

**ROCKY RIVER WASTEWATER
TREATMENT PLANT
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2020**

James G. Zupka, CPA, Inc.
Certified Public Accountants

OHIO AUDITOR OF STATE
KEITH FABER



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Members of the 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 James G. Zupka, CPA, Inc., for the audit period January 1, 2020 through December 31, 2020. 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 "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

August 01, 2021

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**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2020**

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INDEPENDENT AUDITOR'S REPORT

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

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio (the Plant), as of and for the year ended December 31, 2020, 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 financial position of the Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio, as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension and Net Other Postemployment Benefit Liabilities and Pension and Other Postemployment Benefit Contributions as listed in the table of contents 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 Schedule of Revenues, Expenses, and Changes in Fund Equity – Budget (Non-GAAP Budgetary Basis) and Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates 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 above Schedule 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 June 21, 2021, 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 reporting and compliance.

A handwritten signature in black ink that reads "James G. Zupka, CPA, Inc." The signature is written in a cursive, flowing style.

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 21, 2021

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Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2020

The Management's Discussion and Analysis of the financial performance provides an overall review of the Rocky River Wastewater Treatment Plant's (the "Plant") financial activities for the year ended December 31, 2020. 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 highlights for 2020 are as follows:

- During 2020, the Cities of Bay Village, Fairview Park, Rocky River, and Westlake contributed \$5,414,986 combined to the Plant. Of this amount, \$1,300,000 is considered amounts contributed to the Plant for plant and equipment replacement.
- The Plant regularly undergoes regular maintenance and improvements. Currently, the Plant is in the middle of the WWTP 2017-2020 Capital Improvements project with 75% of the funding coming from an Ohio Public Works Commission grant and loan from the State Capital Improvement Program. The remaining 25% of the project resources are from Plant resources set-aside for capital updates. The work on the project was paused during 2020 as a result of delays in receiving certain equipment needed to complete the project.

Using this Annual Financial Report

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

The Statement of Net Position presents the Plant's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between these balances reported as net position. Changes in the Plant's net position can serve as a useful indicator of the Plant's financial position.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Plant's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position use the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when 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)

For the Year Ended December 31, 2020

Table 1 provides a summary of the Plant's net position for 2020 compared to 2019.

Table 1
Net Position

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets	\$ 4,437,280	\$ 3,638,193
Capital Assets, Net	24,348,508	25,950,486
Net Pension Asset	<u>12,173</u>	<u>6,111</u>
Total Assets	<u>28,797,961</u>	<u>29,594,790</u>
Deferred Outflows of Resources		
Pension	262,132	718,769
OPEB	<u>183,372</u>	<u>111,539</u>
Total Deferred Outflows of Resources	<u>445,504</u>	<u>830,308</u>
Liabilities		
Current Liabilities	1,558,394	1,483,340
Noncurrent Liabilities:		
Other Noncurrent Liabilities	6,362,153	6,890,440
Net Pension Liability	1,611,623	2,314,984
Net OPEB Liability	<u>1,085,818</u>	<u>1,061,244</u>
Total Liabilities	<u>10,617,988</u>	<u>11,750,008</u>
Deferred Inflows of Resources		
Pension	386,445	33,804
OPEB	<u>176,531</u>	<u>2,880</u>
Total Deferred Inflows of Resources	<u>562,976</u>	<u>36,684</u>
Net Position		
Net Investment in Capital Assets	17,174,155	18,091,795
Unrestricted	<u>888,346</u>	<u>546,611</u>
Total Net Position	<u>\$ 18,062,501</u>	<u>\$ 18,638,406</u>

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2020

The Plant follows Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27* and GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to pensions and other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Plant's actual financial condition by adding deferred inflows related to pension/OPEB, the net pension/OPEB liability to the reported net position and subtracting deferred outflows related to pension/OPEB and the net pension asset.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension/OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension/OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension/OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability (asset) and the net OPEB liability to equal the Plant's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension/OPEB. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the Plant is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2020

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension/OPEB liability. As explained previously, changes in pension benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension/OPEB liability is satisfied, these liabilities are separately identified within the long-term liability section of the Statement of Net Position.

In accordance with GASB 68 and GASB 75, the Plant's statements prepared on the accrual basis of accounting include an annual pension/OPEB expense for their proportionate share of each plan's change in net pension/OPEB liability and net pension asset not accounted for as deferred inflows/outflows.

Net position may serve over time as a useful indicator of a government's financial position. For the Plant, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$18,062,501 as of December 31, 2020, which is a \$575,905 decrease from the prior year. At the end of the current year, the Plant is able to report positive balances in the net investment in capital assets and unrestricted net position.

The largest portion of the Plant's net position reflects its net investment in capital assets. Capital assets include construction in progress, treatment plant, equipment and vehicles. The Plant uses those capital assets to provide services to its customers; consequently, they are not available for future spending. Net investment in capital assets as of December 31, 2020, was \$17,174,155. Although the Plant's investment is reported net of related debt, it should be noted that resources to repay the debt must be provided from other sources since capital assets may not be used to liquidate these liabilities.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2020

Table 2 shows the changes in Net Position for the year ended December 31, 2020 and 2019.

Table 2
Change in Net Position

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Charges for Services	\$ 5,414,986	\$ 5,172,457
Other Revenues	1,834	9,635
Non-Operating Revenues		
Intergovernmental	62,699	305,418
Interest Revenue	<u>2,444</u>	<u>7,967</u>
Total Revenues	<u>5,481,963</u>	<u>5,495,477</u>
Operating Expenses		
Personal Services	1,768,832	2,007,714
Contractual Services	1,046,318	442,526
Materials and Supplies	376,561	412,620
Utilities	730,058	707,839
Landfill	224,416	198,092
Depreciation	1,687,983	1,688,531
Non-Operating Expenses		
Interest and Fiscal Charges	<u>223,700</u>	<u>251,168</u>
Total Expenses	<u>6,057,868</u>	<u>5,708,490</u>
Decrease in Net Position	(575,905)	(213,013)
Net Position at Beginning of Year	<u>18,638,406</u>	<u>18,851,419</u>
Net Position at End of Year	<u>\$ 18,062,501</u>	<u>\$ 18,638,406</u>

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2020

Charges for services increased during 2020 as the Plant's charges to each of its members increased during the year. Intergovernmental revenues were down in 2020 as construction on the WWTP 2017-2020 Capital Improvements project was on hold during the year.

Personal services are down in 2020 as a result of the pension and OPEB expenses as a result of changes in the Plant's proportionate share in the net pension/OPEB liabilities. Contractual services were up this year as the Plant underwent a large flow quantity and strength study during 2020.

