



**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Management Committee:

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, 2006, as listed in the table of contents. These financial statements are the responsibility of the Plant's management. Our responsibility is to express an opinion 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 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, 2006, 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, 2007, 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 budgetary comparison information are not a required part of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquires 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 22, 2007

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2006

The annual financial report of the Rocky River Wastewater Treatment Plant (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's Discussion and Analysis of the financial performance provides an overall review of the Plant's financial activities for the year ended December 31, 2006. 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 2006 are as follows:

- Total cash and cash equivalents increased \$82,788, which represents a 1.32 percent increase from 2005.
- Total expenses were \$4,493,879, a \$62,848 decrease from 2005.
- Outstanding debt increased by \$82,150.

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 answer the question "How did the Plant do financially during 2006?" 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, 2006

Table 1 provides a summary of the Plant's Net Assets for 2006 compared to 2005.

Table 1
Net Assets

	<u>2006</u>	<u>2005</u>
Assets		
Current and Other Assets	\$ 6,620,224	\$ 6,356,950
Capital Assets, Net	<u>29,520,575</u>	<u>29,648,455</u>
Total Assets	<u>36,140,799</u>	<u>36,005,405</u>
Liabilities		
Current Liabilities	888,796	861,383
Noncurrent Liabilities	<u>10,350,275</u>	<u>10,263,513</u>
Total Liabilities	<u>11,239,071</u>	<u>11,124,896</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	19,108,637	19,318,667
Unrestricted	<u>5,793,091</u>	<u>5,561,842</u>
Total Net Assets	<u>\$ 24,901,728</u>	<u>\$ 24,880,509</u>

The Plant's total Net Assets increased from a year ago. There was an increase of \$21,219 from \$24,880,509 to \$24,901,728.

The increase in Net Assets was not significant. The Capital Assets component decreased slightly by \$127,880 mainly due to depreciation on Plant Capital Assets. However, this was offset by the additions to Construction in Progress for the Trickling Filter Recycle Pump Replacement project. An increase in Cash and Cash Equivalents of \$82,788 also contributed to the overall increase. The Intergovernmental Receivable component increase represents reimbursements from the Ohio Public Works Commission (OPWC) for expenditures to be repaid with the grant and/or loan proceeds.

The total liabilities increase was mainly due to the proceeds from the OPWC loans received.

Rocky River Wastewater Treatment Plant

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

For The Year Ended December 31, 2006

Table 2 shows the changes in Net Assets for the year ended December 31, 2006 as well as revenue and expense comparisons for 2005.

Table 2
Revenues and Expenses

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Charges for Services	\$ 3,676,478	\$ 2,810,872
Other	1,146	1,819
Non-Operating Revenues		
Intergovernmental	567,553	0
Interest	<u>269,921</u>	<u>175,600</u>
 Total Revenues	 <u>4,515,098</u>	 <u>2,988,291</u>
 Operating Expenses		
Personal Services	1,281,506	1,255,401
Contractual Services	281,181	403,704
Materials and Supplies	414,002	358,027
Heat, Light and Power	630,567	636,978
Landfill	105,391	114,207
Depreciation	1,225,160	1,214,471
Non-Operating Expenses		
Loss on Sale of Capital Assets	0	1,921
Interest and Fiscal Charges	<u>556,072</u>	<u>572,018</u>
 Total Expenses	 <u>4,493,879</u>	 <u>4,556,727</u>
 Increase (Decrease) in Net Assets	 21,219	 (1,568,436)
 Net Assets Beginning of Year	 <u>24,880,509</u>	 <u>26,448,945</u>
 Net Assets End of Year	 \$ <u>24,901,728</u>	 \$ <u>24,880,509</u>

Rocky River Wastewater Treatment Plant

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

For The Year Ended December 31, 2006

Analysis of Overall Financial Position and Results of Operations

The primary reason for the difference between 2006 and 2005 change in net assets was due to an increase in charges for services.

Budgeting Highlights

An annual operating budget for the Plant is adopted for management purposes by the City Council of the City of Rocky River, Ohio, the taxing authority for the Plant. The Plant budget is prepared according to the general laws of the State of Ohio and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

Financial information including budget-to-actual comparisons is reported to the Management Committee on a monthly basis, and modifications may only be made by resolution of the Management Committee. All capital projects and requests for capital type purchases are budgeted by an annual appropriations ordinance and any supplemental appropriations ordinance(s) as necessary. Recommendations for budget changes from the Plant Superintendent are presented to City Council as a supplemental appropriations ordinance.

