CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

REPORT ON AUDITS OF FINANCIAL STATEMENTS
For the years ended December 31, 2005 and 2004

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

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

We have audited the accompanying financial statements of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of and for the years ended December 31, 2005 and December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Division of Water Pollution Control's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

As described in Note A, the financial statements present only the Division of Water Pollution Control, and do not purport to, and do not, present fairly the financial position of the City of Cleveland as of December 31, 2005 and December 31, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Division of Water Pollution Control, Department of Public Utilities, City of Cleveland, Cuyahoga County, Ohio, as of December 31, 2005 and December 31, 2004, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Betty Montgomery

Betty Montgomery
Auditor of State

May 31, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL

As management of the City of Cleveland's (the "City") Department of Public Utilities, Division of Water Pollution Control (the "Division"), we offer readers of the Division's financial statements this narrative overview and analysis of the financial activities of the Division for the years ended December 31, 2005 and 2004. Please read this information in conjunction with the Division's basic financial statements and footnotes that begin on page 16.

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

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

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

The Division currently has 137,975 customer accounts in the City of Cleveland of which 95% are residential and 5% commercial. Also, in 2005, the Division's sewers transported 2,812,497 mcf's (thousand cubic feet) of water.

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

COMPARISON OF 2005 DATA TO 2004 DATA

FINANCIAL HIGHLIGHTS

- The assets of the Division exceeded its liabilities at December 31, 2005 by $84,746,000 (net assets). Of this amount, $22,450,000 (unrestricted net assets) may be used to meet the Division's ongoing obligations to customers and creditors.

- The Division's total net assets decreased by $854,000 during 2005. The primary reasons for the decrease was an increase of $435,000 and $630,000 relating to operations and maintenance expenses, respectively; offset by an increase in operating revenues of $156,000.

FINANCIAL HIGHLIGHTS (Continued)

- Regular sewage rates increased from $7.89 per thousand cubic feet in 2004 to $8.28 per thousand cubic feet in 2005. Also, homestead sewage rates also increased from $4.71 to $4.91 during the same time frame. As a result of this rate increase, charges for services increased by $156,000.

- During 2005, the Division's net capital assets increased by $2,743,000. The major additions during the year were for sewer line replacements and purchases of furniture, fixtures, equipment and vehicles, offset by depreciation expense.

- The Division's total debt decreased by 6.63% due to the continued scheduled debt payments made during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 22 – 34 of this report.

CONDENSED BALANCE SHEET INFORMATION

Provided below is the condensed balance sheet information for the Division as of December 31, 2005 and 2004:

	2005	2004	Increase/ (Decrease)
		(In thousands)	
Assets:			
Capital assets, net	$ 67,792	$ 65,049	$ 2,743
Restricted assets	367	542	(175)
Current assets	83,101	78,639	4,462
Total assets	151,260	144,230	7,030
Net Assets and Liabilities:			
Net assets:			
Invested in capital assets, net of related debt	62,296	58,934	3,362
Unrestricted	22,450	26,666	(4,216)
Total net assets	84,746	85,600	(854)
Liabilities:			
Long-term obligations	5,321	5,723	(402)
Current liabilities	61,193	52,907	8,286
Total liabilities	66,514	58,630	7,884
Total net assets and liabilities	$ 151,260	$ 144,230	$ 7,030

CONDENSED BALANCE SHEET INFORMATION (Continued)

Current Assets: There was a $4,462,000 increase in current assets due to the increase in net accounts receivable of $5,717,000 related to the 2005 rate increase, an increase in cash and cash equivalents and investments of $1,772,000 which was offset by a decrease in due from other City Divisions of $2,701,000 mainly attributed to the $1,964,000 payment received from the Division of Water in 2005.

