



**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2000



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

Rocky River Wastewater Treatment Plant
Cuyahoga County

Table of Contents

Report of Independent Accountants	1
Comparative Balance Sheet	3
Comparative Statements of Revenues, Expenses and Changes in Retained Earnings	4
Comparative Statements of Cash Flows	5
Statements of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Basis) and Actual	6
Notes to the General Purpose Financial Statements	7
Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	17

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lausche Building, 12th Floor
615 Superior Avenue, N. W.
Cleveland, Ohio 44113

Telephone (216) 787-3665
(800) 626-2297
Facsimile (216) 787-3361

Report of Independent Accountants

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

To the Management Board:

We have audited the accompanying general-purpose financial statements of the Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio, (Plant) as of and for the years ended December 31, 2000 and December 31, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Plant's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose 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, 2000 and December 31, 1999, and the results of its operations and the cash flows for the years then ended in conformity with generally accepted accounting principles.

Management Board
Rocky River Wastewater
Treatment Plant
Cuyahoga County
Page -2-

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2001 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Jim Petro
Auditor of State

May 18, 2001

Rocky River Wastewater Treatment Plant

Cuyahoga County

Comparative Balance Sheet

December 31, 2000 and 1999

	<u>2000</u>	<u>1999</u>
Assets		
Current Assets		
Cash and Cash Equivalents		
with Fiscal Agent	\$872,298	\$495,213
Accounts Receivable	43,206	43,206
Materials and Supplies in Inventory	30,457	29,414
<i>Total Current Assets</i>	<u>945,961</u>	<u>567,833</u>
Restricted Assets		
Cash and Cash Equivalents		
with Fiscal Agent	5,053,945	4,774,583
Investments with Fiscal Agent	2,923,577	2,966,149
Accrued Interest Receivable	101,940	92,990
<i>Total Restricted Assets</i>	<u>8,079,462</u>	<u>7,833,722</u>
Fixed Assets		
Treatment Plant	34,649,517	34,649,517
Equipment	140,888	135,091
Vehicles	60,804	60,804
Construction in Progress	11,714,310	6,324,090
Less: Accumulated Depreciation	<u>(13,590,301)</u>	<u>(12,705,665)</u>
<i>Total Fixed Assets</i>	<u>32,975,218</u>	<u>28,463,837</u>
Total Assets	<u><u>\$42,000,641</u></u>	<u><u>\$36,865,392</u></u>
Liabilities and Fund Equity		
Current Liabilities		
Accounts Payable	\$142,496	\$78,469
Accrued Wages and Benefits	17,893	12,066
Compensated Absences Payable	251,955	225,843
Intergovernmental Payable	48,349	49,892
Retainage Payable	0	9,850
Accrued Interest Payable	2,519	5,038
Current Portion of Revenue		
Bonds Payable	155,000	155,000
<i>Total Current Liabilities</i>	<u>618,212</u>	<u>536,158</u>
Long-term Liability		
OWDA Loans Payable	11,048,860	5,658,640
Revenue Bonds Payable (net of current portion)	0	155,000
<i>Total Long-term Liabilities</i>	<u>11,048,860</u>	<u>5,813,640</u>
Fund Equity		
Contributed Capital	37,153,187	36,753,187
Retained Earnings (Deficit):		
Unreserved	<u>(6,819,618)</u>	<u>(6,237,593)</u>
<i>Total Fund Equity</i>	<u>30,333,569</u>	<u>30,515,594</u>
Total Liabilities and Fund Equity	<u><u>\$42,000,641</u></u>	<u><u>\$36,865,392</u></u>

See accompanying notes to the financial statements

**Rocky River Wastewater Treatment Plant
Cuyahoga County**

*Comparative Statement of Revenues, Expenses and Changes in Retained Earnings
For the Year Ended December 31, 2000 and 1999*

	2000	1999
Operating Revenues		
Charges for Services	\$3,058,715	\$2,875,507
Other	135	0
Total Operating Revenues	3,058,850	2,875,507
Operating Expenses		
Personal Services	1,073,109	1,023,979
Contractual Services	501,322	34,107
Materials and Supplies	820,243	418,068
Heat, Light and Power	628,236	611,564
Landfill	82,764	94,166
Repair and Maintenance	130,194	112,979
Depreciation	884,636	897,929
<i>Total Operating Expenses</i>	4,120,504	3,192,792
<i>Operating Loss</i>	(1,061,654)	(317,285)
Nonoperating Revenues (Expenses)		
Interest Revenue	498,260	320,688
Interest Expense	(18,631)	(27,707)
<i>Total Non-Operating Revenues (Expenses)</i>	479,629	292,981
<i>Net Loss</i>	(582,025)	(24,304)
<i>Deficit Retained Earnings Beginning of Year (Restated-See Note 3)</i>	(6,237,593)	(6,213,289)
<i>Deficit Retained Earnings End of Year</i>	(\$6,819,618)	(\$6,237,593)

See accompanying notes to the financial statements

Rocky River Wastewater Treatment Plant
Cuyahoga County
Comparative Statement of Cash Flows
For the Year Ended December 31, 2000 and 1999

	2000	1999
Cash Flows From Operating Activities		
Operating Loss	(\$1,061,654)	(\$317,285)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities		
Adjustments:		
Depreciation	884,636	897,929
(Increase)/Decrease in Assets		
Accounts Receivable	0	(1,330)
Materials and Supplies Inventory	(1,043)	(3,906)
Increase/(Decrease) in Liabilities		
Accounts Payable	64,027	26,203
Contracts Payable	0	(69,990)
Accrued Wages and Benefits	5,827	(29,341)
Compensated Absences Payable	26,112	12,566
Intergovernmental Payable	(1,543)	(16,215)
Retainage Payable	(9,850)	(5,830)
<i>Total Adjustments</i>	968,166	810,086
<i>Net Cash Provided by (Used in) Operating Activities</i>	(93,488)	492,801
Cash Flows from Capital and Related Financing Activities		
Acquisition of Capital Assets	(5,797)	(590,333)
Principal Paid on Bonds Payable	(155,000)	(155,000)
Interest Paid on Bonds Payable	(21,150)	(30,225)
Capital Provided by Member Cities	400,000	400,000
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	218,053	(375,558)
Cash Flows from Investing Activities		
Interest on Investments	531,882	437,288
<i>Net Increase in Cash and Cash Equivalents</i>	656,447	554,531
<i>Cash and Cash Equivalents Beginning of Year</i>	5,269,796	4,715,265
<i>Cash and Cash Equivalents End of Year</i>	\$5,926,243	\$5,269,796

See accompanying notes to the financial statements

**Rocky River Wastewater Treatment Plant
Cuyahoga County**

*Statement of Revenues, Expenses and Changes
In Fund Equity - Budget (Non-GAAP Basis) and Actual
For the Year Ended December 31, 2000*

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Charges for Services	\$3,415,508	\$3,458,715	\$43,207
Interest	256,000	279,971	23,971
Other	200	135	(65)
<i>Total Revenues</i>	<u>3,671,708</u>	<u>3,738,821</u>	<u>67,113</u>
Expenses			
Personal Services	1,123,773	1,074,774	48,999
Contractual Services	518,048	498,922	19,126
Materials and Supplies	874,165	817,385	56,780
Heat, Light, and Power	657,470	576,937	80,533
Landfill	159,004	82,768	76,236
Repairs and Maintenance	143,571	138,221	5,350
Capital Outlay	1,128,991	965,286	163,705
<i>Total Expenses</i>	<u>4,605,022</u>	<u>4,154,293</u>	<u>450,729</u>
<i>Excess of Revenues Under Expenses</i>	(933,314)	(415,472)	517,842
<i>Fund Equity Beginning of Year</i>	4,506,681	4,506,681	0
Prior Year Encumbrances Appropriated	429,516	429,516	0
<i>Fund Equity End of Year</i>	<u>\$4,002,883</u>	<u>\$4,520,725</u>	<u>\$517,842</u>

See accompanying notes to the financial statements

**Rocky River Wastewater Treatment Plant
Cuyahoga County**

*Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000*

Note 1 - Reporting Entity and Basis of Presentation

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 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 mayors. The Board has complete authority over all aspects of the Plant's operation. The Plant supplies all participating residents of the member cities with sewer services. Each city owns the sewage lines located in its city and bills its residents for usage.

The Plant charges each member city for 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 studies. The method used to determine each city's percentage share is based on historical data. The continued existence of the Plant is dependent upon the participation of each member city; each participating city has an equity interest in the Plant. The following are the participating cities' equity interests at December 31, 2000 and 1999.

	2000	1999
Rocky River	24.21%	24.19%
Bay Village	18.98	18.99
Fairview Park	17.22	17.19
Westlake	39.59	39.63
Total	100.00%	100.00%

A. The Reporting Entity

The reporting entity is comprised of the stand-alone government, 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.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Rocky River Wastewater Treatment Plant have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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 on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Plant's accounting policies are described below.

Rocky River Wastewater Treatment Plant
Cuyahoga County

Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000

A. Basis of Accounting and Measurement Focus

The Plant follows the accrual basis of accounting whereby revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. All transactions are accounted for in a single enterprise fund.

The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the fund are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Enterprise fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

B. 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. Budgetary control is exercised at the fund level. Budget information is reported to the Management Board.

C. Cash and Cash Equivalents

Cash balances are managed by the Plant's fiscal agent in a separate bank account or used to purchase short term investments. The balances in this account are presented on the balance sheet as "cash and cash equivalents with fiscal agent" and represent deposits. During 2000, investments were limited to nonnegotiable certificates of deposit which are reported at cost.

The Plant's fiscal agent also manages monies set aside with a separate fiscal agent for current and future debt service payments and for asset replacement. The balances in these accounts are presented on the balance sheet as either "restricted assets - cash and cash equivalents with fiscal agent" or "restricted assets - investments with fiscal agent." During 2000, investments purchased through this account were limited to treasury notes and a money market mutual fund. These investments are stated at fair value. For the money market mutual fund, fair value is determined by the fund's current share price.

For purposes of the statement of cash flows and for presentation on the balance sheet, 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.

D. Restricted Assets

Cash and investments with fiscal agents as well as the associated accrued interest receivable have been restricted because the cash and investments are restricted as to their use. The assets are to be used to repay debt in accordance with a grant agreement reached with the Environmental Protection Agency in 1985. Additional restricted assets represent monies whose use is limited by the management board and contractual agreements among the members for equipment replacement and improvement.

Rocky River Wastewater Treatment Plant
Cuyahoga County

Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000

E. Inventory

Inventories are stated at cost. Cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenses when used.

F. Fixed Assets and Depreciation

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized. Improvements to fixed assets are depreciated over the useful lives of the related fixed assets.

Depreciation of treatment plant and equipment is computed using the straight-line method over the following estimated useful lives:

Treatment Plant	40 years
Equipment	5 years
Vehicles	5 years

G. Capitalization of Interest

The Plant's policy is to 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 2000, interest incurred on proprietary fund construction projects was immaterial.

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 employees with more than one month 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.

Rocky River Wastewater Treatment Plant
Cuyahoga County

Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000

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. Fund Equity

Contributed capital represents proceeds of federal construction grants and contributions received from the member cities.

Note 3 - Restatement of Fund Equity

Retained Earnings in the Waste Water Treatment Plant was restated by \$140,482 from \$(6,097,111) to \$(6,237,593) due to a change in the City's threshold for fixed assets from \$500 to \$2,500.

Note 4 - Deposits and Investments

Since the Plant's money is managed by the City of Rocky River, the Plant's fiscal agent, the Plant follows the 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: 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 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 hereafter provided by ordinance of Council or by the laws of the State of Ohio. In addition, certificates of deposit may be purchased from commercial banks having a branch office in the City. 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 Director of Finance 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.

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 Director of Finance 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 and the bank balance was \$5,525,636. Of the bank balance:

1. \$200,000 was covered by federal depository insurance.
2. \$5,325,636 was uninsured and uncollateralized. Although the pledging banks have investment and securities pools used to collateralize all public deposits which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the Plant to a successful claim by the FDIC.

**Rocky River Wastewater Treatment Plant
Cuyahoga County**

*Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000*

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.

	Category 3	Fair Value
Treasury Note	\$2,923,577	\$2,923,577
Armada Money Market Mutual Fund	0	400,607
Total	\$2,923,577	\$3,324,184

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No.9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No.3, is as follows:

	Cash and Cash Equivalents / Deposits	Investments
GASB Statement 9	\$5,926,243	\$2,923,577
Armada Money Market Mutual Fund	(400,607)	400,607
GASB Statement 3	\$5,525,636	\$3,324,184

Note 5 - Receivables

Receivables at December 31, 2000 consist primarily of accounts and accrued interest. Accounts receivable represent monies due from other cities for their portion of sewage treatment services. No allowance for doubtful accounts has been recorded as all amounts are considered collectible.

Note 6 - Plant and Equipment Replacement Contribution Commitment

The four member cities have made contribution commitments to the Plant for plant and equipment replacement as follows:

Year	Amount
2001	\$168,000
2002	168,000
2003	168,000
2004	168,000
2005-2006	336,000
Total	\$1,008,000

Rocky River Wastewater Treatment Plant
Cuyahoga County

Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000

The treatment 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.

Note 7 - Bonds Payable

The Plant had bonds outstanding at December 31, 2000 of \$155,000. The bonds bear an interest rate of 6.5 percent per annum and are payable in semi-annual installments through 2001. The bonds were originally issued by Cuyahoga County during 1976 in the amount of \$3,770,000 and were contractually assumed by the Plant when it acquired the treatment plant from the County in 1982.

The annual debt service requirements for payment of principal and interest at December 31, 2000 are as follows:

	<u>Principal</u>	<u>Interest</u>
2001	<u>\$155,000</u>	<u>\$10,075</u>

In 1985, the Plant received a \$2,337,000 grant from the United States Environmental Protection Agency. The proceeds from the grant were placed in a trust with the fiscal agent and are being used to repay the bonded debt. The balance of funds held in the trust was \$3,500,209 at December 31, 2000. Current operations are expected to provide sufficient cash flows to fund any remaining debt service requirements. The debt of the Plant is guaranteed by the four member cities, each have pledged their full faith and credit towards the repayment of any outstanding debt.

The Wastewater Treatment Plant has entered into contractual agreements for construction loans from the Ohio Water Development Authority (OWDA). Under the terms of these agreements, the OWDA will reimburse, advance, or directly pay the construction costs of approved projects. The OWDA will capitalize administrative costs and construction costs and then add them to the total amount of the final loan. The OWDA loan for Treatment Plant Expansion will not have accurate repayment schedules until the loans are finalized and, therefore, are not included in the schedule of future annual debt service requirements. During 2000, the Wastewater Treatment Plant received \$5,390,220 in OWDA loans at an interest rate of 5.50%. The balance of these loans is \$11,048,860 at December 31, 2000.

Note 8 - Contributed Capital

A summary of the changes in the Plant's contributed capital for the year ended December 31, 2000 and 1999 is as follows:

	<u>2000</u>	<u>1999</u>
Balance at January 1	\$36,753,187	\$36,353,187
Capital Provided by Member Cities (See Note 9)	<u>400,000</u>	<u>400,000</u>
Balance at December 31	<u><u>\$37,153,187</u></u>	<u><u>\$36,753,187</u></u>

**Rocky River Wastewater Treatment Plant
Cuyahoga County**

*Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000*

Note 9 - Related Party Transaction

The Plant was party to several transactions during 2000 involving the four member cities, which are summarized as follows:

A. Accounts Receivable

Accounts receivable of \$43,206 at December 31, 2000 represents money owed by the City of Fairview Park for unpaid billings for sewage treatment services provided.

B. Charges for Services

Charges for services revenue for 2000 and 1999 consists of amounts charged to the member cities for sewage treatment services provided to the cities' residents as follows:

	2000	1999
Rocky River	\$788,556	\$743,427
Bay Village	568,122	542,635
Fairview Park	596,250	521,262
Westlake	1,105,787	1,068,183
Total	\$3,058,715	\$2,875,507

C. Contribution for Capital Assets Replacement Fund

The member cities made contributions to the Plant for plant and equipment replacement. The contributions made in 2000 and 1999.

	2000	1999
Rocky River	\$103,122	\$104,649
Bay Village	74,296	75,396
Fairview Park	77,974	73,206
Westlake	144,608	146,749
Total	\$400,000	\$400,000

Note 10 - Contingent Liabilities

The Plant received financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with term and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Plant. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Plant at December 31, 2000.

Rocky River Wastewater Treatment Plant
Cuyahoga County

Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000

Note 11 - Risk Management

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

Note 12 - Public Employees Retirement System Defined Benefit Pension Plan

All Plant full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report which may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio, 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For calendar year 2000, PERS instituted a temporary employer rate rollback for state and local governments. The 2000 employer pension contribution rate for the Plant was 6.54 percent of covered payroll, reduced from 9.35 percent in 1999. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Plant's required contributions to PERS for the years ended December 31, 2000, 1999, and 1998 were \$56,732, \$80,527, and \$73,882 respectively. The full amount has been contributed for 1999 and 1998. 79.24 percent has been contributed for 2000 with the remainder being reported as a liability.

Note 13 - Public Employees Retirement System Postemployment Benefits

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2000 employer contribution rate was 10.84 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2000. For 1999, the contribution rate was 13.55 percent of covered payroll; 4.20 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 1999, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

All investments are carried at market. 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.

Rocky River Wastewater Treatment Plant
Cuyahoga County

Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000

The number of active contributing participants was 401,339. The Plant's actual contributions for 2000 which were used to fund postemployment benefits were \$37,301. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 1999, (the latest information available) were \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$12,473.6 million and \$1,668.1 million, respectively.

For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

Note 14 - Budgetary Basis of Accounting

While the Plant is reporting financial position, results of operations, and changes in retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenses for all funds (budget basis) rather than as note disclosure in the proprietary fund type (GAAP basis).
4. For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Although not part of the appropriated budget, the Rocky River Wastewater Treatment Plant trust account is included as part of the reporting entity when preparing financial statements that conform with GAAP.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Rocky River Wastewater Treatment Plant
Cuyahoga County

Notes to the General Purpose Financial Statements
For The Year Ended December 31, 2000

Net Loss/Excess of Revenues
Under Expenses

GAAP Basis	(\$582,025)
Net Adjustment for Revenue Accruals	(4,936)
Contributed Capital	400,000
Net Adjustment for Expense Accruals	110,914
Depreciation	884,636
Capital Outlay	(5,797)
Non budgeted Activity	(213,353)
Encumbrances	<u>(1,004,911)</u>
Budget Basis	<u><u>(\$415,472)</u></u>



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Lausche Building, 12th Floor
615 Superior Avenue, N. W.
Cleveland, Ohio 44113

Telephone (216) 787-3665
(800) 626-2297
Facsimile (216) 787-3361

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
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 Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio, (Plant) as of and for the years ended December 31, 2000 and December 31, 1999, and have issued our report thereon dated May 18, 2001. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Plant's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Management Board
Rocky River Wastewater
Treatment Plant
Cuyahoga County
Page -2-

This report is intended for the information and use of the Management Board and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

May 18, 2001



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

ROCKY RIVER WASTERWATER 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 3, 2001**