

**Rocky River Wastewater
Treatment Plant
Cuyahoga County**

**Financial Statements
For the Year Ended December 31, 2016**



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Rocky River Wastewater Treatment Plant, Cuyahoga County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

September 12, 2017

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Rocky River Wastewater Treatment Plant

For the Year Ended December 31, 2016

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Rocky River Wastewater Treatment Plant (the "Plant") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Plant, as of December 31, 2016, 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 on pages 4 to 10 and the schedules of the Plant's proportionate share of the net pension asset and liability and schedules of the Plant's contributions on pages 37 to 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The budgetary comparison information is the responsibility of management and was derived from and 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 budgetary comparison information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our consideration of the Plant's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plant's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 28, 2017

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2016

The annual financial report of the Rocky River Wastewater Treatment Plant (the "Plant") consists of four sections – Management's Discussion and Analysis, the Basic Financial Statements, Required Supplementary Information and Supplemental Information. The Basic Financial Statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. Since the Plant only uses one fund for its operation, the entity-wide and the fund presentation information are the same. The Required Supplementary Information includes the schedules required by Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. The Supplemental Information includes the Schedule of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Budgetary Basis) and Actual and related notes to the Supplemental Information.

The Management's Discussion and Analysis of the financial performance provides an overall review of the Plant's financial activities for the year ended December 31, 2016. The intent of this section is to look at the Plant's financial performance as a whole; readers should also review the Basic Financial Statements to enhance their understanding of the Plant's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- Total cash and cash equivalents decreased \$61,376, which represents a 1.94% decrease from 2015.
- Total expenses were \$4,886,227, a \$278,058 decrease from 2015.
- Total liabilities increased by \$542,386 from 2015. The main factor contributing to this increase was an increase in net pension liability of \$447,546.
- Total deferred outflows of resources increased by \$396,098 and total deferred inflows of resources increased by \$23,669 from 2015. The increases were related to the Plant's allocation of the proportionate share of the pension amounts.

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 the two 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.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2016

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.

Table 1 provides a summary of the Plant's net position for 2016 compared to 2015.

Table 1
Net Position

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 3,169,756	\$ 3,246,248
Capital Assets, Net	28,073,666	26,875,649
Net Pension Asset	<u>2,265</u>	<u>2,032</u>
 Total Assets	 <u>31,245,687</u>	 <u>30,123,929</u>
Deferred Outflows of Resources		
Pension	<u>582,142</u>	<u>186,044</u>
Liabilities		
Current Liabilities	1,454,124	1,098,894
Noncurrent Liabilities		
Other Noncurrent Liabilities	8,272,535	8,532,925
Net Pension Liability	<u>1,499,260</u>	<u>1,051,714</u>
 Total Liabilities	 <u>11,225,919</u>	 <u>10,683,533</u>
Deferred Inflows of Resources		
Pension	<u>42,766</u>	<u>19,097</u>
Net Position		
Net Investment in Capital Assets	19,449,097	18,011,383
Unrestricted	<u>1,110,047</u>	<u>1,595,960</u>
 Total Net Position	 \$ <u>20,559,144</u>	 \$ <u>19,607,343</u>

The Plant's total net position increased \$951,801 to \$20,559,144 from \$19,607,343.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2016

The increase in net position was primarily due to the capital asset additions related to the completion of the treatment plant improvements during the current year. See Note 8 for further detail on the Plant's capital asset activity.

The net pension liability (NPL) is one of the largest liabilities reported by the Plant at December 31, 2016 and is reported pursuant to GASB Statement No. 68. For reasons discussed below, many end users of these financial statements will gain a clearer understanding of the Plant's actual financial condition by adding deferred inflows related to pension and the NPL to the reported net position and subtracting deferred outflows related to pension and the net pension asset.

GASB standards are national and apply to all governmental financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's NPL. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

The NPL under GASB 68 equals the Plant's proportionate share of each plan's collective:

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

GASB notes that pension 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. GASB noted that the unfunded portion of this pension 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 this liability. 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 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 pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *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 pension system is responsible for the administration of the plan.

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2016

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 NPL. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the NPL, 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 pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the NPL is satisfied, this liability is separately identified within the long-term liability section of the Statement of Net Position.

In accordance with GASB 68, the Plant's statements prepared on the accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in NPL not accounted for as deferred outflows/inflows. The Plant is reporting a NPL and deferred outflows/inflows of resources related to pension on the accrual basis of accounting.