Capital Assets: The Division's investment in capital assets as of December 31, 2005 amounted to $67,792,000 (net of accumulated depreciation). The total increase in the Division's investment in net capital assets for the current year was 4.22%, primarily due to utility plant sewer main renovations and purchases of furniture, fixtures, equipment and vehicles. A summary of the activity in the Division's capital assets during the year ended December 31, 2005 is as follows:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005
	(In thousands)			
Land	$ 297	$	$	$ 297
Utility plant	111,112	6,436		117,548
Buildings, structures and improvments	2,567	91		2,658
Furniture, fixture, equipment and vehicles	8,177	2,710	(72)	10,815
Construction in progress	3,995	7,266	(9,232)	2,029
Total	126,148	16,503	(9,304)	133,347
Less: Accumulated depreciation	(61,099)	(4,525)	69	(65,555)
Capital assets, net	$ 65,049	$ 11,978	$ (9,235)	$ 67,792

During the year, utility plant sewer line capital additions were $6,436,000. Major capital projects/expenses for the year included:

- Euclid Corridor Project
- Rockwell Avenue Sewer & Water Main
- Broadview Road Sewer System
- Various Emergency Sewer Repairs
- West 122nd St. Sewer Replacement
- East 94th St. Sewer Replacement
- Purchase of Vehicles

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

Current Liabilities: Total current liabilities increased by $8,286,000. The major components of the increase were an increase of $5,520,000 in amounts due for billings on behalf of others resulting from the 2005 sewage rate increase, an increase of $2,051,000 in Due to other City departments mainly as a result of $1,500,000 owed to the Division of Water for payments made on behalf of the Division in relation to the Euclid Corridor Project and $178,000 due to Utilities Administration and the Division of Utilities Fiscal Control.

Long-Term Debt: At the end of the current year, the Division had total debt outstanding of $5,496,000 associated with five OWDA construction loans and two OPWC construction loans. These loans are payable by revenues generated by the Division.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2005 is summarized below:

	Balance January 1, 2005	Debt Issued	Debt Refunded	Debt Retired	Balance December 31, 2005
			(In thousands)		
Ohio Water Development Authority Loans (OWDA)	$ 5,474	$	$	$ (362)	$ 5,112
Ohio Public Works Commission Loans (OPWC)	412			(28)	384
Total	$ 5,886	$	$	$ (390)	$ 5,496

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

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $84,746,000 at December 31, 2005.

By far, the largest portion of the Division's net assets, $62,296,000 or 74%, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net assets, $22,450,000 or 26%, are unrestricted and may be used to meet the Division's ongoing obligations to customers and creditors.

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

The Division's operations during 2005 and 2004 decreased its net assets by $854,000 and $290,000, respectively. Key elements of these are summarized below:

	2005	2004	Increase/ (Decrease)
		(In thousands)	
Operating revenues	$ 20,058	$ 19,902	$ 156
Operating expenses	21,442	20,331	1,111
Operating income	(1,384)	(429)	(955)
Non-operating revenue (expense):			
Investment income	750	372	378
Interest expense	(221)	(235)	(14)
Other	1	2	(1)
Total non-operating revenue (expense), net	530	139	391
Increase (Decrease) in net assets	(854)	(290)	(564)
Net assets, beginning of year	85,600	85,890	(290)
Net assets, end of year	$ 84,746	$ 85,600	$ (854)

Operating revenues:

Total operating revenues, which increased by $156,000, amounted to $20,058,000 of which $19,723,000 (98%) were from the sale of sewer services to customers. The Division also had $335,000 from miscellaneous services and sales.

Operating expenses:

The total operating expenses increased by $1,111,000 (5.5%). This increase was primarily due to increases of $435,000 in operations costs and $630,000 in maintenance costs.

Non-operating revenues and expenses:

Investment income in 2005 increased by $378,000 (102%) due to the increase of $1,597,000 of cash and cash equivalents and investments. This was mainly attributed to the $1,964,000 payment received from the Division of Water.

COMPARISON OF 2004 DATA TO 2003 DATA

FINANCIAL HIGHLIGHTS

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

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

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

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

- The Division's total debt decreased by 5.85% due to the continued scheduled debt payments made during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The basic financial statements of the Division can be found on pages 16 - 21 of this report.
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 22 – 34 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CONDENSED BALANCE SHEET INFORMATION

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

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

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

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

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

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

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

CONDENSED BALANCE SHEET INFORMATION (Continued)

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

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

Long-term debt: At the end of the current year, the Division had total debt outstanding of $5,886,000 associated with five OWDA construction loans and two OPWC construction loans. These loans are payable by revenues generated by the Division.