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 2020, the Plant only had the original appropriations. Therefore the original and final appropriations in total, including prior year encumbrances, were both \$9,414,315. The total original budgeted revenues were \$7,089,951 and final budgeted revenues were \$8,596,587. Actual revenues were \$14,358 more than the final budget estimates of \$5,513,829 primarily as a result of an increase in other revenue received that was offset by a decrease in charges for services. The final appropriations, including prior year encumbrances of \$9,414,315 was sufficient to meet the expenditures for the year, which ended up at \$5,329,300, or \$4,085,015 less than anticipated. The Plant is currently performing an OPWC treatment plant improvement project; however, the Plant had less in project expenditures than expected due to the project being paused during the current year, causing actual revenues and expenditures to be less than budgeted.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2020

Capital Assets

Table 3 provides a summary of the Plant's capital assets, net of accumulated depreciation, for 2020 compared to 2019.

Table 3
Capital Assets, Net

	<u>2020</u>	<u>2019</u>
Construction in Progress	\$ 1,399,844	\$ 1,395,868
Treatment Plant	22,696,906	24,257,849
Equipment and Vehicles	<u>251,758</u>	<u>296,769</u>
Total Capital Assets, Net	\$ <u>24,348,508</u>	\$ <u>25,950,486</u>

Capital assets, net of accumulated depreciation decreased by \$1,601,978 as depreciation outpaced current year additions. For more information on capital assets, see Note 7 to the Basic Financial Statements.

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%. The balance of the outstanding amount of the OWDA loan at December 31, 2020 is \$3,706,694. The Plant has six Ohio Public Works Commission (OPWC) loans; each loan has a zero percent interest rate and with terms between 20 and 25 years. The balance of the outstanding amounts of the OPWC loans at December 31, 2020 is \$3,386,500. The Plant has no bonded indebtedness. See Note 8 for additional information on debt.

Current Financial Related Activities

During 2020, the Plant progress was paused on the OPWC WWTP 2017-2020 Capital Improvements Project with an estimated project cost of \$1,921,000. The project involves the repair/replacement of a series of Plant components and equipment that date to 1961.

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, 2020

Assets:

Current Assets:

Cash and Cash Equivalents	\$	4,211,402
Intergovernmental Receivable		1,365
Materials and Supplies Inventory		201,815
Prepaid		<u>22,698</u>
Total Current Assets		<u>4,437,280</u>

Noncurrent Assets:

Capital Assets:

Construction in Progress		1,399,844
Treatment Plant		62,413,734
Equipment		1,234,024
Vehicles		103,976
Less: Accumulated Depreciation		<u>(40,803,070)</u>
Total Capital Assets, net		24,348,508
Net Pension Asset		<u>12,173</u>
Total Noncurrent Assets		<u>24,360,681</u>

Total Assets 28,797,961

Deferred Outflows of Resources:

Pension		262,132
OPEB		<u>183,372</u>
Total Deferred Outflows of Resources		<u>445,504</u>

Liabilities:

Current Liabilities:

Accounts Payable		467,864
Accrued Wages and Benefits		58,313
Intergovernmental Payable		16,054
Compensated Absences Payable		57,731
Accrued Interest Payable		80,500
OPWC Loans Payable		214,782
OWDA Loans Payable		<u>663,150</u>
Total Current Liabilities		<u>1,558,394</u>

(continued)

Rocky River Wastewater Treatment Plant

Statement of Net Position (continued)

December 31, 2020

Noncurrent Liabilities:

Compensated Absences Payable (Net of Current Portion)	146,891
OPWC Loans Payable (Net of Current Portion)	3,171,718
OWDA Loans Payable (Net of Current Portion)	3,043,544
Net Pension Liability	1,611,623
Net OPEB Liability	<u>1,085,818</u>
Total Noncurrent Liabilities	<u>9,059,594</u>

Total Liabilities 10,617,988

Deferred Inflows of Resources

Pension	386,445
OPEB	<u>176,531</u>
Total Deferred Inflows of Resources	<u>562,976</u>

Net Position:

Net Investment in Capital Assets	17,174,155
Unrestricted	<u>888,346</u>

Total Net Position \$ 18,062,501

Rocky River Wastewater Treatment Plant

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2020

Operating Revenues:	
Charges for Services	\$ 5,414,986
Other Revenues	<u>1,834</u>
Total Operating Revenues	<u>5,416,820</u>
Operating Expenses:	
Personal Services	1,768,832
Contractual Services	1,046,318
Materials and Supplies	376,561
Utilities	730,058
Landfill	224,416
Depreciation	<u>1,687,983</u>
Total Operating Expenses	<u>5,834,168</u>
Operating Loss	<u>(417,348)</u>
Non-Operating Revenues and (Expenses):	
Intergovernmental	62,699
Interest Revenue	2,444
Interest and Fiscal Charges	<u>(223,700)</u>
Total Non-Operating Revenues and (Expenses)	<u>(158,557)</u>
Change in Net Position	(575,905)
Net Position at Beginning of Year	<u>18,638,406</u>
Net Position at End of Year	\$ <u><u>18,062,501</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, 2020

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Customers	\$	5,414,986
Cash Received from Other Operating Sources		1,834
Cash Payments to Suppliers for Goods and Services		(2,183,900)
Cash Payments for Employee Services and Benefits		<u>(1,577,267)</u>

Net Cash Provided by Operating Activities 1,655,653

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets		(272,716)
Proceeds from OPWC Loan		237,890
Principal Paid on OWDA Loan		(628,128)
Principal Paid on OPWC Loan		(107,390)
Interest Paid on OWDA Loan		<u>(167,197)</u>

Net Cash Used by Capital and Related Financing Activities (937,541)

Cash Flows from Investing Activities:

Interest Received		<u>2,444</u>
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Net Increase in Cash and Cash Equivalents 720,556

Cash and Cash Equivalents, Beginning of Year 3,490,846

Cash and Cash Equivalents, End of Year \$ 4,211,402

(continued)

Rocky River Wastewater Treatment Plant

Statement of Cash Flows (continued)

For the Year Ended December 31, 2020

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

Operating Loss	\$	(417,348)
Adjustments:		
Depreciation		1,687,983
(Increase) Decrease in Assets and Deferred Outflows:		
Intergovernmental Receivable		(1,365)
Inventory		(55,288)
Prepays		(21,878)
Net Pension Asset		(6,062)
Deferred Outflows Related to Pension		456,637
Deferred Outflows Related to OPEB		(71,833)
Increase (Decrease) in Liabilities and Deferred Inflows:		
Accounts Payable		248,623
Accrued Wages and Benefits		12,764
Matured Compensated Absences Payable		(39,807)
Compensated Absences Payable		19,651
Intergovernmental Payable		(3,929)
Net Pension Liability		(703,361)
Net OPEB Liability		24,574
Deferred Inflows Related to Pension		352,641
Deferred Inflows Related to OPEB		<u>173,651</u>
Total adjustments		<u>385,018</u>
Net Cash Provided by Operating Activities:	\$	<u>1,655,653</u>

