2,735	2,856
Motor Vehicle Maintenance	2,679	2,982
Telephone exchange	724	695
Utilities Administration and Utilities Fiscal Control	2,968	3,635
Street construction	958	644

## 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 \$4,956,000 and \$5,097,000 for the years ended December 31, 2009 and 2008, respectively.

## Note J- Subsequent Events

Moody's Investors Service announced that it would begin recalibrating its ratings of U.S. municipal bond issues and issuers to its global rating schedule in order to ensure that all Moody's ratings are comparable. As a result of the recalibration, on April 23, 2010, Moody's adjusted some of the ratings on City of Cleveland bonds. Water's revenue bonds were assigned an Aa1 (stable) rating on the new scale.

The Division of Water submitted legislation to City Council which would authorize the issuance of not to exceed \$50,000,000 in water revenue obligations. The legislation was passed by City Council on May 10, 2010. Proceeds of these obligations will be used to fund a portion of the costs of acquiring and installing an automated meter reading system.