



**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Management Board:

We have audited the accompanying basic financial statements of the Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio, (the Plant) as of and for the year ended December 31, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 audit provide 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, 2003, and the respective changes in financial position and 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 15, 2004 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.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

June 15, 2004

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Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis

For the Year Ended December 31, 2003

Unaudited

The discussion and analysis of the Rocky River Wastewater Treatment Plant's (the "Plant") financial performance provides an overall review of the Plant's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis 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 2003 are as follows:

- Total net assets decreased by \$909,176, which represents a 3.3 percent decrease from 2002.
- Total expenses were \$4,350,390, a \$357,132 decrease from 2002.
- Outstanding debt decreased by \$249,727.

Using This Financial Report

This annual report consists of two parts – 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.

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

The statement of net assets and statement of revenues, expenses and changes in net assets answers the question "How did we do financially during 2003?" These statements include 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. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Plant's net assets; however, in evaluating the overall position of the Plant's non-financial information such as changes in the condition of the Plant's capital assets will also need to be evaluated.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis

For the Year Ended December 31, 2003

Unaudited

Table 1 provides a summary of the Plant's net assets for 2003 compared to 2002.

Table 1
Net Assets

	<u>2003</u>	<u>2002</u>
Assets		
Current and Other Assets	\$6,707,347	\$7,252,972
Capital Assets, Net	<u>31,593,257</u>	<u>32,319,617</u>
<i>Total Assets</i>	<u>38,300,604</u>	<u>39,572,589</u>
Liabilities		
Noncurrent Liabilities	10,834,070	11,143,569
Current Liabilities	<u>830,884</u>	<u>884,194</u>
Total Liabilities	<u>11,664,954</u>	<u>12,027,763</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	20,721,467	21,198,100
Unrestricted	<u>5,914,183</u>	<u>6,346,726</u>
<i>Total Net Assets</i>	<u>\$26,635,650</u>	<u>\$27,544,826</u>

The Plant's total net assets were down from a year ago. There was a decrease of \$909,176 from \$27,544,826 to \$26,635,650.

The decrease was primarily in assets. The Plant uses a trustee account to purchase short-term investments which are used for asset replacement. In 2003, the Plant's cash balance decreased from \$4,162,669 in 2002 to \$3,725,446, which is due to delinquent 2001 city contributions received in 2002, which did not recur in 2003. In addition, capital assets decreased by \$726,360 due to depreciation on Plant capital assets. Total liabilities decreased by \$362,809. The decrease is the result of a decrease in the Plant's long-term debt.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis

For the Year Ended December 31, 2003

Unaudited

Table 2 shows the changes in net assets for the year ended December 31, 2003 as well as revenue and expenses comparisons for 2002.

Table 2
Revenues and Expenses

	<u>2003</u>	<u>2002</u>
Operating Revenues		
Charges for Services	\$3,396,815	\$4,173,864
Other	727	295
Non Operating Revenues		
Interest	43,672	101,938
<i>Total Revenues</i>	<u>3,441,214</u>	<u>4,276,097</u>
Operating Expenses		
Personal Services	1,194,358	1,184,115
Contractual Services	148,542	492,838
Material and Supplies	350,760	517,587
Heat, Light and Power	664,848	576,769
Landfill	96,992	82,920
Depreciation	1,187,715	881,823
Non Operating Expenses		
Interest and Fiscal Charges	707,175	971,470
<i>Total Expenses</i>	<u>4,350,390</u>	<u>4,707,522</u>
<i>Decrease in Net Assets</i>	(909,176)	(431,425)
Net Assets Beginning of Year	<u>27,544,826</u>	<u>27,976,251</u>
Net Assets End of Year	<u>\$26,635,650</u>	<u>\$27,544,826</u>

Analysis of Overall Financial Position and Results of Operations

The large decrease in net assets is due to a decrease in charges for services revenue. The decrease in charges for services revenue is the result of one of the contributing cities making delinquent contributions in 2002, which did not recur in 2003.

Budgeting Highlights

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

During 2003, the Plant made slight amendments to the budgeted revenues and appropriations. The original budgeted revenues were \$3,465,045 and the final budgeted revenues were \$3,445,895. The original appropriations were \$4,270,244 and the final appropriations were \$4,701,354.

Rocky River Wastewater Treatment Plant
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

Capital Assets

Table 3 provides a summary of the Plant's capital assets for 2003 compared to 2002.

Table 3
Capital Assets

	2003	2002
Construction in Progress	\$0	\$428,193
Treatment Plant	31,570,122	31,858,866
Equipment	23,135	30,004
Vehicles	0	2,554
Totals	\$31,593,257	\$32,319,617

Capital assets decreased by \$726,360 due to depreciation expense of \$1,187,715 offset by \$461,355 in capital asset additions. For more information on capital assets, see note 7.

Debt

The Plant has no bonded indebtedness. The Plant's debt consists of a 25-year OWDA loan with an interest rate of 5.50 percent. The balance of the outstanding amount of the loan at December 31, 2003 is \$10,871,790. See note 8 for additional information on debt.

Current Financial Related Activities

The Plant is continuing renovations to the pump station on Lake Road which was renovated to accommodate the flow of water and sewage from the west to come into the plant at a cost of \$1,167,718. As of December 31, 2003, the Plant expended \$743,271.

With the construction in the last several years, the Plant is able to accommodate the four cities with any new residential construction.

Contacting the Plant's Finance Department

This financial report is designed to provide our citizens, tax payers, creditors and investors with a general overview of the Plant's finances and 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 Director of Finance, City of Rocky River, 21012 Hilliard Boulevard, Rocky River, Ohio 44116, telephone 440-331-0600.

Rocky River Wastewater Treatment Plant

Statement of Net Assets

December 31, 2003

Assets

Current Assets

Cash and Cash Equivalents	\$3,725,446
Investment with Trustee	2,886,528
Accrued Interest Receivable	9,287
Accounts Receivable	50,303
Materials and Supplies Inventory	35,783

Total Current Assets 6,707,347

Noncurrent Assets

Capital Assets

Treatment Plant	47,888,593
Equipment	189,464
Vehicles	60,804
Less: Accumulated Depreciation	(16,545,604)

Total Noncurrent Assets 31,593,257

Total Assets 38,300,604

Liabilities

Current Liabilities

Accounts Payable	73,548
Contracts Payable	62,694
Accrued Wages and Benefits	27,070
Intergovernmental Payable	41,858
Retainage Payable	754
Compensated Absences Payable	62,334
Accrued Interest Payable	298,974
OWDA Loans Payable	263,652

Total Current Liabilities 830,884

Noncurrent Liabilities

Compensated Absences Payable (Net of Current Portion)	225,932
OWDA Loans Payable (Net of Current Portion)	10,608,138

Total Noncurrent Liabilities 10,834,070

Total Liabilities 11,664,954

Net Assets

Invested in Capital Assets, Net of Related Debt	20,721,467
Unrestricted	5,914,183

Total Net Assets \$26,635,650

See accompanying notes to the basic financial statements

Rocky River Wastewater Treatment Plant

Statement of Revenues, Expenses

and Changes in Net Assets

For the Year Ended December 31, 2003

Operating Revenues	
Charges for Services	\$3,396,815
Other	727
	<hr/>
<i>Total Operating Revenues</i>	<i>3,397,542</i>
	<hr/>
Operating Expenses	
Personal Services	1,194,358
Contractual Services	148,542
Materials and Supplies	350,760
Heat, Light and Power	664,848
Landfill	96,992
Depreciation	1,187,715
	<hr/>
<i>Total Operating Expenses</i>	<i>3,643,215</i>
	<hr/>
<i>Operating Loss</i>	<i>(245,673)</i>
	<hr/>
Non Operating Revenue (Expenses)	
Interest	43,672
Interest and Fiscal Charges	(707,175)
	<hr/>
<i>Total Non Operating Revenues (Expenses)</i>	<i>(663,503)</i>
	<hr/>
<i>Change in Net Assets</i>	<i>(909,176)</i>
	<hr/>
<i>Net Assets Beginning of Year</i>	<i>27,544,826</i>
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<i>Net Assets End of Year</i>	<i>\$26,635,650</i>
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See accompanying notes to the basic financial statements

Rocky River Wastewater Treatment Plant

Statement of Cash Flows

Proprietary Fund

For the Year Ended December 31, 2003

Increase (Decrease) In Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Customers	\$3,405,136
Cash Received from Other Operating Sources	727
Cash Payments to Suppliers for Goods and Services	(1,346,757)
Cash Payments for Employee Services and Benefits	(1,215,867)
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Net Cash Provided by Operating Activities 843,239

**Cash Flows from Capital and
Related Financing Activities**

Acquisition of Capital Assets	(461,355)
Principal Paid on OWDA Loan	(249,727)
Interest Paid on OWDA Loan	(608,296)
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Net Cash Used for Capital and Related Financing Activities (1,319,378)

Cash Flows from Investing Activities

Interest	<u>38,916</u>
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Net Decrease In Cash and Cash Equivalents (437,223)

Cash and Cash Equivalents Beginning of Year 4,162,669

Cash and Cash Equivalents End of Year \$3,725,446

(continued)

Rocky River Wastewater Treatment Plant

Statement of Cash Flows

Proprietary Fund (continued)

For the Year Ended December 31, 2003

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

<i>Operating Loss</i>	(\$245,673)
Adjustments:	
Depreciation	1,187,715
(Increase)/Decrease in Assets:	
Accounts Receivable	8,321
Materials and Supplies Inventory	(910)
Increase/ (Decrease) in Liabilities:	
Accounts Payable	(36,720)
Contracts Payable	(1,072)
Accrued Wages	5,681
Compensated Absences Payable	(8,203)
Retainage Payable	(47,569)
Intergovernmental Payable	(18,331)
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	<u>\$843,239</u>

See accompanying notes to the basic financial statements

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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 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.

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, 2003.

	<u>2003</u>
Rocky River	28.35 %
Bay Village	13.06
Fairview Park	18.41
Westlake	<u>40.18</u>
Total	<u><u>100.00</u></u> %

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, 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 more significant of the Plant's accounting policies are described below.

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

A. Basis of Presentation

The Plant's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

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

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

B. Measurement Focus

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

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.

D. Cash and Cash Equivalents

Cash balances are managed by the City of Rocky River, 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 statement of net assets as "cash and cash equivalents" and represent deposits. During 2003, investments were limited to nonnegotiable certificates of deposit which are reported at cost.

The Plant's fiscal agent also manages monies set aside in a separate trustee account for asset replacement. The balance in this account is presented on the statement of net assets as "investments with trustee." During 2003, investments purchased through this account were limited to a money market mutual fund, stated at fair value determined by the fund's current share price.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an initial maturity of three months or less are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Inventory

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

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

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 fixed 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.

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

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 2003, 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 full-time 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

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

recorded as the equivalent of expenditures. Budgetary information for the Wastewater Treatment Plant 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 and object level. Budget information is reported to the Management Board.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Plant 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, 2003.

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 nonoperating.

L. Estimates

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

Note 3 – Deposits and Investments

Since the Plant’s money is managed by the 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: STAROhio, Bonds or notes of the City of Rocky River, bonds or other obligations of the United States or those for the payment of principal and interest of which the faith of the United States is pledged, bonds or other obligations of 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. The investment of the trustee account in the money market mutual fund consists of obligations allowed by the City Charter.

Protection of the Plant's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the 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.

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

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 \$3,725,446. Of the bank balance:

1. \$300,000 was covered by federal depository insurance.
2. \$3,425,446 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. At year end, this investment was \$2,886,528.

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 No. 9	\$6,611,974	\$0
Armada Money Mutual Fund	(2,886,528)	2,886,528
GASB Statement No. 3	<u>\$3,725,446</u>	<u>\$2,886,528</u>

Note 4 - Receivables

Receivables at December 31, 2003 consist of accounts receivable 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

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

Note 5 - Risk Management

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

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

Note 6 – Contingent Liabilities

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

Note 7 – Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
Capital Assets Not Being Depreciated				
Construction in Progress	\$428,193	\$0	(\$428,193)	\$0
Capital Assets Being Depreciated				
Treatment Plant	47,001,695	886,898	0	47,888,593
Equipment	186,814	2,650	0	189,464
Vehicles	60,804	0	0	60,804
<i>Total Capital Assets Being Depreciated</i>	<u>47,249,313</u>	<u>889,548</u>	<u>0</u>	<u>48,138,861</u>
Less Accumulated Depreciation				
Treatment Plant	(15,142,829)	(1,175,642)	0	(16,318,471)
Equipment	(156,810)	(9,519)	0	(166,329)
Vehicles	(58,250)	(2,554)	0	(60,804)
<i>Total Accumulated Depreciation</i>	<u>(15,357,889)</u>	<u>(1,187,715)</u>	<u>0</u>	<u>(16,545,604)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>31,891,424</u>	<u>(298,167)</u>	<u>0</u>	<u>31,593,257</u>
<i>Total Capital Assets, Net</i>	<u>\$32,319,617</u>	<u>(\$298,167)</u>	<u>(\$428,193)</u>	<u>\$31,593,257</u>

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

Note 8 – Long-Term Obligations

A schedule of changes in long-term obligations of the Plant during 2003 follows:

	Outstanding 12/31/02	Additions	Reductions	Outstanding 12/31/03	Amounts Due In One Year
2000 5.50% \$11,344,496					
OWDA Loan - Matures 7/1/25	\$11,121,517	\$0	(\$249,727)	\$10,871,790	\$263,652
Compensated Absences Payable	296,469	0	(8,203)	288,266	62,334
Total	\$11,417,986	\$0	(\$257,930)	\$11,160,056	\$325,986

Principal and interest requirements to retire the OWDA loan outstanding at December 31, 2003, are as follows:

Year	Principal	Interest	Total
2004	\$263,652	\$594,372	\$858,024
2005	278,351	579,672	858,023
2006	293,870	564,152	858,022
2007	310,256	547,768	858,024
2008	327,555	530,469	858,024
2009-2013	1,932,960	2,357,159	4,290,119
2014-2018	2,535,369	1,754,749	4,290,118
2019-2023	3,325,519	964,597	4,290,116
2024-2025	1,604,258	111,790	1,716,048
Total	\$10,871,790	\$8,004,728	\$18,876,518

Note 9 - Related Party Transaction

The Plant was party to several transactions during 2003 involving the four member cities, which are summarized as follows:

A. Accounts Receivable

Accounts receivable of \$50,303 at December 31, 2003 represents money owed by the City of Fairview Park for unpaid billings for sewage treatment services provided.

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

B. Charges for Services

Charges for services revenue for 2003 consists of amounts charged to the member cities for sewage treatment services provided to the cities residents as follows:

Rocky River	\$962,997
Bay Village	443,624
Fairview Park	625,354
Westlake	<u>1,364,840</u>
Total	<u><u>\$3,396,815</u></u>

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 2003 were as follows:

Rocky River	\$113,400
Bay Village	52,240
Fairview Park	73,640
Westlake	<u>160,720</u>
Total	<u><u>\$400,000</u></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 10 – Ohio Public Employees Retirement System

The Plant participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system 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 and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

For the year ended December 31, 2003, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Plant's contribution rate for pension benefits for 2003 was 8.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Plant's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$76,132, \$81,384, and \$83,647 respectively; 97.16 percent has been contributed for 2003 and 100 percent for 2002 and 2001. Contributions to the member-directed plan for 2003 were \$1,166 made by the Plant and \$732 made by the plan members.

Note 11 - Ohio Public Employees Retirement System 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 primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. 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 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 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 annually.

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$44,522. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

Rocky River Wastewater Treatment Plant

Notes to the Basic Financial Statements

For the Year Ended December 31, 2003

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Note 12– Contractual Commitments

At December 31, 2003, the Plant’s significant contractual commitments consisted of:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Remaining on Contract</u>
Lake Road Interceptor	\$750,285	\$743,271	\$7,014
Roof Repairs	13,100	12,404	696
Masonry Repairs	73,500	0	73,500
	<u>\$836,885</u>	<u>\$755,675</u>	<u>\$81,210</u>

SUPPLEMENTAL INFORMATION

Rocky River Wastewater Treatment Plant
 Schedule of Revenues, Expenses and Changes in Fund Equity -
 Budget (Non-GAAP Basis) and Actual
 For the Year Ended December 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for Services	\$3,402,545	\$3,402,395	\$3,405,136	\$2,741
Interest	62,500	42,500	38,916	(3,584)
Other	0	0	727	727
<i>Total Revenues</i>	<u>3,465,045</u>	<u>3,444,895</u>	<u>3,444,779</u>	<u>(116)</u>
Expenses				
Personal Services	1,235,719	1,235,719	1,215,867	19,852
Contractual Services	382,625	409,053	251,696	157,357
Materials and Supplies	459,275	478,955	382,570	96,385
Heat, Light and Power	690,000	697,000	664,848	32,152
Landfill	135,000	135,004	98,904	36,100
Capital Outlay	981,513	887,598	543,600	343,998
Debt Service:				
Principal Retirement	112,378	249,727	249,727	0
Interest and Fiscal Charges	273,734	608,296	608,296	0
<i>Total Expenses</i>	<u>4,270,244</u>	<u>4,701,352</u>	<u>4,015,508</u>	<u>685,844</u>
Net Change in Fund Equity	(805,199)	(1,256,457)	(570,729)	685,728
Fund Equity Beginning of Year	3,742,560	3,742,560	3,742,560	0
Prior Year Encumbrances Appropriated	<u>420,108</u>	<u>420,108</u>	<u>420,108</u>	<u>0</u>
Fund Equity End of Year	<u><u>\$3,357,469</u></u>	<u><u>\$2,906,211</u></u>	<u><u>\$3,591,939</u></u>	<u><u>\$685,728</u></u>

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

Change in Net Assets	(\$909,176)
Net Adjustments for Revenue Accruals	(396,435)
Net Adjustments for Expense Accruals	(175,726)
Depreciation Expense	1,187,715
Capital Outlay	(543,600)
Capital Contributions	400,000
Encumbrances	<u>(133,507)</u>
Excess of Revenue Under Expenses	<u><u>(\$570,729)</u></u>

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' 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

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, 2003 and have issued our report thereon dated June 15, 2004. 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 *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. 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 15, 2004.

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

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

Betty Montgomery
Auditor of State

June 15, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
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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 8, 2004**