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, 2016, was \$19,449,097. 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, 2016

Table 2 shows the changes in Net Position for the year ended December 31, 2016 and 2015.

Table 2
Change in Net Position

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Charges for Services	\$ 4,619,515	\$ 4,705,467
Intergovernmental	-	21,905
Other Revenues	380	18,750
Non-Operating Revenues		
Grant Revenue	1,215,313	86,430
Interest Revenue	<u>2,820</u>	<u>6,262</u>
Total Revenues	<u>5,838,028</u>	<u>4,838,814</u>
Operating Expenses		
Personal Services	1,597,479	1,624,952
Contractual Services	404,036	473,550
Materials and Supplies	332,149	444,105
Heat, Light and Power	564,178	570,239
Landfill	246,875	185,288
Depreciation	1,544,296	1,500,180
Non-Operating Expenses		
Interest and Fiscal Charges	<u>197,214</u>	<u>365,971</u>
Total Expenses	<u>4,886,227</u>	<u>5,164,285</u>
Increase (Decrease) in Net Position	951,801	(325,471)
Net Position Beginning of Year	<u>19,607,343</u>	<u>19,932,814</u>
Net Position End of Year	<u>\$ 20,559,144</u>	<u>\$ 19,607,343</u>

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2016

Analysis of Overall Financial Position and Results of Operations

The primary reason for the difference between 2016 and 2015 change in net position was the progress of two large treatment plant improvement projects in 2016, with one project being fully completed by the end of the year. Both projects are being funded by Ohio Public Works Commission (OPWC) funds causing an increase in grant revenues as well. The Plant had expenditure classes which fluctuated in both directions with increases and decreases depending on the activity for the year.

Budgeting Highlights

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

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

During 2016, the Plant had no supplemental appropriations; therefore the original appropriations and final appropriations, including prior year encumbrances in total were \$9,155,121. The total original budgeted revenues were \$8,044,552 and final budgeted revenues were \$8,044,552. Actual revenues were \$1,758,281 less than the final budget estimates of \$8,044,552 primarily as a result of less intergovernmental revenue received than expected. Additionally, the Plant had a decrease in actual expenditures of \$1,747,328, from final budgeted expenditures of \$9,155,121. The Plant is currently performing multiple OPWC treatment plant improvement projects; however, the Plant had less in project expenditures than expected due to the timing of when OPWC payments were made, causing actual revenues and expenditures to be less than budgeted.

Capital Assets

Table 3 provides a summary of the Plant's capital assets, net of accumulated depreciation, for 2016 compared to 2015.

Table 3
Capital Assets, Net

	<u>2016</u>	<u>2015</u>
Construction in Progress	\$ 2,366,505	\$ 1,026,147
Treatment Plant	25,558,468	25,738,783
Equipment and Vehicles	<u>148,693</u>	<u>110,719</u>
Total Capital Assets, Net	<u>\$ 28,073,666</u>	<u>\$ 26,875,649</u>

Rocky River Wastewater Treatment Plant

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2016

Capital assets, net of accumulated depreciation increased by \$1,198,017 as there was a large increase in construction in progress during the current year. For more information on capital assets, see Note 8 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 loan at December 31, 2016 is \$6,027,085. The Plant has five OPWC loans; each loan has a zero percent interest rate and a term of 20 years. The balance of the outstanding amounts of the loans at December 31, 2016 is \$2,597,484. The Plant has no bonded indebtedness. See Note 9 for additional information on debt.

Current Financial Related Activities

During 2016, the Plant continued progress on two OPWC projects: (1) WWTP Improvements 2013 – 2016 and (2) WWTP 2014 – 2017 Capital Improvements Project. The WWTP Improvements 2013 – 2016 was fully completed by the end of the year. The facets of the WWTP Improvements 2013 – 2016 include repair/replacement of components of the four trickling filters and certain electronic actuators and controls. The facets of the WWTP 2014 – 2017 Capital Improvements Project include repair/replacement of a series of Plant components and equipment that date to 1961. The Plant also incurred expenditures relating to the Sewage Pump Replacement Project and Secondary Digester Cleaning Project.