During 2006, the Plant did not make amendments to the budget. The original and final budgeted revenues were \$4,969,827. The original appropriations and final appropriations were \$5,827,561.

Capital Assets

Table 3 provides a summary of the Plant's capital assets for 2006 compared to 2005.

Table 3
Capital Assets

	<u>2006</u>	<u>2005</u>
Construction in Progress	\$ 1,143,830	\$ 101,995
Treatment Plant	28,326,315	29,521,750
Equipment and Vehicles	<u>50,430</u>	<u>24,710</u>
Totals	\$ <u>29,520,575</u>	\$ <u>29,648,455</u>

Capital assets decreased by \$127,880 due to depreciation expense of \$1,225,160 and capital asset disposals of \$31,376 offset by \$1,097,280 in capital asset additions. For more information on capital assets, see Note 8.

Rocky River Wastewater Treatment Plant

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

For The Year Ended December 31, 2006

Debt

The Plant's debt consists of a 25-year loan from the Ohio Water Development Authority (OWDA) with an interest rate of 5.50 percent. The balance of the outstanding amount of the loan at December 31, 2006 is \$10,035,917. Also, in 2006, the Plant began drawing on two OPWC loans. Each has a zero percent interest rate and an estimated term of 20-years. The balance of the outstanding amounts of the loans at December 31, 2006 is \$376,021. The Plant has no bonded indebtedness. See Note 9 for additional information on debt.

Current Financial Related Activities

The Plant's significant capital project in 2006 was the Trickling Filter Recycle Pump Replacement Project. The project was initiated to continue compliance with Ohio Environmental Protection Agency discharge regulations. Also engineering began for a project of general Plant improvements entitled WWTP Improvements which is expected to total approximately \$2,650,000.

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, 2006

Assets:

Current Assets:

Cash and Cash Equivalents	\$	6,336,236
Accrued Interest Receivable		60,238
Intergovernmental Receivable		174,381
Materials and Supplies Inventory		<u>49,369</u>
Total Current Assets		<u>6,620,224</u>

Noncurrent Assets:

Capital Assets:

Construction in Progress		1,143,830
Treatment Plant		48,248,696
Equipment		241,068
Vehicles		52,829
Less: Accumulated Depreciation		<u>(20,165,848)</u>

Total Non-Current Assets 29,520,575

Total Assets 36,140,799

Liabilities:

Current Liabilities:

Accounts Payable		164,878
Accrued Wages and Benefits		36,094
Intergovernmental Payable		21,071
Retainage Payable		43,094
Compensated Absences Payable		27,517
Accrued Interest Payable		275,988
OPWC Loans Payable		9,897
OWDA Loans Payable		<u>310,257</u>

Total Current Liabilities 888,796

Noncurrent Liabilities:

Compensated Absences Payable (Net of Current Portion)		258,491
OPWC Loans Payable (Net of Current Portion)		366,124
OWDA Loans Payable (Net of Current Portion)		<u>9,725,660</u>

Total Noncurrent Liabilities 10,350,275

Total Liabilities 11,239,071

Net Assets:

Invested in Capital Assets, Net of Related Debt		19,108,637
Unrestricted		<u>5,793,091</u>

Total Net Assets \$ 24,901,728

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, 2006

Operating Revenues:	
Charges for Services	\$ 3,676,478
Other Revenues	<u>1,146</u>
Total Operating Revenues	<u>3,677,624</u>
Operating Expenses:	
Personal Services	1,281,506
Contractual Services	281,181
Materials and Supplies	414,002
Heat, Light and Power	630,567
Landfill	105,391
Depreciation	<u>1,225,160</u>
Total Operating Expenses	<u>3,937,807</u>
Operating Loss	<u>(260,183)</u>
Non-Operating Revenues and (Expenses):	
Intergovernmental	567,553
Interest Revenue	269,921
Interest and Fiscal Charges	<u>(556,072)</u>
Total Non-Operating Revenues (Expenses)	<u>281,402</u>
Change in Net Assets	21,219
Net Assets at Beginning of Year, Restated	<u>24,880,509</u>
Net Assets at End of Year	\$ <u><u>24,901,728</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, 2006

