



**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Rocky River Wastewater Treatment Plant
Cuyahoga County
21012 Hilliard Boulevard
Rocky River, Ohio 44116

To the Management Board:

We have audited the accompanying basic financial statements of the Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio, (the Plant) as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Plant's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio, as of December 31, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2005, on our consideration of the Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 22, 2005

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

The annual financial report of the Rocky River Wastewater Treatment Plant (the "Plant") consists of two sections – Management's Discussion and Analysis and the Basic Financial Statements. The Basic Financial Statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. Since the Plant only uses one fund for its operation, the entity wide and the fund presentation information is the same.

The Management Discussion and Analysis of the financial performance provides an overall review of the Plant's financial activities for the year ended December 31, 2004. The intent of this section is to look at the Plant's financial performance as a whole; readers should also review the Basic Financial Statements to enhance their understanding of the Plant's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Total cash and cash equivalents increased \$790,005, which represents a 21 percent increase from 2003.
- Total expenses were \$4,319,762, a \$30,628 decrease from 2003.
- Outstanding debt decreased by \$263,651.

Using this Annual Financial Report

Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets answers the question "How did the Plant do financially during 2004?" These Statements present all assets and liabilities both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private – sector companies. The accrual basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

The following summary presents the Plant's Net Assets; however, in evaluating the overall position of the Plant, non-financial information such as the condition of the Plant's Capital Assets should also be analyzed.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Table 1 provides a summary of the Plant's Net Assets for 2004 compared to 2003.

	<u>2004</u>	<u>2003</u>
Assets		
Current and Other Assets	\$ 7,242,651	\$ 6,707,347
Capital Assets, Net	<u>30,500,686</u>	<u>31,593,257</u>
Total Assets	<u>37,743,337</u>	<u>38,300,604</u>
Liabilities		
Current Liabilities	760,159	830,884
Noncurrent Liabilities	<u>10,534,233</u>	<u>10,834,070</u>
Total Liabilities	<u>11,294,392</u>	<u>11,664,954</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	19,892,547	20,721,467
Unrestricted	<u>6,556,398</u>	<u>5,914,183</u>
Total Net Assets	<u>\$ 26,448,945</u>	<u>\$ 26,635,650</u>

The Plant's total Net Assets decreased from a year ago. There was a decrease of \$186,705 from \$26,635,650 to \$26,448,945.

The decrease in Net Assets was most significantly impacted by the change in Assets. Capital Assets decreased by \$1,092,571 due to depreciation on Plant Capital Assets. There were no significant capital asset additions to offset the impact of depreciation expenses. An increase in cash and cash equivalents of \$790,005 somewhat offsets the Capital Asset decrease.

The total liabilities decrease was due to the payment made for the OWDA loan.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Table 2 shows the changes in Net Assets for the year ended December 31, 2004 as well as revenue and expenses comparisons for 2003.

Table 2
Revenues and Expenses

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Charges for Services	\$ 4,027,301	\$ 3,396,815
Other	14,525	727
Non-Operating Revenues		
Interest	<u>91,231</u>	<u>43,672</u>
 Total Revenues	 <u>4,133,057</u>	 <u>3,441,214</u>
 Operating Expenses		
Personal Services	1,110,579	1,194,358
Contractual Services	163,711	148,542
Materials and Supplies	325,561	350,760
Heat, Light and Power	602,595	664,848
Landfill	74,332	96,992
Depreciation	1,212,568	1,187,715
Non-Operating Expenses		
Interest and Fiscal Charges	<u>830,416</u>	<u>707,175</u>
 Total Expenses	 <u>4,319,762</u>	 <u>4,350,390</u>
 Decrease in Net Assets	 (186,705)	 (909,176)
 Net Assets Beginning of Year	 <u>26,635,650</u>	 <u>27,544,826</u>
 Net Assets End of Year	 \$ <u><u>26,448,945</u></u>	 \$ <u><u>26,635,650</u></u>

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Analysis of Overall Financial Position and Results of Operations

The primary reason for the difference between 2004 and 2003 change in net assets was primarily due to an increase in charges for services.

Budgeting Highlights

Although not required under the Ohio Revised Code, an annual operating budget is adopted for management purposes. Budget information is reported to the Management Board, and modifications may only be made by resolution of the Management Board.