Contacting the Plant Finance Department

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

Rocky River Wastewater Treatment Plant

Statement of Net Position

December 31, 2016

Assets:

Current Assets:

Cash and Cash Equivalents	\$	3,107,850
Accrued Interest Receivable		25
Materials and Supplies Inventory		<u>61,881</u>
Total Current Assets		<u>3,169,756</u>

Noncurrent Assets:

Capital Assets:

Construction in Progress		2,366,505
Treatment Plant		59,114,017
Equipment		791,371
Vehicles		37,530
Less: Accumulated Depreciation		<u>(34,235,757)</u>
Total Capital Assets, net		28,073,666
Net Pension Asset		<u>2,265</u>
Total Noncurrent Assets		<u>28,075,931</u>

Total Assets 31,245,687

Deferred Outflows of Resources:

Pension		<u>582,142</u>
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Liabilities:

Current Liabilities:

Accounts Payable		483,356
Accrued Wages and Benefits		38,998
Intergovernmental Payable		35,726
Compensated Absences Payable		28,552
Accrued Interest Payable		120,542
Unearned Revenue		47,736
OPWC Loans Payable		165,440
OWDA Loans Payable		<u>533,774</u>

Total Current Liabilities 1,454,124

(continued)

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

Rocky River Wastewater Treatment Plant

Statement of Net Position (continued)

December 31, 2016

Noncurrent Liabilities:

Compensated Absences Payable (Net of Current Portion)	347,180
OPWC Loans Payable (Net of Current Portion)	2,432,044
OWDA Loans Payable (Net of Current Portion)	5,493,311
Net Pension Liability	<u>1,499,260</u>

Total Noncurrent Liabilities 9,771,795

Total Liabilities 11,225,919

Deferred Inflows of Resources

Pension	<u>42,766</u>
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Net Position:

Net Investment in Capital Assets	19,449,097
Unrestricted	<u>1,110,047</u>

Total Net Position \$ 20,559,144

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

Rocky River Wastewater Treatment Plant

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2016

Operating Revenues:	
Charges for Services	\$ 4,619,515
Other Revenues	<u>380</u>
Total Operating Revenues	<u>4,619,895</u>
Operating Expenses:	
Personal Services	1,597,479
Contractual Services	404,036
Materials and Supplies	332,149
Heat, Light and Power	564,178
Landfill	246,875
Depreciation	<u>1,544,296</u>
Total Operating Expenses	<u>4,689,013</u>
Operating Loss	<u>(69,118)</u>
Non-Operating Revenues and Expenses:	
Grant Revenue	1,215,313
Interest Revenue	2,820
Interest and Fiscal Charges	<u>(197,214)</u>
Total Non-Operating Revenues and Expenses	<u>1,020,919</u>
Change in Net Position	951,801
Net Position at Beginning of Year	<u>19,607,343</u>
Net Position at End of Year	\$ <u><u>20,559,144</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, 2016

Increase (Decrease) in Cash and Cash Equivalents:

Cash Flows from Operating Activities:

Cash Received from Customers	\$	4,667,251
Cash Received from Other Operating Sources		380
Cash Payments to Suppliers for Goods and Services		(1,502,724)
Cash Payments for Employee Services and Benefits		<u>(1,519,677)</u>

Net Cash Provided by Operating Activities 1,645,230

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets		(2,463,650)
Intergovernmental – OPWC Grant		1,247,656
Proceeds from OPWC Loan		413,811
Principal Paid on OWDA Loan		(505,584)
Principal Paid on OPWC Loan		(147,924)
Interest Paid on OWDA Loan		<u>(256,320)</u>

Net Cash Used for Capital and Related Financing Activities (1,712,011)

Cash Flows from Investing Activities:

Interest Received		<u>5,405</u>
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Net Decrease in Cash and Cash Equivalents (61,376)

Cash and Cash Equivalents, Beginning of Year 3,169,226

Cash and Cash Equivalents, End of Year \$ 3,107,850

(continued)

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

Rocky River Wastewater Treatment Plant

Statement of Cash Flows (continued)

For the Year Ended December 31, 2016

Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities:

Operating Loss	\$	(69,118)
Adjustments:		
Depreciation		1,544,296
Changes in Assets/Liabilities:		
Increase in Inventory		(19,812)
Increase in Net Pension Asset		(233)
Increase in Deferred Outflows Related to Pension		(396,098)
Increase in Accounts Payable		50,001
Increase in Accrued Wages and Benefits		2,085
Increase in Compensated Absences		23,233
Decrease in Intergovernmental Payable		(8,075)
Increase in Unearned Revenue		47,736
Increase in Net Pension Liability		447,546
Increase in Deferred Inflows Related to Pension		<u>23,669</u>
Total adjustments		<u>170,052</u>
Net Cash Provided by Operating Activities:	\$	<u>1,645,230</u>

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

Change in Capital Assets Acquired through Accounts Payable	\$	278,663
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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, 2016