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Customers	\$	3,676,478
Cash Received from Other Operating Sources		1,146
Cash Payments to Suppliers for Goods and Services		(1,441,490)
Cash Payments for Employee Services and Benefits		<u>(1,245,855)</u>
Net Cash Provided by Operating Activities		<u>990,279</u>

Cash Flows from Capital and Related Financing Activities:

Proceeds from Capital Debt		294,666
Intergovernmental Capital Grant		474,527
Acquisition of Capital Assets		(1,097,280)
Principal Paid on OWDA Loan		(293,871)
Interest Paid on OWDA Loan		<u>(564,153)</u>
Net Cash Used for Capital and Related Financing Activities		<u>(1,186,111)</u>

Cash Flows from Investing Activities:

Interest Received		<u>278,620</u>
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Net Increase in Cash and Cash Equivalents 82,788

Cash and Cash Equivalents, Beginning of Year 6,253,448

Cash and Cash Equivalents, End of Year \$ 6,336,236

(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, 2006

Reconciliation of Operating Loss to Net Cash
Provided by Operating Activities:

Operating Loss	\$ (260,183)
Adjustments:	
Depreciation	1,225,160
Changes in Assets/Liabilities:	
Increase in Inventory	(14,804)
Decrease in Accounts Payable	(22,939)
Increase in Accrued Wages and Benefits	4,089
Increase in Compensated Absences	31,989
Increase in Retainage Payable	43,094
Decrease in Intergovernmental Payable	<u>(16,127)</u>
Net Cash Provided by Operating Activities:	\$ <u>990,279</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, 2006

Note 1: Description of the Plant and Reporting Entity

The Rocky River Wastewater Treatment Plant (Plant) is a joint venture among the cities of Bay Village, Fairview Park, Rocky River, and Westlake (Member Cities) and is organized pursuant to Ohio Revised Code Section 715.02. The organizing agreement for the Plant was originally agreed upon in 1982 and has been subsequently amended by mutual agreement of the Member Cities. The Plant operates under by-laws adopted in July 1982.

The Plant is a stand-alone government which is managed by a Management Committee (Committee) consisting of the Mayor of the Member Cities and a fifth member appointed by the four Mayors. The Committee exercises authority over all aspects of the Plant's operation. The Plant supplies all participating residents of the Member Cities with wastewater treatment services.

The Plant is located in the City of Rocky River, Ohio on land owned by that City. The Plant is owned jointly by the Member Cities with each Member City's share being in proportion to its contribution to the total cost of constructing certain improvements to the Plant. Each Member City owns the sanitary sewer lines located in its city and bills the residents for usage.

The reporting entity is comprised of 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 wastewater treatment services provided to its residents in accordance with the organizing agreement dated July 27, 1982, as amended. Such charges are allocated based upon each Member City's relative treatment plant usage as determined by a periodic flow quantity and strength study. The following percentages represent the Member City's allocation of Plant expenditures at December 31, 2006.

Bay Village	17.30%
Fairview Park	15.56
Rocky River	29.53
Westlake	<u>37.61</u>
Total	<u>100.00%</u>

The flow quantity and strength study that established the above listed rates was completed in July 2005. 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.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 2: Summary of Significant Accounting Policies

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 Plant's 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, 2006

Note 2: Summary of Significant Accounting Policies (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 and are 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 2006, investments were limited to nonnegotiable certificates of deposit which are reported at cost.

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, materials and treatment chemicals.

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, 2006

Note 2: Summary of Significant Accounting Policies (continued)

G. Capitalization of Interest

The Plant will 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. For 2006, 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 Committee.

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

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 2: Summary of Significant Accounting Policies (continued)

J. Net Assets (continued)

as restricted when there are limitations imposed on their use either by policy adopted by the Management Committee 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, 2006.

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: Restatement of Prior Year's Balances

At December 31, 2005, Accrued Interest Receivable was calculated based on the entire life of the investment, versus prorating the amount to December 31. The change in the calculation had the following effect on the fund balance:

	<u>Plant</u>
Fund Balance, December 31, 2005	\$ 24,978,514
Interest Receivable Adjustment	<u>(98,005)</u>
Adjusted Fund Balance, December 31, 2005	\$ <u>24,880,509</u>

Note 4: Deposits and Investments

Since the City of Rocky River is the Plant's fiscal agent, the Plant follows the guidelines for deposit of funds set forth by the City Charter as well as certain provisions of Ohio Rev. Code Chapter 135: Uniform Depository Act.

City of Rocky River, Charter, Article VII, Section 3. provides "[T]he Director of Finance may invest moneys of the City in any or all of the following: Bonds or notes of this City, 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 this State and bonds or other obligations of any political subdivision or taxing district of this State as to which there is no default of principal or interest, in such manner as is now or

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 4: Deposits and Investments (continued)

hereafter provided by ordinance of Council or by the laws of the State of Ohio, and the State Treasury Asset Reserve (STAR), an investment pool managed by the Ohio Treasurer of State, as defined in Section 135.45(F)(2)(a) of the Ohio Revised Code.”

Ohio Revised Code Section 135.01 classifies public money of the Plant into three categories: 1) active deposits; 2) inactive deposits and 3) interim deposits. Because of the enacted City of Rocky River Charter provisions described above, the Plant is not subject to certain investment restrictions defined in Ohio Revised Code Section 135.01. The Plant is subject to other Ohio Rev. Code Chapter 135 prohibitions and maturity limitations.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Plant’s deposits may not be returned to it. Protection of the Plant’s deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of Plant funds shall be required to pledge security for repayment of all public moneys deposited with the institution.

At year-end, the carrying amount of the Plant’s deposits was \$6,336,236 and the bank balance was \$6,336,236. Of the bank balance \$400,000 was covered by Federal depository insurance and \$5,936,236 was uninsured. Of the remaining bank balance, \$278,782 was collateralized with securities held by the pledging institution’s agent in the Plant’s name and \$5,657,454 was collateralized with securities held by the pledging institution’s trust department, not in the Plant’s name.

Investments

Investments are reported at fair value. As of December 31, 2006, the Plant had no investments.

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Plant’s investment policy addresses interest rate risk requiring that the Plant’s investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The Plant investment policy also limits security purchases to those that mature in five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plant will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the Plant must meet a set of prescribed standards and be periodically reviewed.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 4: Deposits and Investments (continued)

Credit Risk is addressed by the Plant's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The Plant's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations.

Note 5: Receivables

Receivables at December 31, 2006, consist of accrued interest and intergovernmental receivables for reimbursement of OPWC loan expenditures.

Note 6: Risk Management

The Plant is exposed to various risks related to damage to, theft of and destruction of assets; torts; errors and omissions; natural disasters; and injuries to employees. During 2006, the Plant obtained insurance to manage these and other risks. The Plant carried the following types of insurance for 2006:

<u>Type of Coverage</u>	<u>Coverage Amount</u>
Automobile Liability	\$ 1,000,000
Boiler, Total Limit per Breakdown	20,150,000
Building and Personal Property	57,631,942
Commercial Umbrella, Aggregate	4,000,000
General Liability Aggregate Limit	3,000,000
Public Officials Liability, Annual Aggregate	1,000,000
Theft, Disappearance, and Destruction	1,000

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.

Health, prescription, dental and life insurance are provided to Plant employees through a paid premium program with the City of Rocky River.

Protection for employees' injured at the Plant is provided by the Ohio Bureau of Workers' Compensation (BWC). The Plant manages its BWC relationship through membership of the City of Rocky River in the Ohio Rural Water Association (ORWA). On behalf of the Plant, the City of Rocky River created an equity pooling arrangement to ensure each member of the ORWA shares equally in the overall experience of the ORWA members. CompManagement, Inc. is the third party administrator that provides case management, consulting and administrative services to the Plant; University CompCare, Inc. is the Plant's workers' compensation managed care organization.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 7: Contingent Liabilities

There were no legal proceedings seeking damages against the Plant as of December 31, 2006. Plant management is not aware any pending claims, asserted or unasserted, as of December 31, 2006.

Note 8: Capital Assets

Capital Asset activity for the year ended December 31, 2006 was as follows:

	Balance 12/31/05	Additions	Disposals	Balance 12/31/06
Capital Assets, not being Depreciated:				
Construction in Progress	\$ 101,995	\$ 1,041,835	\$ 0	\$ 1,143,830
Capital Assets, being Depreciated:				
Treatment Plant	48,237,592	11,104	0	48,248,696
Equipment	220,128	20,940	0	241,068
Vehicles	60,804	23,401	(31,376)	52,829
Total Capital Assets, being Depreciated	48,518,524	55,445	(31,376)	48,542,593
Less Accumulated Depreciation:				
Treatment Plant	(18,715,842)	(1,206,539)	0	(19,922,381)
Equipment	(195,418)	(16,281)	0	(211,699)
Vehicles	(60,804)	(2,340)	31,376	(31,768)
Total Accumulated Depreciation	(18,972,064)	(1,225,160)	31,376	(20,165,848)
Total Capital Assets, being Depreciated, Net	29,546,460	(1,169,715)	0	28,376,745
Total Capital Assets, Net	\$ 29,648,455	\$ (127,880)	\$ 0	\$ 29,520,575

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 9: Long-Term Obligations

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

	Outstanding 12/31/05	Additions	Deletions	Outstanding 12/31/06	Amounts Due in One Year
2000 5.50% \$11,344,496 OWDA Loan - Matures 7/1/25	\$ 10,329,788	\$ 0	\$ (293,871)	\$ 10,035,917	\$ 310,257
0.00% OPWC Trickling Filter Recycle Pump Replacement	0	333,324	0	333,324	9,897
WWTP Improvements	0	42,697	0	42,697	0
Compensated Absences Payable	254,019	108,016	(76,027)	286,008	27,517
Total	\$ 10,583,807	\$ 484,037	\$ (369,898)	\$ 10,697,946	\$ 347,671

Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2006, are as follows:

Year	OWDA Loan		OWPC Loan	Total
	Principal	Interest	Trick Filter	
2007	\$ 310,255	\$ 547,765	\$ 9,897	\$ 867,917
2008	327,555	530,469	19,794	877,818
2009	345,819	512,205	19,794	877,818
2010	365,100	492,924	19,794	877,818
2011	385,456	472,567	19,794	877,817
2012-2016	2,274,646	2,015,471	98,970	4,389,087
2017-2021	2,983,542	1,306,576	98,970	4,389,088
2022-2026	3,043,544	388,555	46,311	3,478,410
Total	\$ 10,035,917	\$ 6,266,532	\$ 333,324	\$ 16,635,773

During the year, the Plant obtained \$42,697 in partial proceeds from an Ohio Public Works Commission (OPWC) loan to be repaid in semi-annual principal payments of approximately \$57,892 beginning in 2008 for an estimated 20 years. OPWC has authorized this loan up to \$2,315,682. The Plant has not yet collected the total proceeds to be received on this loan and as a result, the debt maturity schedule above does not reflect any amounts for principal. When the loan is finalized, the principal will be included above.

OPWC has authorized up to \$395,893 in loans to the Plant for the Trickling Filter Recycle Pump Replacement project. The final loan amount has not been determined at December 31, 2006, as the Plant is still drawing on the loan. The loan will be repaid in semiannual installments of approximately \$9,897 over an estimated 20 years, ending in 2027. The above amortization schedule only shows the loan payments to the extent of money received.

The Ohio Water Development Authority (OWDA) approved a loan to the Plant in 1999 to finance improvements, repayment of which began in July 2001.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 10: 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 2006 involving the four member cities, are summarized as follows:

A. Charges for Services and Contributions for Capital Assets Replacement Fund

Charges for services revenue for 2006 consists of amounts charged to the member cities for wastewater treatment services provided to the member cities' residents and contributions to the Plant for plant and equipment replacement, as follows:

	Charges for Services	Contributions
Bay Village	\$ 619,470	\$ 110,028
Fairview Park	583,192	98,962
Rocky River	1,081,055	187,810
Westlake	1,392,761	239,200
Total	\$ <u>3,676,478</u>	\$ <u>636,000</u>

B. Lease of Land

The Plant is located on property of the City of Rocky River. The organizing agreement (as amended) provides for an annual lease payment of \$47,500 to the City for the land.

Note 11: Pension Plan

Plant employees participate 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 directs the investment of both member and employer contributions (employer contributions vest over five years at 20 percent 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 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.

OPERS provides retirement, disability, survivor and death benefits, annual cost of living adjustments and other post employment benefits to members of the traditional and combined plans. Members of the member directed plan do not qualify for these ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 11: Pension Plan (continued)

For the year ended December 31, 2006, the members of all three plans were required to contribute 9 percent of their annual covered salaries. The Plant's contribution rate for pension benefits for 2006 was 13.70 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, 2006, 2005, and 2004 were \$87,903, \$88,580, and \$86,519, respectively, 96.08 percent has been contributed for 2006 and 100 percent for 2005 and 2004. There were no contributions to the member-directed plan for 2006.

Note 12: Postemployment Benefits

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 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 increase in total payroll between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs are assumed to increase between .50 percent to 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the Traditional and Combined Plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The Plant's actual employer contributions for 2006, which were used to fund postemployment benefits, were \$42,996. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfounded actuarially accrued liability were \$31.3 billion and \$20.2 billion, respectively.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 12: Postemployment Benefits (continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Note 13: Contractual Commitments

At December 31, 2006, the Plant's significant contractual commitments consisted of:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Remaining on Contract</u>
Recycle Pump Replacement	\$ 1,076,366	\$ 941,521	\$ 134,845
Improvements	405,800	18,363	387,437
Feed Equipment Replacement	20,000	6,887	13,113
Floor Repair	15,000	3,217	11,783
Total	<u>\$ 1,517,166</u>	<u>\$ 969,988</u>	<u>\$ 547,178</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, 2006**

	Budget		Actual	Variance
	Original	Final		With Final Budget Positive (Negative)
Revenues:				
Charges for Services	\$ 3,706,812	\$ 3,706,812	\$ 3,676,478	\$ (30,334)
Other Income	1,058,015	2,300	1,146	(1,154)
Intergovernmental	0	1,055,715	474,527	(581,188)
Investment Income	<u>205,000</u>	<u>205,000</u>	<u>278,620</u>	<u>73,620</u>
Total Revenues	<u>4,969,827</u>	<u>4,969,827</u>	<u>4,430,771</u>	<u>(539,056)</u>
Expenditures:				
Personal Services	1,303,040	1,303,040	1,247,570	55,470
Contractual Services	522,348	989,348	855,223	134,125
Materials and Supplies	498,716	508,716	472,178	36,538
Heat, Light and Power	786,000	786,000	600,914	185,086
Landfill	148,812	146,812	118,119	28,693
Capital Outlay	1,710,620	1,235,620	1,161,152	74,468
Debt Service:				
Principal Retirement	293,872	293,872	293,871	1
Interest and Fiscal Charges	<u>564,153</u>	<u>564,153</u>	<u>564,153</u>	<u>0</u>
Total Expenditures	<u>5,827,561</u>	<u>5,827,561</u>	<u>5,313,180</u>	<u>514,381</u>
Excess Revenues (Over) Expenditures	(857,734)	(857,734)	(882,409)	(24,675)
Other Financing Sources (Uses):				
Proceeds from issuance of OPWC Loan	<u>0</u>	<u>0</u>	<u>294,666</u>	<u>294,666</u>
Net Change in Fund Balance	(857,734)	(857,734)	(587,743)	269,991
Fund Balance at Beginning of Year	5,003,312	5,003,312	5,003,312	0
Prior Year Encumbrances Appropriated	<u>1,250,136</u>	<u>1,250,136</u>	<u>1,250,136</u>	<u>0</u>
Fund Balance at End of Year	\$ <u>5,395,714</u>	\$ <u>5,395,714</u>	\$ <u>5,665,705</u>	\$ <u>269,991</u>

(Continued)

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 (Continued)
For The Year Ended December 31, 2006

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	\$ 21,219
Net Adjustments for Revenue Accruals	(425,661)
Net Adjustments for Expense Accruals	(212,780)
Depreciation Expense	1,225,160
Capital Outlay	(1,161,152)
Capital Contributions	636,000
Encumbrances	<u>(670,529)</u>
Excess of Revenue under Expenses	\$ <u>(587,743)</u>



Mary Taylor, CPA

Auditor of State

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 Committee:

We have audited the basic financial statements of the Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio, (the Plant) as of and for the year ended December 31, 2006, and have issued our report thereon dated June 22, 2007. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Plant's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Plant's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Plant's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Plant's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Plant's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the Plant's management in a separate letter dated June 22, 2007.