During 2004, the Plant made amendments to the budgeted revenues and appropriations. The original budgeted revenues were \$4,865,443 and the final budgeted revenues were \$4,865,443. The original appropriations were \$4,219,942 and the final appropriations were \$5,520,303.

Capital Assets

Table 3 provides a summary of the Plant's capital assets for 2004 compared to 2003.

Table 3
Capital Assets

	<u>2004</u>	<u>2003</u>
Construction in Progress	\$ 23,785	\$ -
Treatment Plant	30,441,967	31,570,122
Equipment	<u>34,934</u>	<u>23,135</u>
Totals	<u>\$ 30,500,686</u>	<u>\$ 31,593,257</u>

Capital assets decreased by \$1,092,571 due to depreciation expense of \$1,212,568 offset by \$119,997 in capital asset additions. For more information on capital assets, see note 7.

Debt

The Plant's debt consists of a 25-year Ohio Water Development Authority (OWDA) loan with an interest rate of 5.50 percent. The balance of the outstanding amount of the loan at December 31, 2004 is \$10,608,139. The Plant has no bonded indebtedness. See note 8 for additional information on debt.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Current Financial Related Activities

While there were no significant capital projects in 2004, planning and design for a tracking filter project began. The project is to continue compliance with discharge regulations.

Contacting the Plant Finance Department

This annual financial report is designed to provide customers, taxpayers, creditors and investors with a general overview of the Plant's finances and to show the Plant's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information, contact the Director of Finance, City of Rocky River, 21012 Hilliard Boulevard, Rocky River, Ohio 44116, telephone 440-331-0600, who serves as fiscal agent of the plant.

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Rocky River Wastewater Treatment Plant

Statement of Net Assets Proprietary Funds December 31, 2004

Assets:

Current assets:

Cash and cash equivalents	\$	4,515,451
Investment with trustee		2,662,602
Accrued interest receivable		29,270
Materials and supplies inventory		<u>35,328</u>

Total current assets 7,242,651

Noncurrent assets:

Capital assets:

Construction in progress		23,785
Treatment plant		47,958,253
Equipment		216,016
Vehicles		60,804
Less: accumulated depreciation		<u>(17,758,172)</u>

Total non-current assets 30,500,686

Total assets 37,743,337

Liabilities:

Current liabilities:

Accounts payable		104,357
Accrued wages and benefits		28,086
Intergovernmental payable		21,308
Retainage payable		7,797
Compensated absences payable		28,535
Accrued interest payable		291,724
OWDA loans payable		<u>278,352</u>

Total current liabilities 760,159

Noncurrent liabilities:

Compensated absences payable (net of current portion)		204,446
OWDA loans payable (net of current portion)		<u>10,329,787</u>

Total noncurrent liabilities 10,534,233

Total liabilities 11,294,392

Net assets:

Invested in capital assets, net of related debt		19,892,547
Unrestricted		<u>6,556,398</u>

Total net assets \$ 26,448,945

The accompanying notes are an integral part of these financial statements

Rocky River Wastewater Treatment Plant

Statement of Revenues, Expenses, and Changes in Net Assets

Proprietary Funds

For the year ended December 31, 2004

Operating Revenues:	
Charges for services	\$ 4,027,301
Other revenues	<u>14,525</u>
Total operating revenues	<u>4,041,826</u>
Operating expenses:	
Personal services	1,110,579
Contractual services	163,711
Materials and supplies	325,561
Heat, light and power	602,595
Landfill	74,332
Depreciation	<u>1,212,568</u>
Total operating expenses	<u>3,489,346</u>
Operating income	<u>552,480</u>
Non-operating revenues and (expenses):	
Interest revenue	91,231
Interest and fiscal charges	<u>(830,416)</u>
Total non-operating revenues (expenses)	<u>(739,185)</u>
Change in net assets	(186,705)
Net assets beginning of year	<u>26,635,650</u>
Net assets end of year	\$ <u><u>26,448,945</u></u>

The accompanying notes are an integral part of these financial statements

Rocky River Wastewater Treatment Plant

Statement of Cash Flows

Proprietary Funds

For the year ended December 31, 2004

Increase (decrease) in cash and cash equivalents:

Cash flows from operating activities:

Cash received from customers	\$	4,077,604
Cash received from other operating sources		14,525
Cash payments to suppliers for goods and services		(1,206,136)
Cash payments for employee services and benefits		<u>(1,169,848)</u>
Cash provided by operating activities		<u>1,716,145</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets		(119,997)
Principal paid on OWDA loan		(263,651)
Interest paid on OWDA loan		<u>(594,372)</u>

Net cash used for capital and related financing activities (978,020)

Cash flows from investing activities:

Interest received		<u>51,880</u>
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Net increase in cash and cash equivalents 790,005

Cash and cash equivalents, beginning of year 3,725,446

Cash and cash equivalents, end of year \$ 4,515,451

(Continued)

The accompanying notes are an integral part of these financial statements

Rocky River Wastewater Treatment Plant

Statement of Cash Flows (Continued)

Proprietary Funds

For the year ended December 31, 2004

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 552,480
Adjustments:	
Depreciation	1,212,568
Changes in assets/liabilities:	
Decrease in accounts receivable	50,303
Decrease in inventory	455
Increase in accounts payable	30,809
Decrease in contracts payable	(62,694)
Increase in accrued wages and benefits	1,016
Decrease in compensated absences	(55,285)
Increase in retainage payable	7,043
Decrease in intergovernmental payable	<u>(20,550)</u>
Net cash provided by operating activities:	\$ <u><u>1,716,145</u></u>

The accompanying notes are an integral part of these financial statements

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements

For The Year Ended December 31, 2004

Note 1: Description of the Plant and Reporting Entity

The Rocky River Wastewater Treatment Plant (the “Plant”) is a joint venture among the cities of Rocky River, Bay Village, Fairview Park and Westlake. The Plant is organized pursuant to Ohio Revised Code Section 167.01. The Plant is a stand-alone government which is governed by a Management Board consisting of the elected mayors of the four member cities and a fifth person nominated and elected by the Management Board. The Board has complete authority over all aspects of the Plant’s operation. The Plant supplies all participating residents of the member cities with sanitary sewer services. Each member city owns the sewage lines located in its city and bills the residents for usage.

The reporting entity is comprised of the stand-alone government (the Plant), component units and other organizations that are included to ensure that the financial statements of the Plant are not misleading. The stand-alone government consists of all departments, boards and agencies that are not legally separate from the Plant.

Component units are legally separate organizations for which the Plant is financially accountable. The Plant is financially accountable for an organization if the Plant appoints a voting majority of the organization’s governing board and (1) the Plant is able to significantly influence the programs or services performed or provided by the organization; or (2) the Plant is legally entitled to or can otherwise access the organization’s resources; the Plant is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the Plant is obligated for the debt of the organization. Based upon the application of these criteria, the Plant has no component units.

The Plant charges each member city for sanitary sewage treatment services provided to the cities’ residents in accordance with the joint venture agreement dated July 27, 1982, as amended. Such charges are allocated based upon each city’s relative treatment plant usage as determined by periodic independent flow and strength studies. The most recent study was completed in December 2000. The continued existence of the Plant is dependent upon the participation of each member city; each member city has an equity interest in the Plant. The following are the member cities’ equity interests at December 31, 2004.

	<u>2004</u>
Bay Village	13.06%
Fairview Park	18.41
Rocky River	28.35
Westlake	<u>40.18</u>
Total	<u><u>100.00%</u></u>

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Politics

The financial statements of the Plant have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Plant also applies Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Plant has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The most significant of the Plant's accounting policies are described below.

A. Basis of Presentation

The Plant's Basic Financial Statements consist of a Statement of Net Assets, a Statement of Revenue, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The Plant uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Plant are included on the Statement of Net Assets. The Statement of Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the Plant finances and meets the cash flow needs of its proprietary activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Plant's financial statements are prepared using the accrual basis of accounting.

On the accrual basis, revenue is recorded on exchange transactions when the exchange takes place. Nonexchange transactions, in which the Plant receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Politics (continued)

D. Cash and Cash Equivalents

Cash balances are managed by the Director of Finance of the City of Rocky River, the Plant's fiscal agent, in separate bank accounts or used to purchase short term investments. The balances in these accounts are presented on the Statement of Net Assets as "Cash and Cash Equivalents" and represent deposits. During 2004, investments were limited to nonnegotiable certificates of deposit which are reported at cost.

