

**Rocky River Wastewater
Treatment Plant
Cuyahoga County**

**Financial Statements
For the Year Ended December 31, 2014**



Dave Yost • Auditor of State

Management Committee
Rocky River Wastewater Treatment Plant
21012 Hilliard Boulevard
Rocky River, Ohio 44116

We have reviewed the *Independent Auditor's Report* of the Rocky River Wastewater Treatment Plant, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2014 to December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Rocky River Wastewater Treatment Plant is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 20, 2015

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Rocky River Wastewater Treatment Plant

For the Year Ended December 31, 2014

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Independent Auditor's Report

To the Management Committee of the
Rocky River Wastewater Treatment Plant
Rocky River, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Rocky River Wastewater Treatment Plant (the "Plant") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Plant's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plant's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plant's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Plant, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Management Committee of the
Rocky River Wastewater Treatment Plant

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plant's basic financial statements. The budgetary comparison information on pages 25 through 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2015 on our consideration of the Plant's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plant's internal control over financial reporting and compliance.

Ciuni & Panichi, Inc.

Cleveland, Ohio
July 31, 2015

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2014

The annual financial report of the Rocky River Wastewater Treatment Plant (the "Plant") consists of three sections – Management's Discussion and Analysis, the Basic Financial Statements, and Supplemental Information. The Basic Financial Statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. Since the Plant only uses one fund for its operation, the entity-wide and the fund presentation information are the same. The Supplemental Information includes the Schedule of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Budgetary Basis) and Actual and related notes to the Supplemental Information.

The Management's Discussion and Analysis of the financial performance provides an overall review of the Plant's financial activities for the year ended December 31, 2014. The intent of this section is to look at the Plant's financial performance as a whole; readers should also review the Basic Financial Statements to enhance their understanding of the Plant's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- Total cash and cash equivalents decreased \$75,577, which represents a 2.29 percent decrease from 2013.
- Total expenses were \$5,317,310, a \$429,914 increase from 2013.
- Outstanding debt decreased by \$547,164.

Using this Annual Financial Report

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

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position looks at the Plant as a whole and can prove to be a useful indicator of the Plant's financial position. These Statements present all assets and liabilities both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. The accrual basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

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

Rocky River Wastewater Treatment Plant

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

For the Year Ended December 31, 2014

Table 1 provides a summary of the Plant's Net Position for 2014 compared to 2013.

Table 1
Net Position

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|----------------------|----------------------|
| Assets | | |
| Current Assets | \$ 3,449,614 | \$ 3,693,644 |
| Capital Assets, Net | <u>27,716,815</u> | <u>28,585,837</u> |
| Total Assets | <u>31,166,429</u> | <u>32,279,481</u> |
| Liabilities | | |
| Current Liabilities | 1,447,262 | 1,053,503 |
| Noncurrent Liabilities | <u>8,883,092</u> | <u>9,486,959</u> |
| Total Liabilities | <u>10,330,354</u> | <u>10,540,462</u> |
| Net Position | | |
| Net Investment in Capital Assets | 18,498,947 | 18,820,805 |
| Unrestricted | <u>2,337,128</u> | <u>2,918,214</u> |
| Total Net Position | <u>\$ 20,836,075</u> | <u>\$ 21,739,019</u> |

The Plant's total Net Position decreased from a year ago. There was a decrease of \$902,944 from \$21,739,019 to \$20,836,075.

The decrease in Net Position was primarily due to having greater expenses than revenues received, see detail of changes in Table 2.

The total liabilities decrease was mainly due to the payments made on Plant loans.

Rocky River Wastewater Treatment Plant

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

For the Year Ended December 31, 2014

Table 2 shows the changes in Net Position for the year ended December 31, 2014 as well as revenue and expense comparisons to 2013.

Table 2
Revenues and Expenses

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|----------------------|----------------------|
| Operating Revenues | | |
| Charges for Services | \$ 4,327,862 | \$ 4,351,332 |
| Intergovernmental | 1,369 | - |
| Other Revenues | 1,450 | 2,826 |
| Non-Operating Revenues | | |
| Grant Revenue | 80,057 | - |
| Interest Revenue | <u>3,628</u> | <u>4,823</u> |
| Total Revenues | <u>4,414,366</u> | <u>4,358,981</u> |
| Operating Expenses | | |
| Personal Services | 1,400,140 | 1,420,755 |
| Contractual Services | 733,071 | 401,970 |
| Materials and Supplies | 479,575 | 351,646 |
| Heat, Light and Power | 608,881 | 611,279 |
| Landfill | 208,064 | 222,002 |
| Depreciation | 1,495,622 | 1,463,174 |
| Non-Operating Expenses | | |
| Interest and Fiscal Charges | <u>391,957</u> | <u>416,570</u> |
| Total Expenses | <u>5,317,310</u> | <u>4,887,396</u> |
| Decrease in Net Position | (902,944) | (528,415) |
| Net Position Beginning of Year | <u>21,739,019</u> | <u>22,267,434</u> |
| Net Position End of Year | \$ <u>20,836,075</u> | \$ <u>21,739,019</u> |

Rocky River Wastewater Treatment Plant

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

For the Year Ended December 31, 2014

Analysis of Overall Financial Position and Results of Operations

The primary reason for the difference between 2014 and 2013 change in Net Position was the excess of expenses over revenues. There was an increase in overall expenditures due to three large capital improvement projects beginning in 2014. Two of these projects are being funded by Ohio Public Works Commission funds causing an increase in revenues as well. The Plant had expenditure classes which fluctuated in both directions with increases and decreases depending on the activity for the year.