The activity in the Division's debt obligations outstanding during the year ended December 31, 2004 is summarized below:

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

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

Net Assets: Net assets serve as a useful indicator of a government's financial position. In the case of the Division, assets exceeded liabilities by $85,600,000 at December 31, 2004.

By far, the largest portion of the Division's net assets, $58,934,000 or 69%, reflects its investment in capital assets (e.g., land, buildings, utility plant, machinery and equipment), net of accumulated depreciation, less any related, still-outstanding debt used to acquire those assets. The Division uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Division's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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

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

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

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

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

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

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

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

PER MCF (Thousand cubic feet)		
EFFECTIVE	**REGULAR**	**HOMESTEAD**
January 1, 2006	$ 8.28	$4.91
January 1, 2007	$10.28	$6.10
January 1, 2008	$11.53	$6.84

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

The installation of a Supervisory Control and Data Acquisition (SCADA) system has greatly enhanced pump station maintenance from a central location at the Kirby Road Main Facility. The system has assisted in discovering problems in a timely manner and has reduced the manpower needed to check lift stations. Monitoring sewer lines electronically from a central location has enabled the Division to utilize its limited manpower efficiently. The system is vital in the Division's desire to minimize the potential for any future environmental hazards.

ADDITIONAL INFORMATION

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

BASIC FINANCIAL STATEMENTS

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 2005 and 2004

	(*In thousands*) 2005	2004
ASSETS		
CAPITAL ASSETS		
Land	$ 297	$ 297
Utility plant	117,548	111,112
Buildings, structures and improvements	2,658	2,567
Furniture, fixtures, equipment and vehicles	10,815	8,177
	131,318	122,153
Less: Accumulated depreciation	(65,555)	(61,099)
	65,763	61,054
Construction in progress	2,029	3,995
CAPITAL ASSETS, NET	67,792	65,049
RESTRICTED ASSETS		
Cash and cash equivalents	367	542
CURRENT ASSETS		
Cash and cash equivalents	13,516	11,599
Investments	19,226	19,371
Receivables:		
Accounts receivable - net of estimated allowance for doubtful accounts of $642,000 in 2005 and $521,000 in 2004	47,376	41,659
Unbilled revenue	1,986	2,228
Due from other City of Cleveland departments, divisions or funds	602	3,303
Accrued interest receivable	120	118
Materials and supplies - at average cost	275	361
TOTAL CURRENT ASSETS	83,101	78,639
TOTAL ASSETS	$ 151,260	$ 144,230

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
BALANCE SHEETS
December 31, 2005 and 2004

	(In thousands) 2005	2004
NET ASSETS AND LIABILITIES		
NET ASSETS		
Invested in capital assets, net of related debt	$ 62,296	$ 58,934
Unrestricted	22,450	26,666
TOTAL NET ASSETS	84,746	85,600
LIABILITIES		
LONG-TERM OBLIGATIONS-excluding amounts due within one year:		
OWDA loans	4,735	5,111
OPWC loans	360	383
Accrued wages and benefits	226	229
TOTAL LONG-TERM OBLIGATIONS	5,321	5,723
CURRENT LIABILITIES		
Current portion of long-term debt, due within one year	401	392
Accounts payable	187	145
Construction payable	995	663
Amounts due for billing on behalf of others	52,954	47,434
Due to other City of Cleveland departments, divisions or funds	5,080	3,029
Current portion of accrued wages and benefits	1,511	1,179
Other accrued expenses	65	65
TOTAL CURRENT LIABILITIES	61,193	52,907
TOTAL LIABILITIES	66,514	58,630
TOTAL NET ASSETS AND LIABILITIES	$ 151,260	$ 144,230

(Concluded)

See notes to financial statements.