The Plant's fiscal agent also manages monies set aside in a separate trustee account for asset replacement. The balance in this account is presented on the Statement of Net Assets as "Investment with Trustee." During 2004, investments purchased through this account were limited to a money market mutual fund, stated at fair value determined by the fund's current share price.

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Assets, investments with an initial maturity of three months or less are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventory consists of expendable supplies.

F. Capital Assets

Capital assets utilized by the Plant are reported on the Statement of Net Assets. All Capital Assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Plant maintains a capitalization threshold of \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All Capital Assets are depreciated. Improvements are depreciated over the remaining useful lives of the related Capital Assets. Depreciation is computed using the straight-line method over the following useful lives:

Treatment Plant	40 years
Equipment	5 years
Vehicles	5 years

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Politics (continued)

G. Capitalization of Interest

The Plant may capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. In 2004, the Plant did not capitalize interest.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Plant will compensate the employees for the benefits through paid time off or some other means. The Plant records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service. Accrued vacation is paid to employees as paid time off or at the time of termination.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Plant has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the Plant's termination policy. The Plant records a liability for accumulated unused sick leave for employees after two years of current service with the Plant.

Employees earn sick leave at the rate of 2.3 hours for every forty hours worked. Sick leave accumulation is limited to 960 hours. Plant employees with two or more years of service are paid for their accumulated sick leave upon termination or retirement.

I. Budgetary Accounting

Although not required under the Ohio Revised Code, an annual operating budget, which lapses as of the end of the year, is adopted for management purposes. The budget is adopted on a budgetary accounting basis in which purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures (encumbrances). Budgetary control is exercised at the fund and object level. Budget information is reported to the Management Board.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Politics (continued)

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either by policy adopted by the Management Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Plant applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Plant did not have any restricted net assets as of December 31, 2004.

K. Operating Revenues and Expenses

Operating Revenues are those revenues that are generated directly from primary activities. For the Plant, these revenues are Charges for Services and other reimbursements. Operating Expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Plant. Revenues and expenses which do not meet these definitions are reported as Non-Operating Revenues or Expenses.

L. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3: Deposits and Investments

Since the Plant's money is managed by the Director of Finance of the City of Rocky River, the Plant's fiscal agent, the Plant follows the investment guidelines set forth by the City Charter of the City of Rocky River. The City Charter allows the Director of Finance to invest moneys of the City in any or all of the following: STAROhio, bonds or notes of the City of Rocky River, bonds or other obligations of the United States or those for the payment of principal and interest of which the faith of the United States is pledged, bonds or other obligations of the State of Ohio and bonds or other obligations of any political subdivision or taxing district of the State of Ohio as to which there is no default of principal or interest, in such manner as is now or hereafter provided by ordinance of the Rocky River City Council or by the laws of the State of Ohio. The investment of the trustee account in the money market mutual fund consists of obligations allowed by the City Charter.

Protection of the Plant's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the fiscal agent by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 3: Deposits and Investments (continued)

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the fiscal agent, or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits - At year-end, the carrying amount of the Plant’s deposits was \$4,515,451 and the bank balance was \$4,592,182. Of the bank balance:

1. \$300,000 was covered by federal depository insurance.
2. \$4,292,182 was uninsured and uncollateralized. Although the pledging banks have investment and securities pools used to collaborate all public deposits which are held in the financial institution’s name, non-compliance with federal requirements could potentially subject the Plant to a successful claim by the FDIC.

Investments – GASB Statement No. 3, “Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements”, requires the Plant to categorize investments to give an indication of the level of risk assumed by the Plant at year-end. Category 1 includes investments that are insured or registered or are held by the Plant or its agent in the Plant’s name. Category 2 includes uninsured and unregistered investments which are held by the counterparty’s trust department or agent in the Plant’s name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent, but not in the Plant’s name. The Armada Money Market Mutual Fund is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At year end, this investment was \$2,662,602.