Note 1: Description of the Plant and Reporting Entity

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

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

The Plant has a Management Committee consisting of the Mayor of each Member City or his/her designee and a fifth member who is appointed by the four Mayors. The Management Committee serves without compensation. The organizing agreement provides that the fifth member may be compensated. In 2016, 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 a secondary wastewater treatment plant with a dry weather capacity of 22.5 million gallons per day (MGD) and can provide complete primary and secondary treatment for 45 MGD, and primary treatment only for flows up to 128 MGD. The Plant facility was originally built in 1961 (primary treatment) with a major expansion completed in 1985 (addition of secondary biological treatment process required by the 1972 Clean Water Act) and further expanded with a major upgrade to increase primary treatment in 2000. 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>
2016	13.02	47.04	137.9	4,935
2015	14.22	86.30	156.0	5,189
2014	15.11	70.52	141.5	5,516
2013	13.98	74.69	142.0	5,102
2012	13.96	92.24	129.8	5,097

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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

The Plant was authorized to discharge according to National Pollutant Discharge Elimination System (NPDES) Permit No. 3PE00009*KD issued by the State of Ohio Environmental Protection Agency on December 5, 2011 effective January 1, 2012 to July 31, 2016. The U.S. Environmental Protection Agency regulations provide that a Federal Water Pollution Control Act permit will be administratively extended and kept in effect until a new permit is issued by the permitting authority. On January 3, 2017, the Ohio Environmental Protection Agency issued the Plant's NPDES Permit No. 3PE00009*MD effective February 1, 2017 to January 31, 2022. The discharge permit establishes certain limits for the quality of water that is discharged from the Plant.

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 November 23, 2016 to September 6, 2021.

The City has employed a staff of 18 to perform operational duties at the Plant, all which have State of Ohio Environmental Protection Agency license certifications ranging from Class I through Class IV.

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, 2016:

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

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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

The flow quantity and strength study that established the above listed rates was completed in May 2013. In accordance with the Plant's organization agreement, a flow quantity and strength study is expected to be conducted in 2017. The continued existence of the Plant is dependent upon the participation of each Member City.

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 proprietary activities.

C. Basis of Accounting

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

On the accrual basis, revenue is recorded on exchange transactions when the exchange takes place. Non-exchange transactions, in which the Plant receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued)

Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned.

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 2016, 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. Capital Assets

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

All capital assets are depreciated, except for Construction In Progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Treatment Plant	40 years
Equipment	5 years
Vehicles	5 years

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

G. Capitalization of Interest

The Plant may capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2016, the Plant did not capitalize any interest.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Plant will compensate the employees for the benefits through paid-time-off or some other means. Vacation leave is earned at rates which vary depending upon length of service and standard work week. Vacation accumulation is limited to two 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.

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 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, 2016.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 2: Summary of Significant Accounting Policies (continued)

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

For purposes of measuring the net pension asset, the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension 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 systems report investments at fair value.

Note 3: Changes in Accounting Principles

For the year ended December 31, 2016, the Plant implemented GASB Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, GASB Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, and GASB Statement No. 82, *Pension Issues-an Amendment of GASB Statements No. 67, No. 68 and No. 73*.

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of this GASB pronouncement did not result in any changes to the Plant's financial statements.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68. These changes were incorporated in the Plant's financial statements; however, there was no effect on beginning net position.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 3: Changes in Accounting Principles (continued)

GASB Statement No. 76 identifies in the context of the current governmental financial reporting environment - the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the Plant's financial statements.

GASB Statement No. 77 requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The implementation of this GASB pronouncement did not result in any changes to the Plant's financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance and also establishes additional note disclosure requirements for governments that participate in those pools. The Plant incorporated the corresponding GASB 79 guidance into their financial statements; however, there was no effect on beginning net position.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the Plant's financial statements; however, there was no effect on beginning net position.

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, 2016

Note 4: Deposits (continued)

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

At December 31, 2016, the carrying amount of the Plant's deposits was \$3,107,850 and the bank balance was \$3,148,479. Of the bank balance, \$500,000 was covered by federal depository insurance and \$2,648,479 was collateralized with securities held by pledging institutions' agents in its collateral pool.

Note 5: Receivables

Receivables at December 31, 2016, consist of accrued interest.