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CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended December 31, 2005 and 2004

	(In thousands) 2005	2004
OPERATING REVENUES		
Charges for services	$ 20,058	$ 19,902
TOTAL OPERATING REVENUES	20,058	19,902
OPERATING EXPENSES		
Operations	8,064	7,629
Maintenance	8,853	8,223
Depreciation	4,525	4,479
TOTAL OPERATING EXPENSES	21,442	20,331
OPERATING INCOME (LOSS)	(1,384)	(429)
NON-OPERATING REVENUE (EXPENSE)		
Investment income	750	372
Interest expense	(221)	(235)
Other	1	2
TOTAL NON-OPERATING REVENUE (EXPENSE), NET	530	139
INCREASE (DECREASE) IN NET ASSETS	(854)	(290)
NET ASSETS, BEGINNING OF YEAR	85,600	85,890
NET ASSETS, END OF YEAR	$ 84,746	$ 85,600

See notes to financial statements.

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	(In thousands)	
	2005	**2004**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 19,355	$ 18,202
Cash payments to suppliers for goods or services	(6,492)	(6,332)
Cash payments to employees for services	(8,630)	(8,506)
Agency activity on behalf of other sewer authorities	2,692	728
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,925	4,092
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Workers compensation refund	1	
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(5,466)	(5,734)
Principal paid on long-term debt	(390)	(366)
Interest paid on long-term debt	(221)	(236)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(6,077)	(6,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(260)	(12,007)
Proceeds from sale and maturity of investment securities	405	9,360
Interest received on investments	748	412
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	893	(2,235)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,742	(4,479)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	12,141	16,620
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 13,883	$ 12,141

(Continued)

CITY OF CLEVELAND, OHIO

DEPARTMENT OF PUBLIC UTILITIES
DIVISION OF WATER POLLUTION CONTROL
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	(In thousands) 2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	$ (1,384)	$ (429)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	4,525	4,479
Changes in assets and liabilities:		
Accounts receivable, net	(5,717)	(4,289)
Accrued and unbilled revenue	242	(280)
Due from other City of Cleveland departments, divisions or funds	2,701	(600)
Materials and supplies, net	86	(120)
Accounts payable	42	(102)
Amounts due for billings on behalf of others	5,520	4,581
Due to other City of Cleveland departments, divisions or funds	581	977
Accrued wages and benefits	329	(125)
TOTAL ADJUSTMENTS	8,309	4,521
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 6,925	$ 4,092

(Concluded)

See notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Model and Basis of Accounting: The accounting policies and financial reporting practices of the Division comply with accounting principles generally accepted in the United States of America applicable to governmental units. Effective January 1, 2002, the Division changed its financial reporting by implementing the provisions of Statement No. 34 of the Governmental Accounting Standards Board (GASB), *Management's Discussion and Analysis – for State and Local Governments.* Effective January 1, 2005, the Division implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is effective for the year ended December 31, 2005. The Division has determined that GASB Statement No. 42 has no impact on its financial statements as of December 31, 2005.

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

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivables: The Division's share of the accounts receivable balance is $4,967,000 and $4,397,000, net of allowance for doubtful accounts of $642,000 and $521,000, for 2005 and 2004, respectively. The remaining accounts receivable balances of $42,409,000 and $37,262,000 for 2005 and 2004, respectively, belong to the North East Ohio Regional Sewer District and other municipalities in the Greater Cleveland Region and is offset by the corresponding amounts due for billings on behalf of others.

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

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

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

The City has invested funds in STAROhio during year 2005 and 2004. 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, 2005 and 2004.

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

Utility plant	10 to 75 years
Building, structures and improvements	20 to 60 years
Furniture, fixtures, equipment and vehicles	5 to 15 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE B - LONG-TERM OBLIGATIONS

Long-term debt outstanding at December 31, 2005 and 2004 is as follows:

	Interest Rate	Original Issuance	2005	2004
			(In thousands)	
Ohio Water Development Authority (OWDA) loans payable annually through 2017	4.04% - 4.18%	$ 7,897	$ 5,112	$ 5,474
Ohio Public Works Commission (OPWC) Loans payable annually through 2022	0%	481	384	412
		$ 8,378	5,496	5,886
Less:				
Current portion			(401)	(392)
Total Long-Term Debt			$ 5,095	$ 5,494

NOTE B - LONG-TERM OBLIGATIONS (Continued)