The classification of Cash and Cash Equivalents, and Investments on the basic Financial Statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting”. A reconciliation between the classifications of cash and investments on the basic Financial Statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash <u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 7,178,053	\$ -
Armada Money Market Mutual Fund	<u>(2,662,602)</u>	<u>2,662,602</u>
 GASB Statement No. 3	 \$ <u>4,515,451</u>	 \$ <u>2,662,602</u>

Note 4: Receivables

Receivables at December 31, 2004, consist of accrued interest.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 5: Risk Management

The Plant carries \$1,000,000 of comprehensive general liability coverage as well as certain coverage for the Plant's property losses.

Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Note 6: Contingent Liabilities

The Plant is a party to legal proceedings seeking damages. The Plant management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the Plant.

Note 7: Capital Assets

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

	Balance 12/31/03	Additions	Balance 12/31/2004
Capital assets, not being depreciated:			
Construction in progress	\$ -	\$ 23,785	\$ 23,785
Capital assets, being depreciated:			
Treatment Plant	47,888,593	69,660	47,958,253
Equipment	189,464	26,552	216,016
Vehicles	60,804	-	60,804
Total capital assets, being depreciated	48,138,861	96,212	48,235,073
Less accumulated depreciation:			
Treatment Plant	(16,318,471)	(1,197,815)	(17,516,286)
Equipment	(166,329)	(14,753)	(181,082)
Vehicles	(60,804)	-	(60,804)
Total accumulated depreciation	(16,545,604)	(1,212,568)	(17,758,172)
Total capital assets, being depreciated, net	31,593,257	(1,116,356)	30,476,901
Total capital assets, net	\$ 31,593,257	\$ (1,092,571)	\$ 30,500,686

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 8: Long-Term Obligations

The changes in the Plant's long-term obligations during the year consist of the following:

	Outstanding 12/31/03	Additions	Deletions	Outstanding 12/31/04	Amount Due in One Year
2000 5.50% \$11,344,496 OWDA Loan – Matures 7/1/25	\$ 10,871,790	\$ -	\$ 263,651	\$ 10,608,139	\$ 278,352
Compensated Absences Payable	288,266	100,639	155,924	232,981	28,535
Total	\$ 11,160,056	\$ 100,639	\$ 419,575	\$ 10,841,120	\$ 306,887

Principal and interest requirements to retire the OWDA loan outstanding at December 31, 2004, are as follows:

Year	Principal	Interest	Total
2005	\$ 278,351	\$ 579,672	\$ 858,023
2006	293,870	564,152	858,022
2007	310,257	547,765	858,022
2008	327,555	530,469	858,024
2009	345,819	512,205	858,024
2010-2014	2,040,734	2,249,388	4,290,122
2015-2019	2,676,731	1,613,386	4,290,117
2020-2024	3,510,937	779,180	4,290,117
2025	823,885	34,139	858,024
Total	\$ 10,608,139	\$ 7,410,356	\$ 18,018,495

Note 9: Related Party Transactions

Since the continued existence of the Plant is dependent upon the participation of each member city, all transactions between the Plant and each member city are considered related party transactions. The Plant's transactions during 2004 involving the four member cities, are summarized as follows:

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 9: Related Party Transactions (continued)

A. Charges for Services

Charges for services revenue for 2004 consists of amounts charged to the member cities for sanitary sewage treatment services provided to the cities residents as follows:

Bay Village	\$ 542,632
Fairview Park	635,308
Rocky River	1,177,917
Westlake	<u>1,671,444</u>
Total	\$ <u>4,027,301</u>

B. Contributions for Capital Assets Replacement Fund

The member cities made contributions to the Plant for plant and equipment replacement, as mandated by the EPA. The contributions made in 2004 were as follows:

Bay Village	\$ 39,180
Fairview Park	55,230
Rocky River	85,050
Westlake	<u>120,540</u>
Total	\$ <u>300,000</u>

C. Lease of Land

The Plant was constructed on land leased from the City of Rocky River. An annual lease payment of \$32,000 is due to the City for as long as the joint venture agreement remains in effect. As of December 31, 2004, the Plant owed the City of Rocky River the lease payment and is recorded as part of accounts payable.