Supplemental Schedule of Non-Cash Capital and Related Financing Activities:

Capital Assets Purchased on Credit	\$	81,159
OWDA Interest Funded by Intergovernmental Subsidy		62,699

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, 2020

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 Cities of Bay Village, Fairview Park, Rocky River, and 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 2020, 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 participating residents of the Member Cities, with a combined population of approximately 86,000, with wastewater treatment services. The Plant is designed to treat an average daily flow of 22.5 million gallons per day (MGD) and has a primary treatment capacity of 128 MGD and a secondary treatment capacity of 45 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. 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>
2020	14.73	61.90	>120.0	5,460
2019	13.74	55.12	114.4	5,016
2018	14.94	42.32	145.6	5,400
2017	13.37	49.95	120.0	4,631
2016	13.02	47.04	137.9	4,935

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

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

The Plant is regulated by the Ohio Environmental Protection Agency to limit air contaminants generated by the anaerobic digestion process and associated control equipment. These regulations are established by permit and effective for the period February 1, 2017 to January 31, 2022.

As of December 31, 2020, the Plant had 17 employees to perform operational duties, of which 16 have State of Ohio Environmental Protection Agency license certifications ranging from Class I through Class IV.

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, 2020:

Bay Village	20.90%
Fairview Park	18.79
Rocky River	24.11
Westlake	<u>36.20</u>
Total	<u>100.00%</u>

The flow quantity and strength study that established the above listed rates was completed in May 2017. In accordance with the Plant's organization agreement, a flow quantity and strength study was conducted in 2020 and will be used in calculation of Plant expenditures in 2021. 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, 2020

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 deferred outflows and all liabilities and deferred inflows 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 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.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued)

In addition to assets, the financial statements that report net position may include a section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the Plant, deferred outflows of resources are reported on the Statement of Net Position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 11 and 12.

In addition to liabilities, the statements that report net position may include a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Plant, deferred inflows of resources include pension and OPEB. Deferred inflows of resources related to pension and OPEB plans are reported on the Statement of Net Position, see Notes 11 and 12.

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.

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. During 2020, the Plant held only cash and cash equivalents.

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. Prepaid Assets

Payments made to vendors for services that will benefit periods beyond December 31, 2020 are recorded as prepaid assets using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which services are consumed.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

G. 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 acquisition value 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	10 years

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 times the amount earned by an employee during the year.

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.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 2: Summary of Significant Accounting Policies (continued)

I. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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 first 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, 2020.

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.

L. Pension/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension asset, the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position/OPEB of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

Note 3: Change in Accounting Principles

Newly Adopted Accounting Pronouncements

For the year ended December 31, 2020, the Plant implemented the following accounting standards issued by the Governmental Accounting Standards Board (GASB):

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 3: Change in Accounting Principles (continued)

Newly Adopted Accounting Pronouncements (continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations (AROs)*. This Statement requires a governmental entity that has legal obligation (laws and regulatory requirements, court judgements, contracts, etc.) to perform future asset retirement activities related to its tangible capital assets to recognize a liability, and a corresponding deferred outflow of resources. A liability must be recognized by a government that will eventually retire, dispose of, or environmentally remediate upon retirement, a capital asset if that retirement or disposal carries with it legally enforceable obligations. Measurement of the liability and initial deferred outflow is based on the best estimate of the amount of the current value of outlays expected to be incurred. Annually, the deferred outflow is expensed over the remaining life of the capital asset and evaluated to determine whether the estimate of the liability continues to be appropriate. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2019. These changes were incorporated in the Plant's 2020 financial statements; however, there was no effect on beginning net position.

GASB Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Activities meeting the criteria should be reported in a fiduciary fund in the basic financial statements. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 15, 2019.

GASB Implementation Guide No. 2019-2, *Fiduciary Activities*, issued in June 2019, provides guidance to address issues related to accounting and financial reporting for fiduciary activities in accordance with the requirements of GASB Statement No. 84. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 15, 2019. These changes were incorporated in the Plant's 2020 financial statements; however, there was no effect on beginning net position.

Newly Issued Accounting Pronouncements, Not Yet Adopted

GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2021. The Plant has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 3: Change in Accounting Principles (continued)

Newly Issued Accounting Pronouncements, Not Yet Adopted (continued)

GASB Statement No. 92, *Omnibus 2020*, was issued in January 2020. This statement addresses a variety of topics with objectives to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2021. The Plant has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, was issued in March 2020 to address accounting and financial reporting implications that result from global reference rate reform. The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. The Plant has not yet determined the impact that these implementation guides will have on its financial statements and disclosures.

GASB Implementation Guide No. 2019-1, *Implementation Guide Update-2019* and GASB Implementation Guide No. 2019-3, *Leases*, effective dates were also deferred as a result of GABS Statement No. 95. The effective date of these implementation guides are reporting periods beginning after June 15, 2020 and June 15, 2021, respectively. The Plant has not yet determined the impact that these implementation guides will have on its financial statements and 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, 2020

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.

The Plant has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured be protected by eligible securities pledged to and deposited either with the Plant or a qualified trustee by the financial institution as security for repayment, or by establishing and pledging to the Treasurer of State a single pool of collateral for the benefit of every public depositor. The total market value of the securities pledged must meet either of the following:

One hundred two percent of the total amount of all uninsured public deposits; or

An amount determined by rules adopted by the Ohio Treasurer of State that set forth the criteria for determining the aggregate market value of the pool of eligible securities pledged by a public depository.

At year-end, the bank balance of the Plant's deposits were \$4,609,487. At year-end \$1,346,602 of the Plant's total bank balance was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. Two of the Plant's financial institution participates in the Ohio Pooled Collateral System (OPCS) and one was approved by the Ohio Treasurer of State for a reduced collateral floor of 50% resulting in the uninsured and uncollateralized balance.