Summary: Changes in long-term obligations for the year ended December 31, 2005 are as follows:

	January 1, 2005	Increase	Decrease (In thousands)	December 31, 2005	Due Within One Year
Ohio Water Development Authority (OWDA) loans payable annually through 2017	$ 5,474	$	$ (362)	$ 5,112	$ 377
Ohio Public Works Commission Loans payable annually through 2022	412		(28)	384	24
Total loans	5,886		(390)	5,496	401
Accrued wages and benefits	1,408	329		1,737	1,511
Total	$ 7,294	$ 329	$ (390)	$ 7,233	$ 1,912

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

	Balance January 1, 2004	Increase	Decrease (In thousands)	Balance December 31, 2004	Due Within One Year
Ohio Water Development Authority (OWDA) loans payable annually through 2017	$ 5,821	$	$ (347)	$ 5,474	$ 363
Ohio Public Works Commission Loans payable annually through 2022	431		(19)	412	29
Total loans	6,252		(366)	5,886	392
Accrued wages and benefits	1,533		(125)	1,408	1,179
Total	$ 7,785	$	$ (491)	$ 7,294	$ 1,571

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NOTE B - LONG-TERM DEBT (Continued)

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

	Principal	Interest	Total
	(In thousands)		
2006	$ 401	$ 206	$ 607
2007	416	190	606
2008	433	174	607
2009	450	157	607
2010	467	140	607
2011-2015	2,576	406	2,982
2016-2020	731	23	754
2021-2025	22		22
Total	$ 5,496	$ 1,296	$ 6,792

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

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

In Ohio, this SRF program is known as the Water Pollution Control Loan Fund and is jointly administered by the Ohio EPA and the Ohio Water Development Authority. Principal balances on loans increase as project costs are incurred. Interest accrues on principal amounts outstanding during the construction period and is combined with the principal balance upon completion of the project. The repayment period for each loan commences no later than the 1st of January or July following the expected completion date of the project to which it relates utilizing an estimate of total eligible project costs as the preliminary loan amount. Construction loans and design loans are to be repaid in semi-annual payments of principal and interest over a period of twenty years and five years, respectively. The Division had five SRF loan awards related to projects as of December 31, 2005.

In addition, the Division had two OPWC loan awards as of December 31, 2005. The loan related projects are for sewer repair and replacement at the Hamlet and Adolpha Streets intersection, and a storm water detention basin project at Kerruish Park. Both loans are interest-free and principal repayment will be made from the Division's operating revenues.

NOTE C - DEPOSITS AND INVESTMENTS

Deposits: The Division's carrying amount of deposits at the years ended December 31, 2005 and December 31, 2004 totaled $1,808,000 and $458,000 and the Division's bank balances were $1,520,000 and $195,000, respectively. The difference represents normal reconciling items. Based on the criteria described in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the entire bank balances for both years were insured or collateralized with securities held by the City or by its agent in the City's name.

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

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

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

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

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

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Division will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party.

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk: The Division's investments as of December 31, 2005 include U.S. Agencies, Victory Federal Money Market Funds, Allegiant Government Money Market Funds, STAROhio and mutual funds. The Division maintains the highest ratings for their investments. Investments in FHLMC, FNMA, FFCB and FHLB agency securities are rated AAA by Standard & Poor's. Investments in the Victory Money Market Fund, Allegiant Government Money Market Fund and STAROhio carry a rating of AAAm, which is the highest money market fund rating given by Standard & Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Division has no investment policy that would further limit its investment choices.

Concentration of Credit Risk: The Division places no limit on the amount it may invest in any one issuer. The Division had the following investments at December 31, 2005 and 2004, 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:

Type of Investment	2005 Fair Value	2005 Cost	2004 Fair Value	2004 Cost	Investment Maturities: Less than One Year	Investment Maturities: 1 - 5 Years
	(In thousands)					
U.S. Agency Obligations	$ 19,226	$ 19,632	$ 19,371	$ 19,632		X*
STAROhio	6,647	6,647	8,529	8,529	X*	
Investment in Mutual Funds	5,428	5,428	3,154	3,154	X*	
Total Investments	31,301	31,707	31,054	31,315		
Total Deposits	1,808	1,808	458	458		
Total Deposits and Investments	$ 33,109	$ 33,515	$ 31,512	$ 31,773		

* Investment maturities apply to the investment categories for both 2005 and 2004.