Budgeting Highlights

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

Financial information including budget-to-actual comparisons is reported to the Management Committee Chair and Plant Superintendent on a monthly basis. Cash and investments and all capital projects and requests for capital type purchases are budgeted by an annual appropriations ordinance and any supplemental appropriations ordinance(s) as necessary. Recommendations for budget changes from the Plant Superintendent are presented to City Council as a supplemental appropriations ordinance.

During 2014, the Plant did not require supplemental appropriations; therefore the original appropriations and final appropriations in total were \$8,568,876. The total original and final budgeted revenues were \$7,459,149.

Capital Assets

Table 3 provides a summary of the Plant's Capital Assets, net of accumulated depreciation, for 2014 compared to 2013.

Table 3
Capital Assets, Net

| | <u>2014</u> | <u>2013</u> |
|--------------------------|----------------------|----------------------|
| Construction in Progress | \$ 625,683 | \$ 38,340 |
| Treatment Plant | 26,991,749 | 28,432,920 |
| Equipment and Vehicles | <u>99,383</u> | <u>114,577</u> |
| Totals | \$ <u>27,716,815</u> | \$ <u>28,585,837</u> |

Capital Assets, net of accumulated depreciation decreased by \$869,022 primarily due to the depreciation taken against additions. For more information on capital assets, see Note 8 to the Basic Financial Statements.

Rocky River Wastewater Treatment Plant

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

For the Year Ended December 31, 2014

Debt

The Plant's debt consists of a 25-year loan from the Ohio Water Development Authority (OWDA) with an interest rate of 5.50 percent. The balance of the outstanding amount of the loan at December 31, 2014 is \$7,011,552. The Plant has four Ohio Public Works Commission (OPWC) loans; each loan has a zero percent interest rate and a term of 20 years. The balance of the outstanding amounts of the loans at December 31, 2014 is \$2,206,316. The Plant has no bonded indebtedness. See Note 9 for additional information on debt.

Current Financial Related Activities

During 2014, the Plant began progress on two Ohio Public Works Commission projects: 1) WWTP Improvements 2013 – 2016 and 2) WWTP 2014 – 2017 Capital Improvements Project. The facets of the WWTP Improvements 2013 – 2016 include repair/replacement of components of the four trickling filters and certain electronic actuators and controls. The facets of the WWTP 2014 – 2017 Capital Improvements Project include repair/replacement of a series of Plant components and equipment that date to 1961. The Plant also incurred expenditures relating to the Sewage Pump Replacement Project and Secondary Digester Cleaning Project.

Contacting the Plant Finance Department

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

Rocky River Wastewater Treatment Plant

Statement of Net Position

December 31, 2014

Assets:

Current Assets:

| | | |
|----------------------------------|----|------------------|
| Cash and Cash Equivalents | \$ | 3,223,040 |
| Accounts Receivable | | 111,275 |
| Intergovernmental Receivable | | 1,369 |
| Grants Receivable | | 52,530 |
| Accrued Interest Receivable | | 1,714 |
| Materials and Supplies Inventory | | <u>59,686</u> |
| Total Current Assets | | <u>3,449,614</u> |

Noncurrent Assets:

Capital Assets:

| | | |
|--------------------------------|--|---------------------|
| Construction in Progress | | 625,683 |
| Treatment Plant | | 57,622,851 |
| Equipment | | 622,032 |
| Vehicles | | 37,530 |
| Less: Accumulated Depreciation | | <u>(31,191,281)</u> |
| Total Noncurrent Assets | | <u>27,716,815</u> |

Total Assets 31,166,429

Liabilities:

Current Liabilities:

| | | |
|--------------------------------------|--|------------------|
| Accounts Payable | | 532,297 |
| Accrued Wages and Benefits | | 30,589 |
| Intergovernmental Payable | | 42,537 |
| Matured Compensated Absences Payable | | 22,214 |
| Accrued Interest Payable | | 192,818 |
| OPWC Loans Payable | | 147,924 |
| OWDA Loans Payable | | <u>478,883</u> |
| Total Current Liabilities | | <u>1,447,262</u> |

Noncurrent Liabilities:

| | | |
|---|--|------------------|
| Compensated Absences Payable | | 292,031 |
| OPWC Loans Payable (Net of Current Portion) | | 2,058,392 |
| OWDA Loans Payable (Net of Current Portion) | | <u>6,532,669</u> |

Total Noncurrent Liabilities 8,883,092

Total Liabilities 10,330,354

Net Position:

| | | |
|----------------------------------|----|--------------------------|
| Net Investment in Capital Assets | | 18,498,947 |
| Unrestricted | | <u>2,337,128</u> |
| Total Net Position | \$ | <u><u>20,836,075</u></u> |

The accompanying notes are an integral part of these basic financial statements.

Rocky River Wastewater Treatment Plant

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2014

| | |
|---|-----------------------------|
| Operating Revenues: | |
| Charges for Services | \$ 4,327,862 |
| Intergovernmental | 1,369 |
| Other Revenues | <u>1,450</u> |
| Total Operating Revenues | <u>4,330,681</u> |
| Operating Expenses: | |
| Personal Services | 1,400,140 |
| Contractual Services | 733,071 |
| Materials and Supplies | 479,575 |
| Heat, Light and Power | 608,881 |
| Landfill | 208,064 |
| Depreciation | <u>1,495,622</u> |
| Total Operating Expenses | <u>4,925,353</u> |
| Operating Loss | <u>(594,672)</u> |
| Non-Operating Revenues and (Expenses): | |
| Grant Revenue | 80,057 |
| Interest Revenue | 3,628 |
| Interest and Fiscal Charges | <u>(391,957)</u> |
| Total Non-Operating Revenues and (Expenses) | <u>(308,272)</u> |
| Change in Net Position | (902,944) |
| Net Position at Beginning of Year | <u>21,739,019</u> |
| Net Position at End of Year | \$ <u><u>20,836,075</u></u> |

The accompanying notes are an integral part of these basic financial statements.

Rocky River Wastewater Treatment Plant

Statement of Cash Flows

For the Year Ended December 31, 2014

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

| | | |
|---|----|--------------------|
| Cash Received from Customers | \$ | 4,553,571 |
| Cash Received from Other Operating Sources | | 1,450 |
| Cash Payments to Suppliers for Goods and Services | | (2,073,095) |
| Cash Payments for Employee Services and Benefits | | <u>(1,429,392)</u> |

Net Cash Provided by Operating Activities 1,052,534

Cash Flows from Capital and Related Financing Activities:

| | | |
|--------------------------------|--|------------------|
| Acquisition of Capital Assets | | (207,472) |
| Intergovernmental – OPWC Grant | | 27,527 |
| Proceeds from OPWC Loan | | 54,353 |
| Principal Paid on OWDA Loan | | (453,593) |
| Principal Paid on OPWC Loan | | (147,924) |
| Interest Paid on OWDA Loan | | <u>(404,431)</u> |

Net Cash Used for Capital and Related Financing Activities (1,131,540)

Cash Flows from Investing Activities:

| | | |
|-------------------|--|--------------|
| Interest Received | | <u>3,429</u> |
|-------------------|--|--------------|

Net Decrease in Cash and Cash Equivalents (75,577)

Cash and Cash Equivalents, Beginning of Year 3,298,617

Cash and Cash Equivalents, End of Year \$ 3,223,040

(continued)

The accompanying notes are an integral part of these basic financial statements.

Rocky River Wastewater Treatment Plant

Statement of Cash Flows (continued)

For the Year Ended December 31, 2014

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

| | | |
|---|----|------------------|
| Operating Loss | \$ | (594,672) |
| Adjustments: | | |
| Depreciation | | 1,495,622 |
| Changes in Assets/Liabilities: | | |
| Decrease in Accounts Receivable | | 225,709 |
| Increase in Intergovernmental Receivable | | (1,369) |
| Increase in Inventory | | (3,158) |
| Decrease in Accounts Payable | | (10,266) |
| Increase in Accrued Wages and Benefits | | 5,973 |
| Increase in Matured Compensated Absences | | 22,214 |
| Decrease in Compensated Absences | | (60,124) |
| Decrease in Retainage Payable | | (30,080) |
| Increase in Intergovernmental Payable | | <u>2,685</u> |
| Total adjustments | | <u>151,584</u> |
| Net Cash Provided by Operating Activities: | \$ | <u>1,052,534</u> |
| Supplemental Schedule of Non-Cash Capital and Related Financing Activities: | | |
| Capital Assets acquired through Accounts and Retainage Payable | \$ | 419,128 |

The accompanying notes are an integral part of these basic financial statements.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements

For the Year Ended December 31, 2014

Note 1: Description of the Plant and Reporting Entity

The Rocky River Wastewater Treatment Plant (the “Plant”) was organized by the Ohio municipal corporations of the City of Bay Village, the City of Fairview Park, the City of Rocky River, and the City of Westlake (individually, a “Member City;” collectively, the “Member Cities”) upon authority conferred by Article XVIII of the Ohio Constitution and by Ohio Revised Code Section 715.02 which provides, in part that, “two or more municipal corporations . . . may enter into an agreement for the joint construction or management, or construction and management, of any public work, utility, or improvement, benefiting each municipal corporation . . .”

The original organizing agreement among the Member Cities was adopted in 1982 and has been subsequently amended by mutual agreement of the Member Cities. The Member Cities adopted Operating By-Laws in July 1982.

The Plant has a Management Committee consisting of the Mayor of each Member City or his/her designee and a fifth member who is appointed by the four Mayors. The Management Committee serves without compensation. The organizing agreement provides that the fifth member may be compensated. In 2014, that member served without compensation.

The Plant is managed by the City of Rocky River with a report of operational activities made to the Management Committee annually. Personnel at the Plant are employees of the City of Rocky River. Pursuant to the organizing agreement (and amendments), the Plant is jointly owned by the Member Cities with each Member City’s share being in proportion to its contribution to the total cost of constructing certain improvements. The Plant is a joint venture in which each Member City has an equity interest. Also, each Member City owns the sanitary sewer lines located in its city and bills residents for wastewater collection services.

The Plant is located at 22303 Lake Road in Rocky River, Ohio, on land owned by that Member City. The Plant supplies all participating residents of the Member Cities, with a combined population of approximately 86,000, with wastewater treatment services. The Plant is a secondary wastewater treatment plant with a dry weather capacity of 22.5 million gallons per day (MGD) and can provide complete primary and secondary treatment for 45 MGD, and primary treatment only for flows up to 128 MGD. The Plant facility was originally built in 1961 (primary treatment) with a major expansion completed in 1985 (addition of secondary biological treatment process required by the 1972 Clean Water Act) and further expanded with a major upgrade to increase primary treatment in 2000. The City has employed a staff of 17 to perform operational duties at the Plant, all which have State of Ohio Environmental Protection Agency license certifications ranging from Class I through Class IV. All amounts shown in the table below are in million gallons.

| <u>Year</u> | <u>Average Daily Flow</u> | <u>Largest Flow in 24 Hour Period</u> | <u>Peak Influent Flow Rate</u> | <u>Total Wastewater Treated</u> |
|-------------|-----------------------------------|---|--|---|
| 2014 | 15.11 | 70.52 | 141.5 | 5,516 |
| 2013 | 13.98 | 74.69 | 142.0 | 5,102 |
| 2012 | 13.96 | 92.24 | 129.8 | 5,097 |
| 2011 | 18.07 | 81.54 | 145.4 | 6,595 |
| 2010 | 12.03 | 46.95 | 82.3 | 4,392 |

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 1: Description of the Plant and Reporting Entity (continued)

The Plant is authorized to discharge according to National Pollutant Discharge Elimination System (NPDES) Permit No. 3PE00009 * KD issued by the State of Ohio Environmental Protection Agency on December 5, 2011 effective January 1, 2012 to July 31, 2016. The discharge permit establishes certain limits for the quality of water that is discharged from the Plant.

The reporting entity is comprised of the Plant, component units, and other organizations that may be included to ensure that the financial statements of the Plant are not misleading. The primary government consists of all funds, 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.

Component units may also include organizations for which the Plant approves the budget, the issuance of debt, or the levying of taxes. The Plant has no component units.

The Plant charges each Member City for wastewater treatment services in accordance with the 1982 organizing agreement, as amended. Such charges are allocated based upon each Member City's relative treatment plant usage as determined by a periodic flow quantity and strength study. The following percentages represent the Member City's allocation of Plant expenditures for the year ended December 31, 2014:

| | |
|---------------|-----------------|
| Bay Village | 24.800% |
| Fairview Park | 15.850 |
| Rocky River | 25.310 |
| Westlake | <u>34.040</u> |
| Total | <u>100.000%</u> |

The flow quantity and strength study that established the above listed rates was completed in May 2013. The continued existence of the Plant is dependent upon the participation of each Member City.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies

The financial statements of the Plant have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Plant's accounting policies are described as follows.

A. Basis of Presentation

The Plant's basic financial statements consist of a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; 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 position, financial position, and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

B. Measurement Focus

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

C. Basis of Accounting

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

On the accrual basis, revenue is recorded on exchange transactions when the exchange takes place. Non-exchange 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 Director of Finance of the City of Rocky River, the Plant's fiscal agent, in separate bank accounts and may be invested in short-term investments as described in Note 4. The balances in these accounts are presented on the Statement of Net Position as "Cash and Cash Equivalents" and represent deposits. During 2014, the Plant held only cash and cash equivalents.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

D. Cash and Cash Equivalents (continued)

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

E. Inventory

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

F. Capital Assets

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

All Capital Assets are depreciated, except for Construction In Progress. Improvements are depreciated over the remaining useful lives of the related Capital Assets. Depreciation 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 may capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2014, the Plant did not capitalize any interest.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Plant will compensate the employees for the benefits through paid-time-off or some other means. Vacation leave is earned at rates which vary depending upon length of service and standard work week. Vacation accumulation is limited to two years. Vacation leave not used within two years is eliminated from the employee's leave balance.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

H. Compensated Absences (continued)

The Plant records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service. Accrued vacation is paid to employees as paid-time-off or at the time of termination.

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

Employees earn sick leave at the rate of 2.3 hours for every 40 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. Net Position

Net Position represents the difference between assets and liabilities. Net Investment in Capital Assets 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 Position is reported as restricted when there are limitations imposed on their use either by policy adopted by the Management Committee or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Plant applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. The Plant did not have any restricted Net Position as of December 31, 2014.

J. 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 Revenues. Operating Expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Plant. Revenues and expenses which do not meet these definitions are reported as Non-Operating Revenues or Expenses.

K. 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.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 3: Changes in Accounting Principles

For 2014, the Plant implemented Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 69 establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. The implementation of this statement did not result in any change in the Plant's financial statements.

GASB Statement No. 70 establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e. nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. The implementation of this statement did not result in any change in the Plant's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The Plant has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

Note 4: Deposits

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

City of Rocky River, Charter, Article VII, Section 3 provides, "The Director of Finance may invest moneys of the City in any or all of the following: Bonds or notes of this City, bonds or other obligations of the United States or those for the payment of principal and interest of which the faith of the United States is pledged, bonds or other obligations of this State and bonds or other obligations of any political subdivision or taxing district of this State as to which there is no default of principal or interest, in such manner as is now or hereafter provided by ordinance of Council or by the laws of the State of Ohio, and the State Treasury Asset Reserve (STAR), an investment pool managed by the Ohio Treasurer of State, as defined in Section 135.45(F)(2)(a) of the Ohio Revised Code."

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

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 4: Deposits (continued)

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

At December 31, 2014, the carrying amount of the Plant's deposits was \$3,223,040 and the bank balance was \$3,262,074. Of the bank balance, \$750,000 was covered by federal depository insurance and \$2,512,074 was uninsured. The entire uninsured bank balance was collateralized with securities held by pledging institutions' agents in its collateral pool.

Note 5: Receivables

Receivables at December 31, 2014, consist of accrued interest, grants receivable from the Ohio Public Works Commission for improvement projects and accounts receivable from the City of Rocky River for one month of their monthly expenses.

Note 6: Risk Management

The Plant is exposed to various risks related to damage to, theft of, and destruction of assets, torts, errors and omissions, natural disasters, and injuries to employees. The Plant has obtained insurance to manage these and other risks. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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

Protection for employees injured at the Plant is provided through the City of Rocky River by the Ohio Bureau of Workers' Compensation. The City of Rocky River has contracted with a third-party administrator and a managed care organization to provide case management, consulting, and administrative services to the Plant.

Note 7: Contingent Liabilities

There were no legal proceedings seeking damages against the Plant as of December 31, 2014. Plant management is not aware of any pending claims, asserted or unasserted, as of December 31, 2014.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 8: Capital Assets

Capital Asset activity for the year ended December 31, 2014, was as follows:

| | Balance <u>12/31/13</u> | <u>Additions</u> | <u>Disposals</u> | Balance <u>12/31/14</u> |
|---|----------------------------|---------------------|------------------|----------------------------|
| Capital Assets, not being Depreciated: | | | | |
| Construction in Progress | \$ <u>38,340</u> | \$ <u>587,343</u> | \$ <u>-</u> | \$ <u>625,683</u> |
| Capital Assets, being Depreciated: | | | | |
| Treatment Plant | 57,622,851 | - | - | 57,622,851 |
| Equipment | 582,775 | 39,257 | - | 622,032 |
| Vehicles | <u>37,530</u> | <u>-</u> | <u>-</u> | <u>37,530</u> |
| Total Capital Assets, being Depreciated | <u>58,243,156</u> | <u>39,257</u> | <u>-</u> | <u>58,282,413</u> |
| Less Accumulated Depreciation: | | | | |
| Treatment Plant | (29,189,931) | (1,441,171) | - | (30,631,102) |
| Equipment | (468,198) | (54,451) | - | (522,649) |
| Vehicles | <u>(37,530)</u> | <u>-</u> | <u>-</u> | <u>(37,530)</u> |
| Total Accumulated Depreciation | <u>(29,695,659)</u> | <u>(1,495,622)</u> | <u>-</u> | <u>(31,191,281)</u> |
| Total Capital Assets, being Depreciated, Net | <u>28,547,497</u> | <u>(1,456,365)</u> | <u>-</u> | <u>27,091,132</u> |
| Total Capital Assets, Net | \$ <u>28,585,837</u> | \$ <u>(869,022)</u> | \$ <u>-</u> | \$ <u>27,716,815</u> |