Note 6: 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 2016, 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 7: Contingent Liabilities

There were no legal proceedings seeking damages against the Plant as of December 31, 2016. Plant management is not aware of any pending claims, asserted or unasserted, as of December 31, 2016.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 8: Capital Assets

Capital Asset activity for the year ended December 31, 2016, was as follows:

	Balance <u>12/31/15</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/16</u>
Capital Assets, not being Depreciated:				
Construction in Progress	\$ <u>1,026,147</u>	\$ <u>2,659,865</u>	\$ <u>(1,319,507)</u>	\$ <u>2,366,505</u>
Capital Assets, being Depreciated:				
Treatment Plant	57,815,882	1,298,135	-	59,114,017
Equipment	687,551	103,820	-	791,371
Vehicles	<u>37,530</u>	<u>-</u>	<u>-</u>	<u>37,530</u>
Total Capital Assets, being Depreciated	<u>58,540,963</u>	<u>1,401,955</u>	<u>-</u>	<u>59,942,918</u>
Less Accumulated Depreciation:				
Treatment Plant	(32,077,099)	(1,478,450)	-	(33,555,549)
Equipment	(576,832)	(65,846)	-	(642,678)
Vehicles	<u>(37,530)</u>	<u>-</u>	<u>-</u>	<u>(37,530)</u>
Total Accumulated Depreciation	<u>(32,691,461)</u>	<u>(1,544,296)</u>	<u>-</u>	<u>(34,235,757)</u>
Total Capital Assets, being Depreciated, Net	<u>25,849,502</u>	<u>(142,341)</u>	<u>-</u>	<u>25,707,161</u>
Total Capital Assets, Net	\$ <u>26,875,649</u>	\$ <u>2,517,524</u>	\$ <u>(1,319,507)</u>	\$ <u>28,073,666</u>

Note 9: Long-Term Obligations

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

	Outstanding <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	Outstanding <u>12/31/16</u>	Amounts Due <u>in One Year</u>
2000 5.50% \$11,582,103					
OWDA Loan – Matures 7/1/25	\$ 6,532,669	\$ -	\$ (505,584)	\$ 6,027,085	\$ 533,774
0.00% OPWC					
Trickling Filter Recycle Pump Replacement	164,560	-	(13,714)	150,846	13,714
WWTP Improvements	1,563,085	-	(115,784)	1,447,301	115,784
WWTP Improvements 2008/2009	276,394	-	(18,426)	257,968	18,426
WWTP Improvements 2013/2016	327,558	373,076	-	700,634	17,516
WWTP Improvements 2014/2017	-	40,735	-	40,735	-
Net Pension Liability	1,051,714	447,546	-	1,499,260	-
Compensated Absences Payable	<u>352,499</u>	<u>119,490</u>	<u>(96,257)</u>	<u>375,732</u>	<u>28,552</u>
Total	\$ <u>10,268,479</u>	\$ <u>980,847</u>	\$ <u>(749,765)</u>	\$ <u>10,499,561</u>	\$ <u>727,766</u>

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 9: Long-Term Obligations (continued)

Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2016, are as follows:

Year	OWDA Loan		OPWC		Total
	Principal	Interest	Principal		
2017	\$ 533,774	\$ 235,818	\$ 165,440	\$	935,032
2018	563,535	214,173	182,956		960,664
2019	594,955	191,322	182,956		969,233
2020	628,128	167,196	182,956		978,280
2021	663,150	141,726	182,956		987,832
2022-2026	3,043,543	282,582	914,781		4,240,906
2027-2031	-	-	552,034		552,034
2032-2036	-	-	175,160		175,160
2037	-	-	17,510		17,510
Total	\$ <u>6,027,085</u>	\$ <u>1,232,817</u>	\$ <u>2,556,749</u>	\$	<u>9,816,651</u>

In July 2001, the OWDA finalized a loan for Plant expansion totaling \$11,582,103. The loan is being repaid in semi-annual installments of \$429,012 beginning in July 2001, over 24 years, ending in 2025 at 5.5% interest. In 2016, OWDA provided the City with an interest buy-down, which resulted in a reduced interest rate of 1.5%.

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 20 years, ending in 2027.

In January 2009, the OPWC finalized an interest-free loan for the plant improvements project totaling \$2,315,681. The loan will be repaid in semi-annual installments of \$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 2030.

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.