As of December 31, 2005, the investments in U.S. Agency Obligations, STAROhio and mutual funds are approximately 62%, 21% and 17%, respectively, of the Division's total investments. As of December 31, 2004, the investments in U.S. Agency Obligations, STAROhio and mutual funds are approximately 62%, 28% and 10%, respectively, of the Division's total investments.

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

NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended December 31, 2005 and 2004

NOTE D - CAPITAL ASSETS

Capital Asset Activity: Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance January 1, 2005	Additions	Reductions	Balance December 31, 2005
	(In thousands)			
Capital assets, not being depreciated:				
Land	$ 297	$	$	$ 297
Construction in progress	3,995	7,266	(9,232)	2,029
Total capital assets, not being depreciated	4,292	7,266	(9,232)	2,326
Capital assets, being depreciated:				
Utility plant	111,112	6,436		117,548
Buildings, structures and improvements	2,567	91		2,658
Furniture, fixtures, equipment and vehicles	8,177	2,710	(72)	10,815
Total capital assets, being depreciated	121,856	9,237	(72)	131,021
Less: Accumulated depreciation	(61,099)	(4,525)	69	(65,555)
Total capital assets being depreciated, net	60,757	4,712	(3)	65,466
Capital assets, net	$ 65,049	$ 11,978	$ (9,235)	$ 67,792

NOTE D - CAPITAL ASSETS (Continued)

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

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

Commitments: The Division had outstanding commitments of approximately $5,781,000 and $6,780,000 for future capital expenditures at December 31, 2005 and 2004, respectively. It is anticipated that these commitments will be financed from the Division's cash balances. However, at the discretion of the Division, additional long-term debt may be issued in the future to finance a portion of the costs.

NOTE E - EMPLOYEES RETIREMENT PLAN

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

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

NOTE E - EMPLOYEES RETIREMENT PLAN (Continued)

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 by state statute per 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) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. Member and employer contribution rates were consistent across all three plans (TP, MD and CO). Member contribution rates were 8.5% and employer contribution rates were 13.55% of covered payroll. The Division's required employer contributions to OPERS for the pension portion of all the plans for the years ending December 31, 2005, 2004 and 2003 were approximately $580,000, $589,000 and $495,000 each year, respectively. The required payments due in 2005, 2004 and 2003 have been made.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. OPERS provides retirement, disability and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for postretirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The Division's contribution rate was 13.55% of covered payroll, and 4.00% was used to fund health care for the year. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The assumptions and calculations below were based on OPERS' latest actuarial review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually. The investment assumption rate for 2004 was 8.00%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

NOTE F - OTHER POST-EMPLOYMENT BENEFITS (Continued)

Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate). OPEBs are advance-funded on an actuarially determined basis. At year-end 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The employer contribution rates are the actuarially determined contribution requirements for OPERS. The Division's actual contributions for 2005 which were to fund post-employment benefits were approximately $243,000. $10.8 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2004. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $29.5 billion and $18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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 2005 or 2004.

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

NOTE G - CONTINGENT LIABILITIES AND RISK MANAGEMENT (Continued)

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

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

NOTE H - RELATED PARTY TRANSACTIONS

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

Billing and collection services for the Division are performed by the Division of Water for a fee. This fee is based on the number of billings made on behalf of the Division during the year at the same rates as charged to other users of the billing system. Fees paid to the Division of Water for such services were approximately $2,320,000 and $2,262,000 in 2005 and 2004, 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)	
	2005	2004
Electricity purchases	$ 215	$ 208
Street construction and maintenance	222	187
City administration	302	302
Motor vehicle maintenance	402	306
Utilities administration and fiscal control	235	227
Employee and other services provided by the Division of Water	880	303

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 $10,617 and $11,690 for the years ended December 31, 2005 and 2004, respectively.

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CITY OF CLEVELAND
WATER POLLUTION CONTROL

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 13, 2006