



**ROCKY RIVER WASTEWATER TREATMENT PLANT  
CUYAHOGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2001**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**Rocky River Wastewater Treatment Plant  
Cuyahoga County**

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**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, (the Plant) as of and for the years ended December 31, 2001 and December 31, 2000, 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 auditing standards generally accepted in the United States of America 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, 2001 and December 31, 2000, and the results of its operations and the statement of cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the general-purpose financial statements, the Plant implemented Governmental Accounting Standards Board Statement Nos. 33 and 36.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2002, 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 audits.

A handwritten signature in black ink, appearing to read "Jim Petro".

**Jim Petro**  
Auditor of State

June 14, 2002

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**Rocky River Wastewater Treatment Plant**

**Cuyahoga County**

*Comparative Balance Sheet*

*December 31, 2001 and 2000*

	<u>2001</u>	<u>2000</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents		
with Fiscal Agent	\$4,100,851	\$872,298
Accounts Receivable	147,637	43,206
Materials and Supplies in Inventory	34,885	30,457
<i>Total Current Assets</i>	<u>4,283,373</u>	<u>945,961</u>
<b>Restricted Assets</b>		
Cash and Cash Equivalents		
with Fiscal Agent	0	5,053,945
Investments with Fiscal Agent	3,307,379	2,923,577
Accrued Interest Receivable	17,981	101,940
<i>Total Restricted Assets</i>	<u>3,325,360</u>	<u>8,079,462</u>
<b>Fixed Assets</b>		
Treatment Plant	34,649,517	34,649,517
Equipment	180,449	148,048
Vehicles	60,804	60,804
Construction in Progress	12,247,553	11,714,310
Less: Accumulated Depreciation	(14,476,066)	(13,590,301)
<i>Total Fixed Assets</i>	<u>32,662,257</u>	<u>32,982,378</u>
<b>Total Assets</b>	<u><u>\$40,270,990</u></u>	<u><u>\$42,007,801</u></u>
 <b>Liabilities and Fund Equity</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$56,250	\$142,496
Accrued Wages and Benefits	22,237	17,893
Compensated Absences Payable	286,838	251,955
Intergovernmental Payable	58,719	48,349
Retainage Payable	10,087	0
Accrued Interest Payable	0	2,519
Current Portion of Revenue		
Bonds Payable	0	155,000
<i>Total Current Liabilities</i>	<u>434,131</u>	<u>618,212</u>
<b>Long-term Liability</b>		
OWDA Loans Payable	<u>11,355,481</u>	<u>11,048,860</u>
<b>Fund Equity</b>		
Contributed Capital	37,553,187	37,153,187
Retained Earnings (Deficit):		
Unreserved	<u>(9,071,809)</u>	<u>(6,812,458)</u>
<i>Total Fund Equity</i>	<u>28,481,378</u>	<u>30,340,729</u>
<b>Total Liabilities and Fund Equity</b>	<u><u>\$40,270,990</u></u>	<u><u>\$42,007,801</u></u>

See accompanying notes to the financial statements

## Rocky River Wastewater Treatment Plant

### Cuyahoga County

Comparative Statement of Revenues, Expenses and Changes in Fund Equity

For the Year Ended December 31, 2001 and 2000

	2001	2000
<b>Operating Revenues</b>		
Charges for Services	\$2,580,602	\$3,058,715
Other	620	135
Total Operating Revenues	<u>2,581,222</u>	<u>3,058,850</u>
<b>Operating Expenses</b>		
Personal Services	1,209,550	1,073,109
Contractual Services	333,752	501,322
Materials and Supplies	1,579,729	813,083
Heat, Light and Power	629,143	628,236
Landfill	129,367	82,764
Repair and Maintenance	0	130,194
Depreciation	885,765	884,636
Total Operating Expenses	<u>4,767,306</u>	<u>4,113,344</u>
Operating Loss	<u>(2,186,084)</u>	<u>(1,054,494)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest Revenue	659,253	498,260
Interest Expense	<u>(732,520)</u>	<u>(18,631)</u>
Total Non-Operating Revenues (Expenses)	(73,267)	479,629
Net Loss	(2,259,351)	(574,865)
Deficit Retained Earnings Beginning of Year (Restated-See Note 3)	<u>(6,812,458)</u>	<u>(6,237,593)</u>
Deficit Retained Earnings End of Year	<u><u>(\$9,071,809)</u></u>	<u><u>(\$6,812,458)</u></u>

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, 2001 and 2000*

	2001	2000
<b>Cash Flows From Operating Activities</b>		
Operating Loss	(\$2,186,084)	(\$1,054,494)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities</b>		
Adjustments:		
Depreciation	885,765	884,636
Increase in Assets:		
Accounts Receivable	(104,431)	0
Materials and Supplies Inventory	(4,428)	(1,043)
Increase/(Decrease) in Liabilities:		
Accounts Payable	(86,246)	64,027
Accrued Wages and Benefits	4,344	5,827
Compensated Absences Payable	34,883	26,112
Intergovernmental Payable	10,370	(1,543)
Retainage Payable	10,087	(9,850)
<i>Total Adjustments</i>	750,344	968,166
<i>Net Cash Used in Operating Activities</i>	(1,435,740)	(86,328)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of Capital Assets	(32,401)	(12,957)
Principal Paid on Bonds Payable	(155,000)	(155,000)
Principal Paid on OWDA Loans	(226,622)	0
Interest Paid on Bonds Payable	(93,677)	(21,150)
Interest Paid on OWDA Loans	(641,362)	0
Capital Provided by Member Cities	400,000	400,000
<i>Net Cash Used in Capital and Related Financing Activities</i>	(749,062)	210,893
<b>Cash Flows from Investing Activities</b>		
Interest on Investments	359,410	531,882
<i>Net Decrease in Cash and Cash Equivalents</i>	(1,825,392)	656,447
<i>Cash and Cash Equivalents Beginning of Year</i>	5,926,243	5,269,796
<i>Cash and Cash Equivalents End of Year</i>	\$4,100,851	\$5,926,243

**Noncash Capital Financing Activities:**

During 2001, OWDA paid \$533,243 directly to contractors on behalf of the City.

See accompanying notes to the financial statements

**Rocky River Wastewater Treatment Plant**  
*Statement of Revenues, Expenses and Changes*  
*In Fund Equity - Budget (Non-GAAP Basis) and Actual*  
*For the Year Ended December 31, 2001*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable)
<b>Revenues</b>				
Charges for Services	\$3,099,688	\$3,023,808	\$2,876,171	(\$147,637)
Interest	206,462	275,000	293,894	18,894
Other	0	0	620	620
<i>Total Revenues</i>	<u>3,306,150</u>	<u>3,298,808</u>	<u>3,170,685</u>	<u>(128,123)</u>
<b>Expenses</b>				
Personal Services	1,160,748	1,166,343	1,159,953	6,390
Contractual Services	302,350	339,371	328,196	11,175
Materials and Supplies	894,174	1,876,739	1,719,650	157,089
Heat, Light, and Power	555,000	665,990	662,654	3,336
Landfill	159,000	131,374	129,367	2,007
Capital Outlay	32,401	32,401	32,401	0
Debt Service:				
Principal Retirement	226,623	226,623	226,622	1
Interest and Fiscal Charges	641,362	641,362	641,362	0
<i>Total Expenses</i>	<u>3,971,658</u>	<u>5,080,203</u>	<u>4,900,205</u>	<u>179,998</u>
<i>Excess of Revenues Under Expenses</i>	(665,508)	(1,781,395)	(1,729,520)	51,875
<i>Fund Equity Beginning of Year</i>	4,520,725	4,520,725	4,520,725	0
Prior Year Encumbrances Appropriated	<u>1,005,910</u>	<u>1,005,910</u>	<u>1,005,910</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u>\$4,861,127</u>	<u>\$3,745,240</u>	<u>\$3,797,115</u>	<u>\$51,875</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, 2001*

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**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, 2001 and 2000.

	<u>2001</u>	<u>2000</u>
Rocky River	24.29 %	24.21 %
Bay Village	18.91	18.98
Fairview Park	17.22	17.22
Westlake	<u>39.58</u>	<u>39.59</u>
Total	<u>100.00 %</u>	<u>100.00 %</u>

*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, 2001*

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*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 information for the Wastewater Treatment Plant account trustee activity is not included in the entity for which the "appropriated budget" is adopted and do not adopt separate budgets. 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 2001, 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 asset replacement. The balance in this account is presented on the balance sheet as "restricted assets – investments with fiscal agent." During 2001, investments purchased through this account were limited to a money market mutual fund, stated at fair value determined by the fund's current share price.

For purposes of the statement of cash flows and for presentation on the 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 Assetss*

Investments with fiscal agents as well as the associated accrued interest receivable have been restricted because the investments are restricted as to their use. The assets are to be for equipment replacement and improvement.

*E. Inventory*

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

**Rocky River Wastewater Treatment Plant**  
**Cuyahoga County**

*Notes to the General Purpose Financial Statements*  
*For The Year Ended December 31, 2001*

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*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 2001, 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.

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.

**Rocky River Wastewater Treatment Plant  
Cuyahoga County**

*Notes to the General Purpose Financial Statements  
For The Year Ended December 31, 2001*

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*I. Contributed Capital*

Contributed capital represents resources provided prior to 2001 from other governments that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. In 2001, as a result of implementing GASB Statement No. 33, capital contributions are reported as revenue and included in retained earnings on the operating statements.

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

**Note 3 – Changes in Accounting Principles and Restated Retained Earnings**

For 2001, the Waste Water Treatment Plant has implemented GASB Statement No. 33, “Accounting and Financial Reporting for Non-exchange Transactions” and GASB Statement No. 36, “Recipient Reporting for Certain Shared Non-exchange Revenues. GASB Statements No. 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. This implementation had no effect on retained earnings as of December 31, 2000; however, Statement 33 does indicate that contributions of capital are now reported as revenues rather than direct addition to contributed capital. In 2001, capital contributions are being reported as non-operating revenues rather than as contributed capital.

Retained Earnings in the Waste Water Treatment Plant was restated from (\$6,819,618) to (\$6,812,458) due to a change in the beginning balance of the City’s fixed assets.

**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.

**Rocky River Wastewater Treatment Plant  
Cuyahoga County**

*Notes to the General Purpose Financial Statements  
For The Year Ended December 31, 2001*

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*Deposits.* At year-end, the carrying amount of the Plant's deposits and the bank balance was \$793,472. Of the bank balance:

1. \$100,000 was covered by federal depository insurance.
2. \$693,472 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.

*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.

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	\$4,100,851	\$0
Armada Money Market Mutual Fund	(3,307,379)	3,307,379
GASB Statement 3	\$793,472	\$3,307,379

**Note 5 - Receivables**

Receivables at December 31, 2001 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.

**Rocky River Wastewater Treatment Plant  
Cuyahoga County**

*Notes to the General Purpose Financial Statements  
For The Year Ended December 31, 2001*

**Note 6 – Long-Term Obligations**

A schedule of changes in bonds and other long-term obligations of the City during 2001 follows:

	<u>Oustanding 12/31/00</u>	<u>Principal Additions</u>	<u>Principal Reductions</u>	<u>Oustanding 12/31/00</u>
1976 6.5% Wastewater Treatment Improvement Bonds	\$155,000	\$0	(\$155,000)	\$0
2000 5.50% OWDA Loan	<u>11,048,860</u>	<u>533,243</u>	<u>(226,622)</u>	<u>11,355,481</u>
Total	<u>\$11,203,860</u>	<u>\$533,243</u>	<u>(\$381,622)</u>	<u>\$11,355,481</u>

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 by adding 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 presented. During 2001, the Wastewater Treatment Plant received \$533,243 in OWDA loans at an interest rate of 5.50%. The balance of these loans is \$11,355,481 at December 31, 2001.

**Note 7 - Related Party Transaction**

The Plant was party to several transactions during 2001 involving the four member cities, which are summarized as follows:

*A. Accounts Receivable*

Accounts receivable of \$46,390 and \$101,247 at December 31, 2001 represents money owed by the City of Fairview Park and Westlake, respectively for unpaid billings for sewage treatment services provided.

*B. Charges for Services*

Charges for services revenue for 2001 and 2000 consists of amounts charged to the member cities for sewage treatment services provided to the cities residents as follows:

	<u>2001</u>	<u>2000</u>
Rocky River	\$731,600	\$788,556
Bay Village	337,027	568,122
Fairview Park	475,089	596,250
Westlake	<u>1,036,886</u>	<u>1,105,787</u>
Total	<u>\$2,580,602</u>	<u>\$3,058,715</u>



**Rocky River Wastewater Treatment Plant  
Cuyahoga County**

*Notes to the General Purpose Financial Statements  
For The Year Ended December 31, 2001*

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*C. Contribution for Capital Assets Replacement Fund*

The member cities made contributions to the Plant for plant and equipment replacement, as mandated by the EPA. The contributions made in 2001 and 2000 were as follows:

	<u>2001</u>	<u>2000</u>
Rocky River	\$113,400	\$103,122
Bay Village	52,240	74,296
Fairview Park	73,640	77,974
Westlake	<u>160,720</u>	<u>144,608</u>
Total	<u>\$400,000</u>	<u>\$400,000</u>

*D. Lease of Land*

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 8 - 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, 2001.

**Note 9 - 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 10 - 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.

**Rocky River Wastewater Treatment Plant**  
**Cuyahoga County**

*Notes to the General Purpose Financial Statements*  
*For The Year Ended December 31, 2001*

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Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2001 employer pension contribution rate for the Plant was 9.25 percent of covered payroll, increased from 6.54 percent in 2000. For calendar year 2001, PERS instituted a temporary employer rate rollback for state and local governments. 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, 2001, 2000, and 1999 were \$83,647, \$56,732, and \$80,527 respectively. The full amount has been contributed for 2000 and 1999. 69.49 percent has been contributed for 2001 with the remainder being reported as a liability.

**Note 11 - 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 2001 employer contribution rate was 13.55 percent of covered payroll; 4.30 percent was the portion that was used to fund health care for 2001. For 2000, the contribution rate was 10.84 percent of covered payroll; 4.30 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, 2000, 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.

The number of active contributing participants was 411,339. The Plant's actual contributions for 2001 which were used to fund postemployment benefits were \$38,884. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

**Note 12 - 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:

**Rocky River Wastewater Treatment Plant  
Cuyahoga County**

*Notes to the General Purpose Financial Statements  
For The Year Ended December 31, 2001*

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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 enterprise fund (GAAP basis).
4. For the enterprise fund, 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.

Net Loss/Excess of Revenues Under Expenses	
GAAP Basis	(\$2,259,351)
Net Adjustment for Revenue Accruals	(469,790)
Contributed Capital	400,000
Net Adjustment for Expense Accruals	1,228,495
Depreciation	885,765
Capital Outlay	(32,401)
Non budgeted Activity	(1,385,280)
Encumbrances	(96,958)
Budget Basis	<u><u>(\$1,729,520)</u></u>

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STATE OF OHIO  
OFFICE OF THE AUDITOR

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**REPORT OF INDEPENDENT ACCOUNTANTS 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, (the Plant) as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated June 14, 2002 in which report we noted the Plant implemented Governmental Accounting Standards Board Statement Nos. 33 and 36. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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.

Rocky River Wastewater  
Treatment Plant  
Cuyahoga County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Plant in a separate letter dated June 14, 2002.

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.

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**Jim Petro**  
Auditor of State

June 14, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**ROCKY RIVER WASTEWATER TREATMENT PLANT**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 30, 2002**