Note 5: Risk Management

The Plant is exposed to various risks related to damage, theft and destruction of assets; torts; errors and omissions; natural disasters; and injuries to employees. During 2020, the Plant 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 Plant 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 6: Contingent Liabilities

There were no legal proceedings seeking damages against the Plant as of December 31, 2020. Plant management is not aware of any pending claims, asserted or unasserted, as of December 31, 2020.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 7: Capital Assets

Capital asset activity for the year ended December 31, 2020, was as follows:

	<u>Balance</u> <u>12/31/19</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/20</u>
Capital Assets, not being Depreciated:				
Construction in Progress	\$ <u>1,395,868</u>	\$ <u>3,976</u>	\$ <u>0</u>	\$ <u>1,399,844</u>
Capital Assets, being Depreciated:				
Treatment Plant	62,413,734	0	0	62,413,734
Equipment	1,202,944	43,556	(12,476)	1,234,024
Vehicles	<u>65,503</u>	<u>38,473</u>	<u>0</u>	<u>103,976</u>
Total Capital Assets, being Depreciated	<u>63,682,181</u>	<u>82,029</u>	<u>(12,476)</u>	<u>63,751,734</u>
Less Accumulated Depreciation:				
Treatment Plant	(38,155,885)	(1,560,943)	0	(39,716,828)
Equipment	(925,757)	(120,395)	12,476	(1,033,676)
Vehicles	<u>(45,921)</u>	<u>(6,645)</u>	<u>0</u>	<u>(52,566)</u>
Total Accumulated Depreciation	<u>(39,127,563)</u>	<u>(1,687,983)</u>	<u>12,476</u>	<u>(40,803,070)</u>
Total Capital Assets, being Depreciated, Net	<u>24,554,618</u>	<u>(1,605,954)</u>	<u>0</u>	<u>22,948,664</u>
Total Capital Assets, Net	\$ <u>25,950,486</u>	\$ <u>(1,601,978)</u>	\$ <u>0</u>	\$ <u>24,348,508</u>

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 8: Long-Term Obligations

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

	<u>Outstanding</u> <u>12/31/19</u>	<u>Additions</u>	<u>Deletions</u>	<u>Outstanding</u> <u>12/31/20</u>	<u>Amounts Due</u> <u>in One Year</u>
2000 5.50% \$11,582,103					
OWDA Loan – Matures 7/1/25*	\$ 4,334,822	\$ 0	\$ (628,128)	\$ 3,706,694	\$ 663,150
0.00% OPWC					
Trickling Filter Recycle Pump					
Replacement*	109,704	0	(6,856)	102,848	13,714
WWTP Improvements*	1,099,949	0	(57,892)	1,042,057	115,784
WWTP Improvements 2008-2009*	202,690	0	(9,213)	193,477	18,426
WWTP Improvements 2013-2016*	613,054	0	(17,516)	595,538	35,032
WWTP Improvements 2014-2017*	763,816	0	(15,913)	747,903	31,826
WWTP Improvements 2017-2020*	466,787	237,890	0	704,677	0
Net Pension Liability	2,314,984	0	(703,361)	1,611,623	0
Net OPEB Liability	1,061,244	24,574	0	1,085,818	0
Compensated Absences Payable	<u>184,971</u>	<u>118,342</u>	<u>(98,691)</u>	<u>204,622</u>	<u>57,731</u>
Total	\$ <u>11,152,021</u>	\$ <u>380,806</u>	\$ <u>(1,537,570)</u>	\$ <u>9,995,257</u>	\$ <u>935,663</u>

* Long-term obligation is a direct borrowing.

Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2020, are as follows:

Year	<u>OWDA Loan*</u>		<u>OPWC*</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>		
2021	\$ 663,150	\$ 141,726	\$ 214,782	\$ 1,019,658	
2022	700,125	114,836	214,782	1,029,743	
2023	739,161	86,445	214,782	1,040,388	
2024	780,374	56,472	214,782	1,051,628	
2025	823,884	24,829	214,782	1,063,495	
2026-2030	0	0	923,839	923,839	
2031-2035	0	0	343,503	343,503	
2036-2040	0	0	229,188	229,188	
2041-2044	<u>0</u>	<u>0</u>	<u>111,383</u>	<u>111,383</u>	
Total	\$ <u>3,706,694</u>	\$ <u>424,308</u>	\$ <u>2,681,823</u>	\$ <u>6,812,825</u>	

* Long-term obligation is a direct borrowing.

In July 2001, the OWDA finalized a loan for Plant expansion totaling \$11,582,103. The initial loan was for 25 years at 5.5% interest. In 2016, OWDA provided the Plant with an interest buy-down, which reduces the interest rate by 1.50%. This also adjusted the semi-annual installments to an amount to retire the principal over 24 years plus the adjusted interest amount.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 8: Long-Term Obligations (continued)

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 \$6,857 over 21 years, ending in 2028.

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 \$57,892 beginning in 2009 over 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 20 years, ending in 2031.

In November 2016, the OPWC finalized an interest-free loan for the WWTP Improvements 2013 – 2016 projects totaling \$700,634. The loan will be repaid in semi-annual installments of \$17,516 beginning in the second half of 2017 over 20 years, ending in 2037.

In 2018, the OPWC finalized an interest-free loan for the WWTP Improvements 2014 – 2017 projects totaling \$795,641. The loan will be repaid in semi-annual installments of \$15,913 beginning in 2019 over 26 years, ending in 2044.

The Plant also obtained an OPWC loan for the WWTP Improvements 2017 – 2020 to be repaid in semiannual principal payments upon project completion. OPWC has authorized this loan up to \$1,080,619 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 in the amortization table above.

During 2020, as a response to COVID-19, OPWC made the decision to defer the July 2020 loan payment for six months. The amortization schedules were adjusted to push back all payments six months. Borrowers have the option to make a double-payment in January 2021 or use the modified amortization schedule. The City chose to defer its payments and used the modified amortization schedule.

Note 9: 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 2020, 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 2020 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 charges for services and the portion considered contributions to the Plant are as follows:

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 9: Related Party Transactions (continued)

A. Charges for Services and Contributions for Capital Assets Replacement Fund (continued)

	Charges for <u>Services</u>	<u>Contributions</u>
Bay Village	\$ 1,098,939	\$ 271,700
Fairview Park	1,010,070	244,270
Rocky River	1,328,630	313,430
Westlake	<u>1,977,347</u>	<u>470,600</u>
Total	<u>\$ 5,414,986</u>	<u>\$ 1,300,000</u>

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 10: Permitting and Compliance

The Plant operates under authority of Ohio Environmental Protection Agency (Ohio EPA) National Pollution Discharge Elimination System (NPDES) Permit No. 3PE00009*MD that was issued January 3, 2017 effective for the period February 1, 2017 to January 31, 2022.

In 2020, the Plant received preliminary notices of non-compliance for two issues. Both issues were timely reported to the Ohio EPA and as of the date of this report, no penalty has been either proposed or imposed. Further, Plant management is of the opinion no fines or penalties will result from these issues.

Note 11: Defined Benefit Pension Plans

A. Net Pension/Other Postemployment Benefits (OPEB) Liability (Asset)

The net pension/OPEB liability (asset) reported on the Statement of Net Position represents a liability (asset) to employees for pensions/OPEB. Pensions/OPEB are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions/OPEB are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions/OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liabilities (assets) represents the Plant's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

A. Net Pension/Other Postemployment Benefits (OPEB) Liability (Asset) (continued)

Ohio Revised Code limits the Plant's obligation for this liability to annually required payments. The Plant cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the Plant does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68 and 75 assumes the liability (asset) is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for OPEB benefits including primarily health care. In most cases, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium.