The Plant also obtained an OPWC loan for the WWTP Improvements 2014 – 2017 to be repaid in semi-annual principal payments upon project completion. OPWC has authorized this loan up to \$1,241,173 and the Plant continues to draw monies against this loan, therefore, the debt maturity schedule above does not reflect any amounts for principal or interest. When the loan is finalized, the principal and interest will be included above.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 10: Related Party Transactions

Since the continued existence of the Plant is dependent upon the participation of each Member City, all transactions between the Plant and each Member City are considered related party transactions. The Plant's transactions during 2016, 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 2016 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:

	Charges for <u>Services</u>	<u>Contributions</u>
Bay Village	\$ 1,092,805	\$ 232,128
Fairview Park	740,838	148,356
Rocky River	1,185,114	236,902
Westlake	<u>1,600,758</u>	<u>318,614</u>
Total	<u>\$ 4,619,515</u>	<u>\$ 936,000</u>

The contributions listed above are reported net unearned revenue of \$47,736 as a result of the Plant receiving contributions in excess of services provided during 2016.

B. Land Use Agreement

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

Note 11: Defined Benefit Pension Plans

A. Net Pension Liability

The net pension liability reported on the Statement of Net Position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions 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 is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Plant's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability 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, 2016

Note 11: Defined Benefit Pension Plans (continued)

A. Net Pension Liability (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 are financed; however, the Plant does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability 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). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension 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.

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

Plan Description - Plant employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan and the Combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Plant employees) may elect the member-directed plan, substantially all employee members are in OPERS' Traditional or 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.

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.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 11: Defined Benefit Pension Plans (continued)

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

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 CAFR 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

When a benefit recipient retiring under the Traditional plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, 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 plan.

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 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 use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 11: Defined Benefit Pension Plans (continued)

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

Benefits in the Combined plan consist of both an age-and-service formula benefit (the defined benefit element) and a defined contribution element. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional 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 CAFR 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: 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

Members retiring under the Combined plan receive a 3% COLA on the defined benefit portion of their benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, 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 plan.

The member-directed plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The distribution upon retirement is equal to the sum of member and vested employer contributions plus investment earnings (or losses). Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

2016 Statutory Maximum Contribution Rates	<u>State and Local</u>
Employer	14.0 %
Employee	10.0 %

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 11: Defined Benefit Pension Plans (continued)

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

2016 Actual Contribution Rates

Employer:

Pension	12.0 %
Post-employment Health Care Benefits	<u>2.0 %</u>

Total Employer 14.0 %

Employee 10.0 %

In 2016, the Plant's contractually required contribution, net of post-employment health care benefits, was \$140,325. Of this amount, \$17,572 is reported as accrued wages and benefits at December 31, 2016.

C. Pension Liabilities, 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, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. 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:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>Total</u>
Proportion of the net pension liability (asset) prior measurement date	0.008720%	0.005278%	
Proportion of the net pension liability (asset) current measurement date	<u>0.008656%</u>	<u>0.004654%</u>	
Change in Proportionate Share	(0.000064%)	(0.000624%)	
Proportionate share of the net pension liability (asset)	\$ 1,499,260	\$ (2,265)	\$ 1,496,995
Pension expense	\$ 214,033	\$ 1,176	\$ 215,209

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

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

At December 31, 2016, the Plant reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS <u>Traditional</u>	OPERS <u>Combined</u>	<u>Total</u>
Deferred outflow of resources			
Plant contributions subsequent to the measurement date	\$ 138,044	\$ 2,281	\$ 140,325
Differences in employer contributions and change in proportionate share	-	150	150
Net difference between projected and actual earnings on pension plan investments	<u>440,689</u>	<u>978</u>	<u>441,667</u>
Total deferred outflow of resources	\$ <u>578,733</u>	\$ <u>3,409</u>	\$ <u>582,142</u>
Deferred inflow of resources			
Differences in employer contributions and change in proportionate share	\$ 12,763	\$ -	\$ 12,763
Differences between expected and actual experience	<u>28,969</u>	<u>1,034</u>	<u>30,003</u>
Total deferred inflow of resources	\$ <u>41,732</u>	\$ <u>1,034</u>	\$ <u>42,766</u>

The \$140,325 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS <u>Traditional</u>	OPERS <u>Combined</u>	<u>Total</u>
Fiscal Year Ending December 31:			
2017	\$ 90,494	\$ 139	\$ 90,633
2018	97,540	139	97,679
2019	111,195	139	111,334
2020	99,728	111	99,839
2021	-	(113)	(113)
2022-2025	<u>-</u>	<u>(321)</u>	<u>(321)</u>
	\$ <u>398,957</u>	\$ <u>94</u>	\$ <u>399,051</u>

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 11: Defined Benefit Pension Plans (continued)

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 in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
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%	8%
Wage Inflation	3.75%	3.75%
Future Salary Increases, including 3.75% inflation	4.25 to 10.05%	4.25 to 8.05%
COLA	3% Simple	3% Simple

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% 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% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

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.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 11: Defined Benefit Pension Plans (continued)

D. Actuarial Assumptions – OPERS (continued)

OPERS manages investments in four investment portfolios: the defined benefits portfolio, the health care portfolio, the 115 health care trust portfolio and the defined contribution portfolio. The defined benefit portfolio includes the investment assets of the Traditional plan, the defined benefit component of the Combined plan, the annuitized accounts of the member-directed plan and the VEBA Trust. Within the defined benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return, net of investment expenses, is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the defined benefit portfolio is 0.40% for 2015.

The allocation of investment assets with the defined benefit portfolio is approved by the Board of Trustees 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 2015 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	23.00%	2.31%
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other Investments	18.00	4.59
Total	<u>100.00%</u>	

Discount Rate The discount rate used to measure the total pension liability was 8%. 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.

Sensitivity of the Plant's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Plant's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8%, as well as what the Plant's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7%) or one-percentage-point higher (9%) than the current rate:

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 11: Defined Benefit Pension Plans (continued)

D. Actuarial Assumptions – OPERS (continued)

	1% Decrease <u>(7%)</u>	Discount Rate <u>(8%)</u>	1% Increase <u>(9%)</u>
Plant's proportionate share of the net pension liability – Traditional	\$ 2,388,687	\$ 1,499,260	\$ 749,056
Plant's proportionate share of the net pension liability (asset) – Combined	\$ (47)	\$ (2,265)	\$ (4,049)

Changes between Measurement Date and Report Date

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net position liability is expected to be significant.

Note 12: Post-Employment Benefits

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional pension plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed plan – a defined contribution plan; and the Combined plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, 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 and Combined plans. Members of the Member-Directed plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional and Combined plans must have 20 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 Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

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.

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 12: Post-Employment Benefits (continued)

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rate 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 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. 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. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed plan for 2016 was 4.0%.

The Plant's contributions for health care for the years ended December 31, 2016, 2015, and 2014 were \$23,753, \$22,074, and \$20,867, respectively. The full amount has been contributed for 2015 and 2014. For 2016, 87.7% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

Note 13: Contractual Commitments

At December 31, 2016, the Plant's significant contractual commitments consisted of:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Remaining on Contract</u>
Professional Services	\$ 147,110	\$ 18,160	\$ 128,949
2014-2017 Capital Improvement Project	<u>2,644,229</u>	<u>1,909,672</u>	<u>734,557</u>
Total	<u>\$ 2,791,339</u>	<u>\$ 1,927,832</u>	<u>\$ 863,506</u>

Rocky River Wastewater Treatment Plant

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2016

Note 14: Permitting and Compliance

The Plant's National Pollutant Discharge Elimination System, (NPDES) Permit No. 3PE00009*KD expired on July 31, 2016. The U.S. Environmental Protection Agency regulations provide that if a Federal Water Pollution Control Act permit has expired, and the permitting authority, the State of Ohio Environmental Protection Agency, has not yet issued a new permit, the expired permit is administratively extended and kept in effect until the new permit is issued. There were no compliance issues during 2016.

On January 3, 2017, the Ohio Environmental Protection Agency issued the Plant's NPDES Permit 3PE00009*MD for the period February 1, 2017 to January 31, 2022.

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

Last Three Years

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Plant's proportion of the net pension liability	0.008656%	0.008720%	0.008720%
Plant's proportionate share of the net pension liability	\$ 1,499,260	\$ 1,051,714	\$ 1,027,959
Plant's covered payroll	\$ 1,065,035	\$ 1,016,709	\$ 1,013,273
Plant's proportionate share of the net pension liability as a percentage of its covered payroll	140.77%	103.44%	101.45%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	n/a

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

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

Last Three Years

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Plant's proportion of the net pension asset	0.004654%	0.005278%	0.005278%
Plant's proportionate share of the net pension asset	\$ 2,265	\$ 2,032	\$ 554
Plant's covered payroll	\$ 16,663	\$ 17,822	\$ 15,854
Plant's proportionate share of the net pension asset as a percentage of its covered payroll	13.59%	11.40%	3.49%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%	n/a

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

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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 138,044	\$ 127,804	\$ 122,005	\$ 131,726	\$ 93,031
Contributions in relation to the contractually-required contribution	<u>(138,044)</u>	<u>(127,804)</u>	<u>(122,005)</u>	<u>(131,726)</u>	<u>(93,031)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Plant covered payroll	\$ 1,150,366	\$ 1,065,035	\$ 1,016,709	\$ 1,013,273	\$ 930,308
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 107,776	\$ 100,498	\$ 84,180	\$ 70,449	\$ 79,996
Contributions in relation to the contractually-required contribution	<u>(107,776)</u>	<u>(100,498)</u>	<u>(84,180)</u>	<u>(70,449)</u>	<u>(79,996)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Plant covered payroll	\$ 1,077,756	\$ 1,116,642	\$ 990,352	\$ 1,006,420	\$ 958,038
Contributions as a percentage of covered payroll	10.00%	9.00%	8.50%	7.00%	8.35%

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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually-required contribution	\$ 2,281	\$ 2,000	\$ 2,139	\$ 2,061	\$ 1,456
Contributions in relation to the contractually-required contribution	<u>(2,281)</u>	<u>(2,000)</u>	<u>(2,139)</u>	<u>(2,061)</u>	<u>(1,456)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
Plant covered payroll	\$ 19,010	\$ 16,663	\$ 17,822	\$ 15,854	\$ 14,556
Contributions as a percentage of covered payroll	12.00%	12.00%	12.00%	13.00%	10.00%
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually-required contribution	\$ 1,686	\$ 1,572	\$ 1,317	\$ 1,102	\$ 1,252
Contributions in relation to the contractually-required contribution	<u>(1,686)</u>	<u>(1,572)</u>	<u>(1,317)</u>	<u>(1,102)</u>	<u>(1,252)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
Plant covered payroll	\$ 16,863	\$ 17,471	\$ 15,495	\$ 15,746	\$ 14,990
Contributions as a percentage of covered payroll	10.00%	9.00%	8.50%	7.00%	8.35%

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, 2016

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Charges for Services	\$ 5,277,144	\$ 5,277,144	\$ 4,619,515	\$ (657,629)
Intergovernmental	2,757,908	2,757,908	1,661,467	(1,096,441)
Other Revenues	5,000	5,000	380	(4,620)
Investment Revenue	<u>4,500</u>	<u>4,500</u>	<u>5,405</u>	<u>905</u>
Total Revenues	<u>8,044,552</u>	<u>8,044,552</u>	<u>6,286,767</u>	<u>(1,757,785)</u>
Expenses:				
Personal Services	1,596,898	1,596,898	1,519,797	77,101
Contractual Services	920,756	940,756	733,521	207,235
Materials and Supplies	564,999	544,999	425,546	119,453
Heat, Light and Power	729,000	729,000	507,827	221,173
Landfill	408,152	408,152	287,392	120,760
Capital Outlay	3,929,030	3,929,030	3,023,882	905,148
Debt Service:				
Principal Retirement	653,786	653,786	653,508	278
Interest and Fiscal Charges	<u>352,500</u>	<u>352,500</u>	<u>256,320</u>	<u>96,180</u>
Total Expenses	<u>9,155,121</u>	<u>9,155,121</u>	<u>7,407,793</u>	<u>1,747,328</u>
Net Change in Fund Equity	(1,110,569)	(1,110,569)	(1,121,026)	(10,457)
Fund Equity at Beginning of Year	1,545,703	1,545,703	1,545,703	-
Prior Year Encumbrances Appropriated	<u>1,623,523</u>	<u>1,623,523</u>	<u>1,623,523</u>	-
Fund Equity at End of Year	\$ <u>2,058,657</u>	\$ <u>2,058,657</u>	\$ <u>2,047,704</u>	\$ <u>(10,457)</u>

(continued)

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, 2016

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

Change in Net Position	\$	951,801
Net Adjustments for Revenue Accruals		448,243
Net Adjustments for Expense Accruals		(311,635)
Depreciation Expense		1,544,296
Additions of Capital Assets		(2,742,313)
Encumbrances		<u>(1,011,914)</u>
Change in Fund Equity	\$	<u><u>(1,121,522)</u></u>

Rocky River Wastewater Treatment Plant

Notes to Supplemental Information

For the Year Ended December 31, 2016

Note 1: Budgetary Basis of Accounting

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

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

The table on page 41 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.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Rocky River Wastewater Treatment Plant (the “Plant”), as of and for the year ended December 31, 2016, 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 28, 2017.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 28, 2017



Dave Yost • Auditor of State

ROCKY RIVER WASTEWATER TREATMENT PLANT

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 28, 2017**