Note 10: Ohio Public Employees Retirement System

The Plant participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is 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 the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit plan and a defined contribution plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the Traditional Plan Benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member Directed Plan.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 10: Ohio Public Employees Retirement System (continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Plant's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Plant's required contributions for pension obligations to the Traditional and Combined Plans for the years ended December 31, 2004, 2003, 2002 were \$86,519, \$76,132, and \$81,384 respectively; 96.90 percent has been contributed for 2004 and 100 percent for 2003 and 2002. Contributions to the Member-Directed Plan for 2004 were \$1,539 made by the Plant and \$966 made by the plan members.

Note 11: Ohio Public Employees Retirement System Postemployment Benefits

OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying service credit with either the Traditional or Combined Plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the Member-Directed Plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit as described in the *GASB Statement No. 12*. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-retirement health care based on the authority granted by state statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 to 6.00 annually for the next eight years and 4.00 annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 11: Ohio Public Employees Retirement System Postemployment Benefits (continued)

The number of active contributing participants in the Traditional and Combined Plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$36,238. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial liability were \$26.9 billion and \$16.4 billion, respectively.

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

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

Note 12: Contractual Commitments

At December 31, 2004, the Plant's significant contractual commitments consisted of:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Remaining on Contract</u>
Clarifer Drive Pump	\$ 277,600	\$ -	\$ 277,600
Recycle Pump Replacement	<u>152,705</u>	<u>14,652</u>	<u>138,053</u>
	\$ <u>430,305</u>	\$ <u>14,652</u>	\$ <u>415,653</u>

Rocky River Wastewater Treatment Plant
Supplemental Information
Schedule of Revenues, Expenses and Changes in Fund Equity -
Budget (Non-GAAP Budgetary Basis) and Actual - Proprietary Funds
For The Year Ended December 31, 2004

	Budget		Actual	Variance
	Original	Final		With Final Budget Positive (Negative)
Revenues:				
Charges for services	\$ 4,835,443	\$ 4,835,443	\$ 4,077,604	\$ (757,839)
Investment income	30,000	30,000	51,880	21,880
Other income	-	-	14,525	14,525
Total revenues	<u>4,865,443</u>	<u>4,865,443</u>	<u>4,144,009</u>	<u>(721,434)</u>
Expenditures:				
Personal services	1,268,840	1,274,840	1,169,847	104,993
Contractual services	1,140,911	1,160,480	228,008	932,472
Materials and supplies	478,200	509,100	355,303	153,797
Heat, light and power	710,000	710,000	602,595	107,405
Landfill	135,000	136,912	79,495	57,417
Capital outlay	100,700	870,945	553,836	317,109
Debt service:				
Principal retirement	118,643	263,653	263,651	2
Interest and fiscal charges	<u>267,648</u>	<u>594,373</u>	<u>594,372</u>	<u>1</u>
Total expenditures	<u>4,219,942</u>	<u>5,520,303</u>	<u>3,847,107</u>	<u>1,673,196</u>
Net change in fund balance	645,501	(654,860)	296,902	951,762
Fund balance at beginning of year	3,591,939	3,591,939	3,591,939	-
Prior year encumbrances appropriated	<u>133,506</u>	<u>133,506</u>	<u>133,506</u>	<u>-</u>
Fund balance at end of year	\$ <u>4,370,946</u>	\$ <u>3,070,585</u>	\$ <u>4,022,347</u>	\$ <u>951,762</u>

The following table summarized the adjustments necessary to reconcile the changes in net assets to the excess of revenues under expenses.

Change in net assets	\$ (186,705)
Net adjustments for revenue accruals	(289,048)
Net adjustments for expense accruals	307,027
Depreciation expense	1,212,568
Capital outlay	(553,836)
Capital contributions	300,000
Encumbrances	<u>(493,104)</u>
Excess of revenue under expenses	\$ <u>296,902</u>



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT
AUDITING STANDARDS**

Rocky River Wastewater Treatment Plant
Cuyahoga County
21012 Hilliard Boulevard
Rocky River, Ohio 44116

To the Management Board:

We have audited the financial statements of the business-type activities and the major fund of the Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio, (the Plant) as of and for the year ended December 31, 2004, which collectively comprise the Plant's basic financial statements and have issued our report thereon dated June 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Plant's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Plant's management dated June 22, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Plant's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Rocky River Wastewater Treatment Plant
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Management Board. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 22, 2005



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

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ROCKY RIVER WASTEWATER TREATMENT PLANT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 14, 2005**