State statute requires the retirement systems to amortize unfunded pension/OPEB liabilities within 30 years. If the pension/OPEB amortization period exceeds 30 years, each retirement system's board must propose corrective action to the state legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension/OPEB liability (asset) on the accrual basis of accounting. Any liability for the contractually-required contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 12 for the required OPEB disclosures.

B. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – Plant employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional pension plan, a defined benefit plan; the Combined plan, a combination defined benefit/defined contribution plan; and the Member-Directed plan, a defined contribution plan. While members (e.g., Plant employees) may elect the Member-Directed plan, substantially all employee members are in OPERS' Traditional or Combined plans; therefore, the following disclosure focuses on the Traditional and Combined plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional and Combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Final average salary (FAS) represents the average of the three highest years of earnings over the member's career for Groups A and B. Group C is based on the average of the five highest years of earning over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

The Traditional plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and FAS. Pension benefits are funded by both member and employer contributions and investment earnings on those contributions.

The following table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Traditional plan (see OPERS Annual Report referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount

Once a benefit recipient retiring under the Traditional pension plan has received benefits for 12 months, current law provides for an annual cost-of-living adjustment (COLA). This COLA is calculated on the member's base retirement benefit at the date of retirement and is not compounded. Members retiring under the Combined plan receive a COLA on the defined benefit portion of their retirement benefit. For those who retired prior to January 7, 2013, current law provides for a 3% COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the adjustment will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

A death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional pension plan and Combined plan.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

The OPERS Board of Trustees approved a proposal at its October 2019 meeting to create a new tier of membership in the OPERS traditional pension plan. OPERS currently splits its non-retired membership into Group A, B or C depending on age and service criteria. Retirement Group D would consist of OPERS-contributing members hired in 2022 and beyond. Group D will have its own eligibility standards, benefit structure and unique member features designed to meet the changing needs of Ohio public workers. It also will help OPERS address expected investment market volatility and adjust to the lack of available funding for health care.

The Combined plan is a defined benefit plan with elements of a defined contribution plan. Members earn a formula benefit similar to, but at a factor less than the Traditional pension plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement, the member may choose a defined contribution distribution that is equal to the member's contributions to the plan and investment earnings (or losses). Members may also elect to annualize their defined contribution account balances.

Benefits in the Combined plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional pension plan.

The subsequent table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Combined plan (see OPERS Annual Report referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 5 years of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Formula: 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Both Member-Directed plan and Combined plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of their benefit (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance (net of taxes withheld), or a combination of these options.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10% of covered payroll for members in the state and local classifications.

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0% for 2020 for the Traditional and Combined plans. The portion of the employer's contribution allocated to health care was 4% for the Member-Directed plan for 2020. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2020, the Plant's contractually required contributions for the Traditional and Combined plans, net of postemployment health care benefits, was \$159,968. Of this amount, \$18,721 is reported as intergovernmental payable at December 31, 2020.

C. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Plant's proportion of the net pension liability was based on the Plant's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

C. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>Total</u>
Proportion of the Net Pension Liability/ Asset Prior Measurement Date	0.008453%	0.005464%	
Proportion of the Net Pension Liability/ Asset Current Measurement Date	<u>0.008154%</u>	<u>0.005836%</u>	
Change in Proportionate Share	(0.000299%)	0.000372%	
Proportionate Share of the Net Pension Asset	\$ 0	\$ 12,173	\$ 12,173
Proportionate Share of the Net Pension Liability	\$ 1,611,623	\$ 0	\$ 1,611,623
Pension Expense	\$ 258,546	\$ 1,277	\$ 259,823

At December 31, 2020, the Plant reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>Total</u>
Deferred Outflow of Resources			
Plant Contributions Subsequent to the Measurement Date	\$ 155,763	\$ 4,205	\$ 159,968
Differences in Employer Contributions and Change in Proportionate Share	14,731	99	14,830
Change in Assumptions	<u>86,079</u>	<u>1,255</u>	<u>87,334</u>
Total Deferred Outflow of Resources	\$ <u>256,573</u>	\$ <u>5,559</u>	\$ <u>262,132</u>
Deferred Inflow of Resources			
Differences in Employer Contributions and Change in Proportionate Share	\$ 39,123	\$ 1,027	\$ 40,150
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	321,482	1,579	323,061
Difference Between Expected and Actual Experience	<u>20,377</u>	<u>2,857</u>	<u>23,234</u>
Total Deferred Inflow of Resources	\$ <u>380,982</u>	\$ <u>5,463</u>	\$ <u>386,445</u>

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The \$159,968 reported as deferred outflows of resources related to pension resulting from Plant contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending December 31:	OPERS		OPERS		Total
	Traditional		Combined		
2021	\$ (48,036)	\$	(896)	\$	(48,932)
2022	(117,798)		(866)		(118,664)
2023	13,313		(426)		12,887
2024	(127,651)		(1,005)		(128,656)
2025	0		(295)		(295)
2026-2028	0		(621)		(621)
	\$ <u>(280,172)</u>	\$	<u>(4,109)</u>	\$	<u>(284,281)</u>

D. Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The active member population which consists of members in the Traditional and Combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

The total pension liability (asset) in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS	
	Traditional Plan	Combined Plan
Valuation date	December 31, 2019	December 31, 2019
Experience study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age	Individual entry age
Actuarial assumptions:		
Investment rate of return	7.20%	7.20%
Wage inflation	3.25%	3.25%

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

D. Actuarial Assumptions – OPERS (continued)

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
Projected salary increases, including 3.25% wage inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 retirees	1.4% Simple through 2020 then 2.15% Simple	1.4% Simple through 2020 then 2.15% Simple

OPERS conducts an experience study every five years in accordance with Ohio Revised Code Section 145.22. The study for the five-year period ended December 31, 2015 and methods and assumptions were approved and adopted by the OPERS Board of Trustees.

Retirement mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010.

The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 Mortality Improvement Scale to the above described tables.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The most recent experience study was completed for the five year period ended December 31, 2015.

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional plan, the defined benefit component of the Combined plan and the annuitized accounts of the Member-Directed plan. The money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for changing amounts actually invested for the Defined Benefit portfolio was 17.2% for 2019.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

D. Actuarial Assumptions – OPERS (continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2019 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	25.00%	1.83%
Domestic equities	19.00	5.75
Real estate	10.00	5.20
Private equity	12.00	10.70
International equities	21.00	7.66
Other investments	13.00	4.98
Total	100.00%	5.61%

Discount Rate The discount rate used to measure the total pension liability (asset) for measurement year was 7.2%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of the Plant’s Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate The following table presents the Plant’s proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.2%, as well as what the Plant’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.2%) or one-percentage-point higher (8.2%) than the current rate:

	1% Decrease (6.2%)	Discount Rate (7.2%)	1% Increase (8.2%)
Plant’s Proportionate Share of the Net Pension Liability – Traditional	\$ 2,658,087	\$ 1,611,623	\$ 670,881
Plant’s Proportionate Share of the Net Pension Asset – Combined	\$ 7,357	\$ 12,173	\$ 15,642

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 11: Defined Benefit Pension Plans (continued)

D. Actuarial Assumptions – OPERS (continued)

Changes between Measurement Date and Report Date

Subsequent to December 31, 2019, the global economy was impacted by the COVID-19 pandemic and market volatility increased significantly. It is likely that 2020 investment market conditions and other economic factors will be negatively impacted; however, the overall impact on the OPERS investment portfolio and funding position is unknown at this time.