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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001.

The Plant's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Plant's response and, accordingly, we express no opinion on it.

We intend this report solely for the information and use of management and the Management Committee. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

June 22, 2007

**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2006- 001
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Material Noncompliance and Significant Deficiency

Proper Encumbering

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Plant can authorize the drawing of a warrant for the payment of the amount due. The Plant has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Plant.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Plant may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expenses. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2006- 001
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Material Noncompliance and Significant Deficiency (Continued)

Proper Encumbering (Continued)

The Plant often purchases supplies throughout the year from certain vendors. When a City ordinance is passed authorizing the Plant to purchase materials from certain vendors not exceeding a certain dollar amount, the City Finance Director enters the purchase order into the system. The purchase order is meant to be a blanket purchase order for the particular vendor. However, when the purchase order is opened, it is only encumbered for \$1, and never updated to reflect a total encumbrance amount per the corresponding ordinance. Several purchases are made against the purchase order throughout the year. Each time a purchase is made, a new purchase order document is created with the same purchase order number that is in the system and an additional encumbrance is posted to the related account, but a different encumbrance date is used (based on when the purchase is made). If the purchase order is truly a blanket purchase order, the same purchase order number could be used (provided that the amount encumbered per the blanket purchase order is the "not to exceed" amount approved by Council ordinance), but the date on the purchase order should read the date it was entered into the system, not the date it was "created" by the fiscal agent.

For our testing purposes, we utilized the actual date on the purchase order attached to the voucher package to determine compliance with 5705.41(D), because the Plant was not encumbering the "not to exceed" amount as approved by Council ordinance and creating a blanket purchase order when the purchase order is entered into the system. We tested 60 nonpayroll checks issued during the audit period, which were comprised of 98 individual invoices. Testing indicated 37 of these 98 invoices (38%) were entered into prior to receiving the Fiscal Officer's certification, based on the date utilized on the purchase order attached to the voucher package. Further, a "then and now" certificate was not issued for any of these disbursements.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Plant's funds exceeding budgetary spending limitations, we recommend the Plant properly certify the availability of funds for any orders or contracts involving the expenditure of money to ensure compliance with this requirement. This should involve encumbering the "not to exceed" amount as approved by Council ordinance rather than creating an encumbrance for \$1. Where prior certification is not feasible, we encourage the Plant to utilize then and now certificates or blanket certificates. In addition, we recommend the Plant Management Committee establish a blanket purchase order policy. This policy should include the maximum amount for which blanket purchase orders may be issued, and specify that the blanket purchase orders can not extend beyond the fiscal year end and more than one blanket purchase order may not be outstanding for a particular line item appropriation.

Officials' Response:

The Rocky River Wastewater Treatment Plant Management Committee respectfully submits that the Fiscal Officer acted under the authority of City of Rocky River Ordinance Nos. 156-04, 159-04, 72-05, 137-05, 139-05, 140-05, 144-05, 176-05, and 54-06. Each ordinance states and certifies an expenditure amount not to be exceeded for each named vendor. The Committee's Fiscal Officer acted pursuant to the authority granted by such ordinances and, at no time, exceeded the amounts appropriated. The ordinances were enacted pursuant to Article I of the Charter of the City of Rocky River, which states that the City of Rocky River shall have all the powers of local self government to be exercised in the following manner: "...as prescribed by the Charter, if not prescribed by the Charter, then in such manner as Council may determine, if not prescribed by Charter or determined by Council, then in such manner as may be provided by the General Laws of Ohio."

**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding Number	2006- 001
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Material Noncompliance and Significant Deficiency (Continued)

Proper Encumbering (Continued)

Officials' Response (Continued)

The ordinances named above were properly enacted and were properly certified by the Fiscal Officer, and therefore, the purchases made thereunder for the Rocky River Wastewater Treatment Plant were proper.

**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Proper Encumbering	No	Reissued as 2006-001



Mary Taylor, CPA
Auditor of State

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
AUGUST 7, 2007**