Note 9: Long-Term Obligations

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

| | Outstanding <u>12/31/13</u> | <u>Additions</u> | <u>Deletions</u> | Outstanding <u>12/31/14</u> | Amounts Due <u>in One Year</u> |
|---|--------------------------------|-------------------|---------------------|--------------------------------|-----------------------------------|
| 2000 5.50% \$11,582,103 | | | | | |
| OWDA Loan – Matures 7/1/25 | \$ 7,465,145 | \$ - | \$ (453,593) | \$ 7,011,552 | \$ 478,883 |
| 0.00% OPWC | | | | | |
| Trickling Filter Recycle Pump Replacement | 191,988 | - | (13,714) | 178,274 | 13,714 |
| WWTP Improvements | 1,794,653 | - | (115,784) | 1,678,869 | 115,784 |
| WWTP Improvements 2008/2009 | 313,246 | - | (18,426) | 294,820 | 18,426 |
| WWTP Improvements 2013/2016 | - | 54,353 | - | 54,353 | - |
| Compensated Absences Payable | <u>352,155</u> | <u>66,669</u> | <u>(126,793)</u> | <u>292,031</u> | <u>-</u> |
| Total | \$ <u>10,117,187</u> | \$ <u>121,022</u> | \$ <u>(728,310)</u> | \$ <u>9,509,899</u> | \$ <u>626,807</u> |

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 9: Long-Term Obligations (continued)

Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2014, are as follows:

| Year | OWDA Loan | | OPWC Loans | | | Total |
|-----------|---------------------|---------------------|-------------------|---------------------|--------------------------|----------------------|
| | Principal | Interest | Trickling Filter | Improvements | Improvements 2008 - 2009 | |
| 2015 | \$ 478,884 | \$ 379,140 | \$ 13,714 | \$ 115,784 | \$ 18,426 | \$ 1,005,948 |
| 2016 | 505,584 | 352,440 | 13,714 | 115,784 | 18,426 | 1,005,948 |
| 2017 | 533,774 | 324,250 | 13,714 | 115,784 | 18,426 | 1,005,948 |
| 2018 | 563,535 | 294,489 | 13,714 | 115,784 | 18,426 | 1,005,948 |
| 2019 | 594,955 | 263,069 | 13,714 | 115,784 | 18,426 | 1,005,948 |
| 2020-2024 | 3,510,938 | 779,180 | 68,570 | 578,921 | 92,130 | 5,029,739 |
| 2025-2029 | 823,882 | 34,143 | 41,134 | 521,028 | 92,130 | 1,512,317 |
| 2030-2034 | - | - | - | - | 18,430 | 18,430 |
| Total | \$ <u>7,011,552</u> | \$ <u>2,426,711</u> | \$ <u>178,274</u> | \$ <u>1,678,869</u> | \$ <u>294,820</u> | \$ <u>11,590,226</u> |

In July 2001, the OWDA finalized a loan for Plant expansion totaling \$11,582,103. The loan is being repaid in semi-annual installments of \$429,012 beginning in July 2001, over 24 years, ending in 2025 at 5.5 percent interest.

In September 2007, the OPWC finalized an interest-free loan to the Plant for the Trickling Filter Recycle Pump Replacement project totaling \$274,272. The loan will be repaid in semi-annual installments of approximately \$6,857 over an estimated 20 years, ending in 2027.

In January 2009, the OPWC finalized an interest-free loan for the plant improvements project totaling \$2,315,681. The loan will be repaid in semi-annual installments of approximately \$57,892 beginning in 2009 over an estimated 20 years, ending in 2029.

In May 2010, the OPWC finalized an interest-free loan for the WWTP Improvements 2008 – 2009 projects totaling \$368,524. The loan will be repaid in semi-annual installments of \$9,213 beginning in 2011 over an estimated 20 years, ending in 2030.

The Plant also obtained an OPWC loan for the WWTP Improvements 2013 – 2016 to be repaid in semi-annual principal payments upon project completion. OPWC has authorized this loan up to \$861,600 and the Plant continues to draw monies against this loan, therefore, the debt maturity schedule above does not reflect any amounts for principal or interest. When the loan is finalized, the principal and interest will be included above.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 10: Related Party Transactions

Since the continued existence of the Plant is dependent upon the participation of each Member City, all transactions between the Plant and each Member City are considered related party transactions. The Plant's transactions during 2014, involving the four Member Cities, are summarized as follows:

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

Charges for services revenue for 2014 consists of amounts charged to the Member Cities for wastewater treatment services provided to the Member Cities' residents, of which a portion is considered a contribution to the Plant for plant and equipment replacement. The total charges for services and contributions to the Plant are as follows:

| | Charges for <u>Services</u> | <u>Contributions</u> |
|---------------|--------------------------------|----------------------|
| Bay Village | \$ 1,014,872 | \$ 207,328 |
| Fairview Park | 695,832 | 132,506 |
| Rocky River | 1,112,748 | 211,592 |
| Westlake | <u>1,504,410</u> | <u>284,574</u> |
| Total | <u>\$ 4,327,862</u> | <u>\$ 836,000</u> |

As of December 31, 2014, the City of Rocky River owed the Plant \$111,275 for the charges discussed above which is recorded as Accounts Receivable in the Statement of Net Position.

B. Land Use Agreement

The Plant is located on property of the City of Rocky River. The organizing agreement (as amended) provides for an annual payment of \$57,000 to the City for the land.

Note 11: Pension Plan

Employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension 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 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and (vested) employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional pension plan benefit. Member contributions, the investment of which is self-directed by the members, 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 pension and combined plans. Members of the member-directed plan do not qualify for these ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 11: Pension Plan (continued)

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>; by writing to OPERS at 277 East Town Street, Columbus, Ohio, 43215-4642; or by calling (614) 222-5601 or 800-222-7377.

For 2014, the member and employer contribution rates were consistent across all three plans. For the year ended December 31, 2014, the members of all three plans were required to contribute 10.0 percent of their annual earnable salaries to fund pension obligations. The Plant contributed 14.0 percent of earnable salaries, of which 2.0 percent was used to fund health care coverage for retirees for both traditional pension plan combined plan members. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Plant's required contributions for pension obligations to the traditional pension and combined plans for the years ended December 31, 2014, 2013, and 2012 were \$125,201, \$136,489, and \$96,395, respectively; 86.77 percent has been contributed for 2014, 100 percent for 2013 and 2012. There were no contributions to the member-directed plan for 2014.

Note 12: Post-Employment Benefits

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age-and-service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

The Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB Plan to its eligible members and beneficiaries. Authority to establish and amend the OPEB Plan is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>; by writing OPERS at 227 E. Town St., Columbus, Ohio, 43215-4642; or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits. Employer contribution rates are expressed as a percentage of the earnable salaries of active members.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 12: Post-Employment Benefits (continued)

In 2014, the Plant contributed at a rate of 14.0 percent of earnable salaries. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent earnable salaries for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of the post-employment health care benefits. The portion of employer contributions allocated to the health care plan for members of the traditional pension and combined plans was 2.0 percent during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0 percent for both plans, as recommended by the OPERS' Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Plant's contributions for health care for the years ended December 31, 2014, 2013, and 2012 were \$20,867, \$10,499, and \$38,558, respectively; 86.77 percent has been contributed for 2014, 100 percent for 2013 and 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.0 percent of the employer contributions toward the health care fund after the end of the transition period.

Note 13: Contractual Commitments

At December 31, 2014, the Plant's significant contractual commitments consisted of:

| <u>Project</u> | <u>Contract Amount</u> | <u>Amount Paid</u> | <u>Remaining on Contract</u> |
|---------------------------------------|----------------------------|------------------------|----------------------------------|
| Equipment Replacement | \$ 273,919 | \$ 51,127 | \$ 222,792 |
| Secondary Digester Cleaning Project | 611,752 | 296,280 | 315,472 |
| Miscellaneous Projects, Engineering | 576,225 | 501,616 | 74,609 |
| 2013-2016 Capital Improvement Project | 543,890 | 95,689 | 448,201 |
| 2014-2017 Capital Improvement Project | 481,229 | 56,038 | 425,191 |
| Total | \$ <u>2,487,015</u> | \$ <u>1,000,750</u> | \$ <u>1,486,265</u> |

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 14: Compliance

The Plant had one violation of the National Pollutant Discharge Elimination System (NPDES) Permit for oil and grease on June 18, 2014. Neither the U.S. Environmental Protection Agency nor the Ohio Environmental Protection Agency have notified the Plant of a proposed penalty thereon. On October 29, 2014, the Ohio Environmental Protection Agency conducted a compliance inspection of the Plant; at this time the final report is pending; however management has determined that this issue is not a significant or reportable noncompliance violation and will not have a material effect on the financial statements.

Rocky River Wastewater Treatment Plant

Supplemental Information

Schedule of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Budgetary Basis) and Actual

For the Year Ended December 31, 2014

| | Budget | | Actual | Variance With Final Budget Positive (Negative) |
|--------------------------------------|---------------------|---------------------|---------------------|--|
| | Original | Final | | |
| Revenues: | | | | |
| Charges for Services | \$ 4,196,592 | \$ 4,196,592 | \$ 4,553,571 | \$ 356,979 |
| Intergovernmental | 3,251,257 | 3,251,257 | 81,880 | (3,169,377) |
| Other Revenues | 4,500 | 4,500 | 1,450 | (3,050) |
| Investment Revenue | 6,800 | 6,800 | 3,429 | (3,371) |
| Total Revenues | <u>7,459,149</u> | <u>7,459,149</u> | <u>4,640,330</u> | <u>(2,818,819)</u> |
| Expenses: | | | | |
| Personal Services | 1,528,769 | 1,528,769 | 1,429,394 | 99,375 |
| Contractual Services | 1,684,861 | 1,692,861 | 1,135,501 | 557,360 |
| Materials and Supplies | 594,710 | 584,710 | 525,320 | 59,390 |
| Heat, Light and Power | 650,059 | 675,059 | 618,332 | 56,727 |
| Landfill | 320,423 | 297,423 | 263,479 | 33,944 |
| Capital Outlay | 2,783,819 | 2,783,819 | 1,380,820 | 1,402,999 |
| Debt Service: | | | | |
| Principal Retirement | 601,735 | 601,735 | 601,517 | 218 |
| Interest and Fiscal Charges | <u>404,500</u> | <u>404,500</u> | <u>404,431</u> | <u>69</u> |
| Total Expenses | <u>8,568,876</u> | <u>8,568,876</u> | <u>6,358,794</u> | <u>2,210,082</u> |
| Net Change in Fund Equity | (1,109,727) | (1,109,727) | (1,718,464) | (608,737) |
| Fund Equity at Beginning of Year | 2,944,112 | 2,944,112 | 2,944,112 | - |
| Prior Year Encumbrances Appropriated | <u>354,505</u> | <u>354,505</u> | <u>354,505</u> | - |
| Fund Equity at End of Year | \$ <u>2,188,890</u> | \$ <u>2,188,890</u> | \$ <u>1,580,153</u> | \$ <u>(608,737)</u> |

(continued)

The accompanying notes are an integral part of this schedule.

Rocky River Wastewater Treatment Plant

Supplemental Information

Schedule of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Budgetary Basis) and Actual (continued)

For the Year Ended December 31, 2014

The following table summarizes the adjustments necessary to reconcile the changes in net position to the changes in fund equity.

| | | |
|--------------------------------------|----|---------------------------|
| Change in Net Position | \$ | (902,944) |
| Net Adjustments for Revenue Accruals | | 225,964 |
| Net Adjustments for Expense Accruals | | 486,601 |
| Depreciation Expense | | 1,495,622 |
| Capital Outlay | | (1,380,820) |
| Encumbrances | | <u>(1,642,887)</u> |
| Change in Fund Equity | \$ | <u><u>(1,718,464)</u></u> |

The accompanying notes are an integral part of this schedule.

Rocky River Wastewater Treatment Plant

Notes to Supplemental Information

For the Year Ended December 31, 2014

Note 1: Budgetary Basis of Accounting

On the accrual basis of accounting used by the Plant, expenses are recognized at the time they are incurred.

The Schedule of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Budgetary Basis) and Actual is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The budgetary basis, as provided by the general laws of the State of Ohio, is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. In addition, allocations of cost, such as depreciation, are not recognized on a budgetary basis; and outlays for capital assets are capitalized on a GAAP basis.

The table on page 26 presents the adjustments necessary to reconcile the Change in Net Position (GAAP basis) to the Net Change in Fund Equity (budgetary basis).

Note 2: Budgetary Data

The Plant fund is required to be budgeted and appropriated in accordance with the general laws of the State of Ohio. The budget documents prepared are the Alternative Tax Budget Information, the Certificate of Estimated Resources, and the Appropriations Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources establishes a limit on the amount the Management Committee may recommend to appropriate. The Appropriations Ordinance of the City of Rocky River is authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control. The legal level of control has been established through the Appropriation Ordinance at the object level. Budgetary modifications may only be made by supplemental Appropriation Ordinance.

The Certificate of Estimated Resources may be amended during the year if projected increases or decreases in revenue are identified by the City of Rocky River Director of Finance as fiscal agent. The amounts reported as the original budgeted amounts on the budgetary schedule reflect the amounts on the Certificate of Estimated Resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended Certificate of Estimated Resources in effect at the time the permanent appropriations were enacted.

The Appropriation Ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first Appropriation Ordinance for the Plant that covered the entire year, including encumbered amounts carried forward from prior years. The amounts reported as the final budgeted amounts represent the permanent appropriations amounts, as supplemented.

For management purposes, monthly budget-to-actual comparisons are reported to the Superintendent and Management Committee Chair.

**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Management Committee of the
Rocky River Wastewater Treatment Plant
Rocky River, Ohio

We have audited, in accordance with the 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, the financial statements of the business-type activities of the Rocky River Wastewater Treatment Plant (the "Plant"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Plant's basic financial statements, and have issued our report thereon dated July 31, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plant's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plant's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plant's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Plant's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Management Committee of the
Rocky River Wastewater Treatment Plant

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plant's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plant's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plant's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cini & Paricki, Inc.

Cleveland, Ohio
July 31, 2015



Dave Yost • Auditor of State

ROCKY RIVER WASTEWATER TREATMENT PLANT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 5, 2015