Note 12: OPEB

A. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans: the Traditional plan, a defined benefit plan; the Combined plan, a combination defined benefit/defined contribution plan; and the Member-Directed plan, a defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional pension and the Combined plans. This trust is also used to fund health care for Member-Directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the Traditional pension and Combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement 75. See OPERS' Annual Report referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: OPEB (continued)

A. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, state and local employers contributed at a rate of 14% of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional plan and Combined plan was 0% for 2020. The portion of employer contributions allocated to health care for members in the Member-Directed plan was 4% during 2020.

The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contribution rate are actuarially determined and are expressed as a percentage of covered payroll. In 2020, the Plant's contractually required contributions to OPERS health care plans was \$508.

B. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability for OPERS as of December 31, 2020 was determined by an actuarial valuation as of December 31, 2018, rolled forward to the measurement date of December 31, 2019, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during this year. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

The Plant's proportion of the net OPEB liability was based on the Plant's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>
Proportion of the Net OPEB Liability Prior Measurement Date	0.008140%
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.007861%</u>
Change in Proportionate Share	(0.000279%)
Proportionate Share of the Net OPEB Liability	\$ 1,085,818
OPEB Expense	\$ 126,900

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: OPEB (continued)

B. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

At December 31, 2020, the Plant reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>
Deferred Outflow of Resources	
Plant Contributions Subsequent to the Measurement Date	\$ 508
Differences in Employer Contributions and Change in Proportionate Share	10,961
Difference Between Expected and Actual Experience	29
Change in Assumptions	<u>171,874</u>
Total Deferred Outflow of Resources	<u>\$ 183,372</u>
Deferred Inflow of Resources	
Differences in Employer Contributions and Change in Proportionate Share	\$ 21,938
Difference Between Expected and Actual Experience	99,303
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	<u>55,290</u>
Total Deferred Inflow of Resources	<u>\$ 176,531</u>

The \$508 reported as deferred outflows of resources related to OPEB resulting from Plant contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>OPERS</u>
Fiscal Year Ending December 31:	
2021	\$ 25,510
2022	4,405
2023	44
2024	<u>(23,626)</u>
	<u>\$ 6,333</u>

Changes Between the Measurement Date and the Reporting Date On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are expected to decrease the associated OPEB liability.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: OPEB (continued)

C. Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability for the measurement period December 31, 2019 was determined using the following actuarial assumptions that follow.

	<u>Assumptions</u>
Valuation date	December 31, 2018
Rolled-forward measurement date	December 31, 2019
Experience study	5-year period ended December 31, 2015
Actuarial cost method	Individual entry age normal
Projected salary increases, including 3.25% wage inflation	3.25 to 10.75%
Projected payroll/active member increase	3.25% per year
Investment rate of return	6.00%
Municipal bond rate	2.75%
Single discount rate of return	3.16%
Health care cost trend	Initial 10.5% to 3.25% ultimate in 2030

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively.

Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: OPEB (continued)

C. Actuarial Assumptions – OPERS (continued)

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional pension plan, Combined plan and Member-Directed plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was 19.7% for 2019.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit.

The table below displays the Board-approved asset allocation policy and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	36.00%	1.53%
Domestic equities	21.00	5.75
Real estate investment trust	6.00	5.69
International equities	23.00	7.66
Other investments	14.00	4.90
Total	<u>100.00%</u>	<u>4.55%</u>

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: OPEB (continued)

C. Actuarial Assumptions – OPERS (continued)

Discount Rate A single discount rate of 3.16% was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00% and a municipal bond rate of 2.75% for the measurement date of December 31, 2019. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be met at rates equal to the actuarially determined contribution rate.

Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through the year 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Plant's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following table presents the Plant's proportionate share of the net OPEB liability calculated using the single discount rate of 3.16%, as well as what the Plant's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.16%) or one-percentage-point higher (4.16%) than the current rate:

	<u>1% Decrease</u> <u>(2.16%)</u>	<u>Discount Rate</u> <u>(3.16%)</u>	<u>1% Increase</u> <u>(4.16%)</u>
Plant's Proportionate Share of the Net OPEB Liability	\$ 1,420,969	\$ 1,085,818	\$ 817,474

Sensitivity of the Plant's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2020 is 10.5%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries' project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed 3.5% in the most recent valuation.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 12: OPEB (continued)

C. Actuarial Assumptions – OPERS (continued)

The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1% lower or 1% higher than the current rate.

	<u>1% Decrease</u>	<u>Cost Trend Rate</u>	<u>1% Increase</u>
Plant's Proportionate Share of the Net OPEB Liability	\$ 1,053,778	\$ 1,085,818	\$ 1,117,453

Changes between Measurement Date and Report Date

Subsequent to December 31, 2019, the global economy was impacted by the COVID-19 pandemic and market volatility increased significantly. It is likely that 2020 investment market conditions and other economic factors will be negatively impacted; however, the overall impact on the OPERS investment portfolio and funding position is unknown at this time.

Note 13: Contractual Commitments

At December 31, 2020, the Plant's significant contractual commitments consisted of:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Remaining on Contract</u>
Primary Digester Clean Out	\$ 261,000	\$ 136,653	\$ 124,347
Flow Monitoring	308,451	224,890	83,561
2017-2020 Capital Improvement Project	<u>1,891,024</u>	<u>1,125,045</u>	<u>765,979</u>
Total	<u>\$ 2,460,475</u>	<u>\$ 1,486,588</u>	<u>\$ 973,887</u>

Note 14: COVID-19

In early calendar 2020, the world began dealing with the effects of the Coronavirus pandemic (COVID-19). Disruptions to operations, including government mandated actions, employee, and supplier related challenges have impacted many entities. The financial markets have experienced significant volatility. Governmental agencies have made indications of their desire to provide aid to those affected by COVID-19.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2020

Note 15: Asset Retirement Obligations

Ohio Revised Code Section 6111.44 requires the Plant to submit any changes to their sewage system to the Ohio Environmental Protection Agency (the "Ohio EPA") for approval. Any changes to the sewage system would be approved through a permit for a new plant/facility that would take the place of the retired asset and would include a plan for the proper abandonment of the current facility. Through this review process, the Plant would be responsible to address any public safety issues associated with their wastewater treatment facilities. At this time, the Plant is unable to reasonably estimate the liability to abandon the current facility without the required permit from the Ohio EPA.

Rocky River Wastewater Treatment Plant

Required Supplementary Information
 Schedule of the Plant's Proportionate Share of the Net Pension Liability
 Ohio Public Employee Retirement System – Traditional Plan

For the Last Seven Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Plant's Proportion of the Net Pension Liability	0.008154%	0.008453%	0.008162%	0.008088%	0.008656%
Plant's Proportionate Share of the Net Pension Liability	\$ 1,611,623	\$ 2,314,984	\$ 1,280,523	\$ 1,836,622	\$ 1,499,260
Plant's Covered Payroll	\$ 1,152,807	\$ 1,122,795	\$ 1,108,195	\$ 1,150,366	\$ 1,065,035
Plant's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	139.80%	206.18%	115.55%	159.66%	140.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	74.70%	84.66%	77.25%	81.08%
	<u>2015</u>	<u>2014</u>			
Plant's Proportion of the Net Pension Liability	0.008720%	0.008720%			
Plant's Proportionate Share of the Net Pension Liability	\$ 1,051,714	\$ 1,027,959			
Plant's Covered Payroll	\$ 1,016,709	\$ 1,013,273			
Plant's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	103.44%	101.45%			
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.45%	86.36%			

(1) Information prior to 2014 is not available. Amounts presented for each year were determined as of the Plant's measurement date which is December 31 of the prior year.

See Accompanying Note to the Required Supplementary Information.

Rocky River Wastewater Treatment Plant

Required Supplementary Information
 Schedule of the Plant's Proportionate Share of the Net Pension Asset
 Ohio Public Employee Retirement System – Combined Plan

For the Last Seven Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Plant's Proportion of the Net Pension Asset	0.005836%	0.005464%	0.004435%	0.004654%	0.004654%
Plant's Proportionate Share of the Net Pension Asset	\$ 12,173	\$ 6,111	\$ 6,470	\$ 2,468	\$ 2,265
Plant's Covered Payroll	\$ 26,257	\$ 22,990	\$ 19,987	\$ 19,010	\$ 16,663
Plant's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll	46.36%	26.58%	32.37%	12.98%	13.59%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	145.28%	74.70%	137.28%	116.55%	116.90%
	<u>2015</u>	<u>2014</u>			
Plant's Proportion of the Net Pension Asset	0.005278%	0.005278%			
Plant's Proportionate Share of the Net Pension Asset	\$ 2,032	\$ 554			
Plant's Covered Payroll	\$ 17,822	\$ 15,854			
Plant's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll	11.40%	3.49%			
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	114.83%	104.33%			

(1) Information prior to 2014 is not available. Amounts presented for each year were determined as of the Plant's measurement date which is December 31 of the prior year.

See Accompanying Note to the Required Supplementary Information.

Rocky River Wastewater Treatment Plant

Required Supplementary Information
 Schedule of the Plant Contributions
 Ohio Public Employee Retirement System – Traditional Plan

For the Last Ten Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-Required Contribution	\$ 155,763	\$ 161,393	\$ 157,191	\$ 144,065	\$ 138,044
Contributions in Relation to the Contractually-Required Contribution	<u>(155,763)</u>	<u>(161,393)</u>	<u>(157,191)</u>	<u>(144,065)</u>	<u>(138,044)</u>
Contribution Deficiency (Excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Plant Covered Payroll	\$ 1,112,593	\$ 1,152,807	\$ 1,122,795	\$ 1,108,195	\$ 1,150,366
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	13.00%	12.00%
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually-Required Contribution	\$ 127,804	\$ 122,055	\$ 131,726	\$ 93,031	\$ 107,776
Contributions in Relation to the Contractually-Required Contribution	<u>(127,804)</u>	<u>(122,005)</u>	<u>(131,726)</u>	<u>(93,031)</u>	<u>(107,776)</u>
Contribution Deficiency (Excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Plant Covered Payroll	\$ 1,065,035	\$ 1,016,709	\$ 1,013,273	\$ 930,308	\$ 1,077,756
Contributions as a Percentage of Covered Payroll	12.00%	12.00%	13.00%	10.00%	10.00%

See Accompanying Note to the Required Supplementary Information.

Rocky River Wastewater Treatment Plant

Required Supplementary Information
 Schedule of the Plant Contributions
 Ohio Public Employee Retirement System – Combined Plan

For the Last Ten Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-Required Contribution	\$ 4,205	\$ 3,676	\$ 3,219	\$ 2,598	\$ 2,281
Contributions in Relation to the Contractually-Required Contribution	<u>(4,205)</u>	<u>(3,676)</u>	<u>(3,219)</u>	<u>(2,598)</u>	<u>(2,281)</u>
Contribution Deficiency (Excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Plant Covered Payroll	\$ 30,036	\$ 26,257	\$ 22,990	\$ 19,987	\$ 19,010
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	12.00%	12.00%
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually-Required Contribution	\$ 2,000	\$ 2,139	\$ 2,061	\$ 1,456	\$ 1,686
Contributions in Relation to the Contractually-Required Contribution	<u>(2,000)</u>	<u>(2,139)</u>	<u>(2,061)</u>	<u>(1,456)</u>	<u>(1,686)</u>
Contribution Deficiency (Excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Plant Covered Payroll	\$ 16,663	\$ 17,822	\$ 15,854	\$ 14,556	\$ 16,863
Contributions as a Percentage of Covered Payroll	12.00%	12.00%	13.00%	10.00%	10.00%

See Accompanying Note to the Required Supplementary Information.

Rocky River Wastewater Treatment Plant

Required Supplementary Information
 Schedule of the Plant's Proportionate Share of the Net OPEB Liability
 Ohio Public Employee Retirement System

For the Last Four Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Plant's Proportion of the Net OPEB Liability	0.007861%	0.008140%	0.007848%	0.007634%
Plant's Proportionate Share of the Net OPEB Liability	\$ 1,085,818	\$ 1,061,244	\$ 852,235	\$ 771,059
Plant's Covered-Employee Payroll	\$ 1,193,385	\$ 1,161,111	\$ 1,115,901	\$ 1,095,476
Plant's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	90.99%	91.40%	76.37%	70.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.80%	46.33%	54.14%	n/a

(1) Information prior to 2017 is not available. Amounts presented for each fiscal year were determined as of the Plant's measurement date which is December 31 of the prior fiscal year.

See Accompanying Note to the Required Supplementary Information.

Rocky River Wastewater Treatment Plant

Required Supplementary Information
Schedule of the Plant's OPEB Contributions
Ohio Public Employee Retirement System

For the Last Five Years (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually-Required Contribution	\$ 508	\$ 573	\$ 613	\$ 11,567	\$ 22,320
Contributions in Relation to the Contractually-Required Contribution	<u>(508)</u>	<u>(573)</u>	<u>(613)</u>	<u>(11,567)</u>	<u>(22,320)</u>
Contribution Deficiency (Excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Plant Covered Payroll	\$ 1,155,338	\$ 1,193,385	\$ 1,161,111	\$ 1,115,901	\$ 1,095,476
Contributions as a Percentage of Covered Payroll	0.04%	0.05%	0.05%	1.04%	2.04%

(1) Information prior to 2016 is not available.

See Accompanying Note to the Required Supplementary Information.

Rocky River Wastewater Treatment Plant

Notes to Required Supplementary Information

For the Year Ended December 31, 2020

Note 1: Change in Assumptions – OPERS Traditional and Combined Pension Plans

Amounts reported in the required supplementary information for OPERS Traditional and Combined Plans incorporate changes in assumptions used by OPERS in calculating the pension liability. These assumptions are presented below for the periods indicated:

Key Methods and Assumptions in Valuing Total Pension Liability – 2020

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2019	December 31, 2019
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.20%	7.20%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	1.40% Simple through 2020 then 2.15% Simple	1.40% Simple though 2020 then 2.15% Simple

Key Methods and Assumptions in Valuing Total Pension Liability – 2019

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2018	December 31, 2018
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	3% Simple through 2018 then 2.15% Simple	3% Simple though 2018 then 2.15% Simple

Rocky River Wastewater Treatment Plant

Notes to Required Supplementary Information

For the Year Ended December 31, 2020

Note 1: Change in Assumptions – OPERS Traditional and Combined Pension Plans (continued)

Key Methods and Assumptions in Valuing Total Pension Liability – 2017-2018

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2017	December 31, 2017
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	3% Simple through 2018 then 2.15% Simple	3% Simple though 2018 then 2.15% Simple

Key Methods and Assumptions in Valuing Total Pension Liability – 2016 and prior

	OPERS <u>Traditional plan</u>	OPERS <u>Combined plan</u>
Valuation Date	December 31, 2015	December 31, 2015
Experience Study	5-year period ended December 31, 2010	5-year period ended December 31, 2010
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.75%
Projected Salary Increases, including 3.75% inflation	4.25 to 10.05%	4.25 to 8.05%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	3% Simple through 2018 then 2.8% Simple	3% Simple though 2018 then 2.8% Simple

Mortality rates – Amounts reported beginning in 2017 use mortality rates based on the RP-2014. Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010.

Rocky River Wastewater Treatment Plant

Notes to Required Supplementary Information

For the Year Ended December 31, 2020

Note 1: Change in Assumptions – OPERS Traditional and Combined Pension Plans (continued)

The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

Note 2: Change in Assumptions – OPERS OPEB Plan

For 2020, the single discount rate changed from 3.96% in 2019 to 3.16%. For 2020, the municipal bond rate changed from 3.71% to 2.75%. For 2020, the health care cost trend rate changed from 10% initial, 3.25%, ultimate in 2029 to 10.5% initial, 3.5% ultimate in 2030.

For 2019, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5% to 6.0%. For 2019, the single discount rate changed from 3.85% in 2018 to 3.96%. Prior to 2018, the single discount rate was 4.23%. For 2019, the municipal bond rate changed from 3.31% to 3.71%. For 2019, the health care cost trend rate changed from 7.5% initial, 3.25%, ultimate in 2028 to 10% initial, 3.25% ultimate in 2029.

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, 2020

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Charges for Services	\$ 5,302,730	\$ 5,506,929	\$ 5,414,986	\$ (91,943)
Other Revenues	2,311	2,400	101,834	99,434
Investment Revenue	2,986	4,500	11,367	6,867
Total Revenues	<u>5,308,027</u>	<u>5,513,829</u>	<u>5,528,187</u>	<u>14,358</u>
Expenses:				
Current:				
Personal Services:				
Salaries	1,323,079	1,323,079	1,120,406	202,673
Other	601,672	601,672	456,878	144,794
Contractual Services:				
Capital Outlay	1,579,473	1,579,473	655,459	924,014
Contractual Services	3,232,723	3,302,823	744,687	2,558,136
Materials and Supplies	595,193	565,093	492,556	72,537
Utilities	724,262	806,262	716,886	89,376
Landfill	347,674	307,674	239,713	67,961
Debt Service:				
Principal Retirement	842,939	760,939	735,518	25,421
Interest and Fiscal Charges	167,300	167,300	167,197	103
Total Expenses	<u>9,414,315</u>	<u>9,414,315</u>	<u>5,329,300</u>	<u>4,085,015</u>
Excess of Revenues (Under) Over Expenditures	(4,106,288)	(3,900,486)	198,887	4,099,373
Other Financing Sources:				
Sale of Capital Assets	963	1,000	0	(1,000)
Proceeds from Loans	1,780,961	3,081,758	237,890	(2,843,868)
Total Other Financing Sources	<u>1,781,924</u>	<u>3,082,758</u>	<u>237,890</u>	<u>(2,844,868)</u>
Net Change in Fund Equity	(2,324,364)	(817,728)	436,777	1,254,505
Fund Equity at Beginning of Year	2,481,100	2,481,100	2,481,100	0
Prior Year Encumbrances Appropriated	1,000,793	1,000,793	1,000,793	0
Fund Equity at End of Year	\$ <u>1,157,529</u>	\$ <u>2,664,165</u>	\$ <u>3,918,670</u>	\$ <u>1,254,505</u>

(continued)

See Accompanying Notes to the Supplementary Information.

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, 2020

The following table summarizes the adjustments necessary to reconcile the changes in Net Position to the changes in fund equity.

Change in Net Position	\$	(575,905)
Net Adjustments for Revenue Accruals		284,114
Net Adjustments for Expense Accruals		(580,708)
Depreciation Expense		1,687,983
Additions of Capital Assets		(86,005)
Encumbrances		<u>(292,702)</u>
Change in Fund Equity	\$	<u>436,777</u>

See Accompanying Notes to the Supplementary Information.

Rocky River Wastewater Treatment Plant

Notes to Supplemental Information

For the Year Ended December 31, 2020

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 the previous page 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.

JAMES G. ZUPKA, C.P.A., INC.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

The Honorable Keith Faber
Auditor of State
State of 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 Rocky River Wastewater Treatment Plant, Cuyahoga County, Ohio (the Plant), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Plant's basic financial statements and have issued our report thereon dated June 21, 2021.

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 opinions 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.

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 entity'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.

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 21, 2021

**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2020**

The prior audit report, as of December 31, 2019, included no findings or management letter recommendations.

OHIO AUDITOR OF STATE KEITH FABER



**ROCKY RIVER WASTEWATER TREATMENT PLANT
CUYAHOGA COUNTY**

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 8/12/2021

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov