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## **City of Hamilton, Ohio – Wastewater System**

Financial Statements

Years Ended December 31, 2011 and 2010

With Independent Auditors' Report

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## INDEPENDENT AUDITORS' REPORT

Honorable City Council  
City of Hamilton, Ohio

We have audited the accompanying financial statements of the City of Hamilton, Ohio - Wastewater System, an enterprise fund of the City of Hamilton, Ohio as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the City of Hamilton's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Wastewater System and do not purport to, and do not, present fairly the financial position of the City of Hamilton, Ohio as of December 31, 2011 and 2010, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Hamilton, Ohio - Wastewater System as of December 31, 2011 and 2010 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
June 7, 2012

one east fourth street, ste. 1200  
cincinnati, oh 45202

www.cshco.com  
p. 513.241.3111  
f. 513.241.1212

# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Years Ended December 31, 2011 and 2010  
Unaudited

The discussion and analysis of the City of Hamilton, Ohio's Wastewater System's financial performance provide an overall review of that System's financial activities for the year ended December 31, 2011 and 2010. While the intent of this discussion and analysis is to look at the system's financial performance, readers should also review the Statements of Net Assets; Revenues, Expenses and Changes in Net Assets; and Cash Flows to enhance their understanding of the system's fiscal performance.

### Financial Highlights

Key highlights for 2011 and 2010 are as follows:

- ❑ The assets of the Hamilton Wastewater System exceed its liabilities at the close of 2011 and 2010 respectively by \$29,862,489 and \$28,935,342 (net assets). Of these amounts, \$8,376,961 and \$7,011,012 (unrestricted net assets) for those years can be used to meet the System's ongoing obligations to customers and creditors.
- ❑ The System's total net assets increased by \$927,147 between 2011 and 2010, representing a 3.2% increase.
- ❑ In 2011, the Wastewater System's long-term debt, net of premiums, discounts, and unamortized loss on debt refunding, increased by \$28,086,318 with the issuance of \$29,620,000 in Series 2011 Wastewater Revenue Bonds.

### Wastewater System Summary and Using this Annual Report

The City of Hamilton, Ohio owns and operates the Wastewater System, serving approximately 23,050 customers. The System consists of the Treatment Plant, sanitary sewer and composting facilities. The initial sludge plant was placed in service in 1959. In 1978, the Wastewater System was expanded to provide complete treatment services and an expansion of treatment facilities was completed during 2002.

The Wastewater System's original 6 MGD activated sludge plant was placed into service in 1959 and provided primary treatment of all incoming wastewater. The plant was built large enough that primary treatment could be expanded to 12 MGD with a maximum hydraulic flow capacity of 18 MGD. In 1978, the wastewater treatment plant was expanded to provide for complete secondary treatment by the addition of secondary aeration and final settling tanks. As a result of improvements completed in the year 2000, hydraulic capacity was increased to 62 MGD, with 32 MGD full treatment capability, and 30 MGD primary only capability.

The Wastewater Treatment Plant provides primary treatment for all wastewater generated by commercial, residential and industrial use from the City and some surrounding areas. Smart Papers, LLC operates its own primary treatment facility to treat the wastewater flow from its mill. The waste stream from the Smart Papers, LLC primary system is pumped directly to the Wastewater Treatment Plant, combined with the flow from the City and receives secondary treatment at the Wastewater Treatment Plant. All wastewater (except flows from the Smart Papers, LLC primary system) flows to the Wastewater Treatment Plant through the City's sewer system.

# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Years Ended December 31, 2011 and 2010  
Unaudited

Prior to 1988, the City sent its de-watered sludge to a landfill. In 1988, the City placed into operation a composting facility, which transforms sludge into compost that is available for landscaping, agricultural and horticultural applications. The City uses its compost facility for a portion of its sludge handling needs and has also entered into contracts for sludge removal and compost removal.

This annual report consists only of the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows as well as Notes to the Financial Statements for the City of Hamilton, Ohio's Wastewater System for the years ended December 31, 2011 and 2010.

### **Reporting Hamilton's Wastewater System (Whole and Significant Fund)**

The financial statements contained within this report include the City of Hamilton, Ohio's Wastewater System *only*. Readers desiring to view city-wide financial statements, as well as the impact that the Wastewater System has on the City's overall financial position and operating results, should refer to the City's Basic Financial Statements appearing in the Comprehensive Annual Financial Report for 2011 and 2010. The City of Hamilton's Wastewater System is reported as a business-type, enterprise fund and is considered a major fund for purposes of individual fund reporting. Payments made from the Wastewater Fund are restricted to Wastewater System purposes by municipal ordinance, Ohio Revised Code and indentures issued pursuant to long-term financing.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the view of the system looks at all financial transactions of the Wastewater Fund and asks the question, "How did we do financially during 2011 and 2010?" These statements provide answers to that question. The statements include all assets and liabilities of the System using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the System's net assets and the changes in those net assets. The change in net assets is important because it tells the reader whether, for the System, the financial position of the City has improved or diminished. However, in evaluating this position, non-financial information including the condition of capital assets will also need to be evaluated. The Notes to the Wastewater System's Financial Statements provide additional information that is essential to a full understanding of the data provided. The System provides services that have a charge based upon the amount of usage. The City's Wastewater System charges fees to recoup the cost of the entire operation of the Wastewater System as well as all capital expenses associated with these facilities.

# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Years Ended December 31, 2011 and 2010  
Unaudited

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the Wastewater Fund, assets exceeded liabilities by \$29,862,489 and \$28,935,342 as of December 31, 2011 and 2010, respectively. By far, the largest portion of the net assets of the Wastewater System reflect its investment in capital assets (e.g. land, buildings, improvements, construction in progress, machinery and equipment) less any related debt used to acquire those assets that are still outstanding. The ratio of net assets invested capital assets, net of related debt to total net assets are as follows: 51.2% for 2011, 62.2% for 2010 and 62.7% for 2009. The System employs these assets in the treatment and collection of sanitary sewer flow; consequently, these assets are not readily available for future spending. The System's investment in its capital assets is reported net of related debt and it should be noted that the resources needed to repay these debts must be provided from other sources, primarily the revenues of the system, because the capital assets themselves cannot be used to liquidate the liabilities. Table 1 provides a summary of the Wastewater System's Statement of Net Assets for the Years Ended December 31, 2011, 2010 and 2009.

	2011	2010	2009
Current and Other Assets	\$49,737,513	\$21,310,919	\$22,422,989
Capital Assets	42,534,191	41,840,967	40,747,334
Total Assets	<u>92,271,704</u>	<u>63,151,886</u>	<u>63,170,323</u>
Long-term Liabilities	58,517,213	31,064,589	32,064,357
Other Liabilities	3,892,002	3,151,955	2,499,743
Total Liabilities	<u>62,409,215</u>	<u>34,216,544</u>	<u>34,564,100</u>
Invested in capital assets, net of related debt	15,303,201	18,009,521	17,935,703
Restricted	6,182,327	3,914,809	3,822,712
Unrestricted	8,376,961	7,011,012	6,847,808
Total Net Assets	<u>\$29,862,489</u>	<u>\$28,935,342</u>	<u>\$28,606,223</u>

As of December 31, 2011, 2010 and 2009, the City is able to report positive balances in net assets. The overall changes in net assets were an increases of \$927,147 and \$329,119 in 2011 and 2010, respectively, and a decrease of \$933,027 in 2009. Net operating income of \$2,674,637 in 2011, which is an increase from 2010 of \$1,422,317, was mainly due to increased operating revenue of \$1.1 million and reduction in operating expenditures of \$323,894. The increased revenue is due to rate increases as well as implementation of Rider A. As part of the garage renovation project, higher repair and maintenance expenses were incurred in 2010 compared to 2011. Net non-operating expenses of \$1.7 million increased by \$222,000 primarily due to increased interest costs on the outstanding debt.

# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Years Ended December 31, 2011 and 2010  
Unaudited

	2011	2010	2009
Operating Revenues	\$12,302,310	\$11,203,887	\$10,722,481
Operating Expenses:			
Depreciation	2,272,079	2,158,805	2,194,891
Other Operating Expenses	7,355,594	7,792,762	8,150,313
Total Operating Expenses	9,627,673	9,951,567	10,345,204
Operating income	2,674,637	1,252,320	377,277
Non-Operating revenues (expenses)			
Interest and fiscal charges	(1,802,839)	(1,566,784)	(1,263,478)
Other non-operating revenues	55,349	40,941	80,674
Total non-operating (expenses)	(1,747,490)	(1,525,843)	(1,182,804)
Capital contributions	-	602,642	-
Transfers	-	-	(127,500)
Change in Net Assets	927,147	329,119	(933,027)
Beginning Net Assets	28,935,342	28,606,223	29,539,250
Ending Net Assets	\$29,862,489	\$28,935,342	\$28,606,223

### Capital Assets and Debt Administration

*Capital Assets:* The City's investment in capital assets of the Wastewater System as of December 31, 2011, 2010 and 2009 amounted to \$15.3 Million, \$18.0 Million and \$17.9 Million, respectively, (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements, construction in progress, and machinery and equipment.

Note 5 (Capital Assets) provides Wastewater System asset activity during 2011 and 2010.

*Debt Administration:* At the end of 2011, the City had three outstanding long-term revenue bond issues, the 2005 Wastewater System Revenue Bond totaling \$17,340,000, the 2009 Wastewater System Revenue Bonds totaling \$13,120,000 and the 2011 Wastewater System Revenue Bonds totaling \$29,620,000, issued in October 2011.

See Note 6 for a discussion of the outstanding Wastewater System bonds and related activity.

### Economic Factors and Future Trends

# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Years Ended December 31, 2011 and 2010  
Unaudited

The City's Wastewater Utility System consists of a treatment plant located on the banks of the Great Miami River as well as sanitary sewer collection system serving approximately 23,050 customers. These customers are a diverse group of residential, commercial and industrial customers, of which Mohawk Paper and Smart Papers, LLC rank among the largest customers. Beckett Paper became Mohawk Paper in 2005. The Wastewater System serves the entire city and certain adjacent areas and accounts for 99% of the wastewater treatment services within the corporate limits of the City. Residential rates are expected to increase 12%, 8%, and 5% due to the combined effect of the base rate and rider increases in 2012, 2013, and 2014, respectively. This reflects the cost of remedial action required of the Ohio EPA Consent Decree to reduce and/or eliminate sewer overflow occurrences.

The annual budget of the Wastewater System is adopted in accordance with ten-year projections developed by a rate consultant. These projects are thoroughly reviewed and updated in the Spring and Fall of each year or more often as deemed necessary by City Management.

In January 2007, the City and the Ohio EPA entered into a Modified Consent Order to address the remaining Ohio EPA issues of the wastewater system. This Modified Consent Order required a number of reports to be filed with the Ohio EPA, including a Management, Operation and Maintenance ("MOM") of the sanitary sewer system, an audit of the Management, Operation and Maintenance report one year later, an Overflow Emergency Response Plan ("OERP"), and a System Evaluation and Capacity Assurance Plan ("SECAP") with an implementation schedule. The Modified Consent Order also regulated the reporting of overflow and bypass monitoring. In a letter dated July 11, 2009 the SECAP was approved by the Ohio EPA Director as adequate and complete. This document serves as the master plan of capital improvements to the wastewater system to satisfy the Modified Consent Order. These projects are to be completed by October 1, 2014.

In 2011, both Mohawk Fine Papers and Smart Papers both closed their facilities located in the City. For calendar year 2011, Mohawk Fine Papers/Beckett Mill was the second largest customer, by Ccf inflow and amount billed, for the Wastewater System. Mohawk accounted for approximately 13.0% of the total wastewater inflow and approximately 5.6% of the revenues of the Wastewater System. For calendar year 2011, Smart Papers was the largest customer, by Ccf inflow and amount billed, for the Wastewater System. Smart accounted for almost 26.0% of the total wastewater inflow and approximately 9.2% of the revenues of the Wastewater System. In total, the loss of Mohawk and Smart Papers is estimated to result in a direct Total Net Revenue Loss to the City's Wastewater System of approximately \$1.02 million, based upon 2011 operations.

The City maintains an A1 bond rating with a stable outlook for its Wastewater System.

# **City of Hamilton, Ohio**

## **Wastewater System**

Management's Discussion and Analysis  
For the Years Ended December 31, 2011 and 2010  
Unaudited

### **Requests for Information**

This financial report is designed to provide our citizens, customers, taxpayers, creditors, investors and elected officials with an overview of the City of Hamilton, Ohio's Wastewater System's finances and to show accountability for the money the system receives. If you have any questions about this report or need additional information, contact Peg Bradner Hancock, City of Hamilton Finance Director, 345 High Street, Hamilton, Ohio 45011, (513) 785-7174, (email at [hancockp@ci.hamilton.oh.us](mailto:hancockp@ci.hamilton.oh.us)) or visit the City website at [www.hamilton-city.org](http://www.hamilton-city.org).

**CITY OF HAMILTON, OHIO – WASTEWATER SYSTEM**  
**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 40,548,344	15,142,610
Accounts receivable (less allowance for uncollectible accounts of \$1,214,188 and \$1,221,687, respectively)	1,845,776	1,579,796
Interest receivable	11,262	10,643
Inventory of supplies at cost	1,628	1,208
Prepaid expenses	<u>124,663</u>	<u>144,287</u>
Total current assets	<u>42,531,673</u>	<u>16,878,544</u>
Restricted assets:		
Cash and investments	<u>6,182,327</u>	<u>3,914,809</u>
Bond issuance costs	<u>1,023,513</u>	<u>517,566</u>
Capital assets:		
Property, plant and equipment	94,956,233	92,718,257
Construction in progress	4,274,201	3,555,885
Accumulated depreciation	<u>(56,696,243)</u>	<u>(54,433,175)</u>
Total capital assets	<u>42,534,191</u>	<u>41,840,967</u>
Total assets	\$ <u>92,271,704</u>	<u>63,151,886</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 708,010	776,449
Accrued wages and benefits	81,481	62,974
Intergovernmental payable	53,458	131,849
Accrued interest payable	723,993	446,034
Customer deposits payable	134,932	130,673
Compensated absences payable - current portion	178,992	208,429
OWDA loans payable - current portion	16,136	10,547
Revenue bonds payable - current portion	<u>1,995,000</u>	<u>1,385,000</u>
Total current liabilities	<u>3,892,002</u>	<u>3,151,955</u>
Non-current liabilities:		
Compensated absences payable	246,557	264,662
OWDA loans payable	400,077	421,290
Revenue bonds payable	<u>57,870,579</u>	<u>30,378,637</u>
Total noncurrent liabilities	<u>58,517,213</u>	<u>31,064,589</u>
Total liabilities	<u>62,409,215</u>	<u>34,216,544</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	15,303,201	18,009,521
Restricted for debt service	4,182,327	1,914,809
Restricted for rate stabilization	2,000,000	2,000,000
Unrestricted	<u>8,376,961</u>	<u>7,011,012</u>
Total net assets	\$ <u>29,862,489</u>	<u>28,935,342</u>

See notes to financial statements.

**CITY OF HAMILTON, OHIO - WASTEWATER SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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	<u>2011</u>	<u>2010</u>
<b>Operating revenues:</b>		
Charges for services	\$ 12,167,087	11,144,235
Other operating revenues	<u>135,223</u>	<u>59,652</u>
Total operating revenues	<u>12,302,310</u>	<u>11,203,887</u>
<b>Operating expenses:</b>		
Personal services	2,429,076	2,325,926
Materials and supplies	494,190	1,211,562
Contractual services	2,513,246	2,387,383
Depreciation	2,272,079	2,158,805
Other operating expenses	<u>1,919,082</u>	<u>1,867,891</u>
Total operating expenses	<u>9,627,673</u>	<u>9,951,567</u>
Operating income	2,674,637	1,252,320
<b>Non-operating revenues (expenses):</b>		
Investment earnings	66,476	68,659
Loss on disposal of capital assets	(11,127)	(27,718)
Interest and fiscal charges	<u>(1,802,839)</u>	<u>(1,566,784)</u>
Total non-operating revenues (expenses)	<u>(1,747,490)</u>	<u>(1,525,843)</u>
Income (loss) before contributions	927,147	(273,523)
Capital contributions	<u>-</u>	<u>602,642</u>
Change in net assets	927,147	329,119
Net assets - beginning of year	<u>28,935,342</u>	<u>28,606,223</u>
Net assets - end of year	\$ <u>29,862,489</u>	<u>28,935,342</u>

See notes to financial statements.

**CITY OF HAMILTON, OHIO - WASTEWATER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 12,040,589	11,288,215
Cash paid for employee services and benefits	(2,443,548)	(2,404,755)
Cash paid to suppliers for goods and services	<u>(4,997,430)</u>	<u>(5,406,564)</u>
Net cash provided by operating activities	<u>4,599,611</u>	<u>3,476,896</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital grants	-	602,642
Payments for capital acquisitions	(3,047,707)	(2,784,909)
Debt proceeds	29,620,000	-
Debt principal payments	(1,400,624)	(1,315,000)
OWDA loan proceeds	-	431,837
Debt interest payments and fiscal charges	<u>(2,163,885)</u>	<u>(1,525,743)</u>
Net cash provided (used) by capital and related financing activities	<u>23,007,784</u>	<u>(4,591,173)</u>
<b>Cash flows from investing activities:</b>		
Interest from investments	<u>65,857</u>	<u>92,103</u>
Net change in cash and investments	27,673,252	(1,022,174)
Cash and investments at beginning of year	<u>19,057,419</u>	<u>20,079,593</u>
Cash and investments at end of year	\$ <u>46,730,671</u>	<u>19,057,419</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 2,674,637	1,252,320
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,272,079	2,158,805
Changes in assets and liabilities:		
(Increase) decrease in receivables	(265,980)	79,991
(Increase) decrease in inventory	(420)	1,570
(Increase) decrease in prepaid items	19,624	(64,356)
Increase (decrease) in customer deposits payable	4,259	4,337
Increase (decrease) in payables	2,838	29,954
Increase (decrease) in accrued liabilities	(29,035)	(52,424)
Increase (decrease) in intergovernmental payables	<u>(78,391)</u>	<u>66,699</u>
Net cash provided by operating activities	\$ <u>4,599,611</u>	<u>3,476,896</u>
<b>Schedule of noncash activities:</b>		
Outstanding liabilities for purchase of certain capital assets	\$ 499,799	566,076
Change in fair value of investments	2,996	4,435

See notes to financial statements.

# CITY OF HAMILTON, OHIO – WASTEWATER SYSTEM

## Notes to Financial Statements

Years Ended December 31, 2011 and 2010

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Reporting Entity** – The City of Hamilton, Ohio – Wastewater System (Wastewater System) is a utility operating as a separate enterprise fund of the City of Hamilton, Ohio (City). The Wastewater System is controlled by and is dependent on the City’s executive and legislative branches. Control by or dependence on the City is determined on the basis of outstanding debt secured by revenues or general obligations of the City, obligation of the City to finance any deficits that may occur, or receipt of subsidies from the City.

**Measurement Focus, Basis of Accounting and Basis of Presentation** – The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. The Wastewater System has elected only to apply Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Wastewater System’s principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**Income Taxes** – The Wastewater System, which is owned and operated by the City, is exempt from income taxes since it is a division of a municipality.

**Cash and Investments** – Certain Wastewater System cash and investments are held in the City Treasury and pooled for investment management purposes. The portion of these pooled funds owned by the Wastewater System is reported as cash and investments. The Wastewater System’s investments are stated at fair value. Interest earned on funds invested is distributed on the basis of the relationship of the average monthly balance of all funds, including the Wastewater System.

**Inventories** – Inventories are stated at the lower of cost or market based on a moving-average cost method.

**Capital Assets** – Expenditures that increase values or extend the useful life of the respective assets are capitalized while the costs of maintenance and repairs are charged to operating expenses. Interest costs related to the construction of property, plant and equipment are capitalized. Depreciation is calculated on a straight-line basis over the estimated useful life of the various classes of assets. The range of useful lives for computing depreciation is 3 to 75 years.

***Bond Premiums, Discounts and Issuance Costs*** – Unamortized bond premiums, discounts and issuance costs are amortized on the interest method over the term of the related bonds. The Wastewater System issued revenue bonds in 2011 that added \$137,799 in bond discounts and \$552,126 in bond issuance costs. Amortization of bond premiums was \$108,995 and \$113,940 in 2011 and 2010, respectively. Amortization of bond discounts was \$20,912 in 2011 and \$22,750 in 2010. Amortization of issuance costs in 2011 and 2010 amounted to \$46,179 and \$49,247, respectively.

***Compensated Absences*** – The Wastewater System follows the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”. Vacation and compensatory time 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 Wastewater System will compensate the employees for the benefits through paid time off or some other means. Sick leave termination benefits are accrued using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those employees for whom it is probable that they will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at year-end.

***Use of Estimates*** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **2. CASH AND INVESTMENTS**

The Wastewater System follows the practice of pooling cash and investments with the City Treasurer except for the cash and investments of certain accounts maintained by trustees. Pooled cash and investments of the Wastewater System totaled \$42,548,344 and \$17,142,610 at December 31, 2011 and 2010, respectively, and consisted of demand deposits, money market funds, U.S. government agency securities and STAR Ohio. Cash and investments held by trustees were \$4,182,327 and \$1,914,809 as of December 31, 2011 and 2010, respectively.

Star Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2011.

***Deposits*** – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a custodial risk policy. As of December 31, 2011, nearly 98% of the City’s deposits with financial institutions, including the amount of pooled deposits related to the Wastewater System, were exposed to custodial credit risk because they are considered uninsured and uncollateralized. However, the State of Ohio has established by statute a collateral pooling system for financial institutions acting as public depositories. Public depositories must pledge qualified securities with fair values greater than the total amount of all public deposits to be secured by the collateral pool. This pooled collateral covers the Wastewater System’s uninsured and uncollateralized deposits.

**Investments** – The State of Ohio statutes, Wastewater Revenue Bond indentures, and the City Charter authorize the City to invest in obligations of the U.S. Treasury, agencies, instrumentalities, and repurchase agreements. Custodial credit risk in regards to investments is the risk that, in the event of a failure of a counter party, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The City employs the use of “safekeeping” accounts to hold and maintain custody of its investments as identified within this policy and as means of mitigating this risk.

Interest rate risk is the risk that the City will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy by limiting investments to certain maximum maturities. As a rule, unless specified otherwise within the policy, investments are to have a maximum maturity of five years unless the investment is matched to a specific expenditure. The context of a specific investment purchase must be weighed in proportion to the remainder of the existing investment portfolio and the “prudent investor” rule to attempt to limit such risk.

The City’s pooled investments, as well as the investments held by trustees specifically for the Wastewater System, are invested primarily in U.S. governmental agency securities with a credit rating of AA+ and an average maximum maturity of 4.69 years and STAR Ohio which has a credit rating of AAAm.

**3. ACCOUNTS RECEIVABLE**

Receivables at December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Earned and unbilled consumer accounts	\$ 932,625	720,007
Earned and billed consumer accounts	2,123,474	2,079,087
Other	3,865	2,389
Less allowance for uncollectible accounts	<u>(1,214,188)</u>	<u>(1,221,687)</u>
Total	<u>\$ 1,845,776</u>	<u>1,579,796</u>

**4. RESTRICTED ASSETS**

Restricted assets consist of assets whose use has been restricted by bond indenture for debt service and rate stabilization. Restricted assets were \$6,182,327 and \$3,914,809 at December 31, 2011 and 2010, respectively.

## 5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2011 and 2010 was as follows:

	Balance 1/1/11	Increases	Decreases	Balance 12/31/11
<i>Nondepreciable capital assets:</i>				
Land	\$ 2,863,793	-	-	2,863,793
Construction in progress	<u>3,555,885</u>	<u>1,754,102</u>	<u>(1,035,786)</u>	<u>4,274,201</u>
Subtotal	<u>6,419,678</u>	<u>1,754,102</u>	<u>(1,035,786)</u>	<u>7,137,994</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	55,733,797	-	-	55,733,797
Machinery and equipment	<u>34,120,667</u>	<u>2,258,114</u>	<u>(20,138)</u>	<u>36,358,643</u>
Subtotal	<u>89,854,464</u>	<u>2,258,114</u>	<u>(20,138)</u>	<u>92,092,440</u>
Totals at historical cost	<u>96,274,142</u>	<u>4,012,216</u>	<u>(1,055,924)</u>	<u>99,230,434</u>
Less accumulated depreciation:				
Buildings and improvements	35,693,246	719,150	-	36,412,396
Machinery and equipment	<u>18,739,929</u>	<u>1,552,929</u>	<u>(9,011)</u>	<u>20,283,847</u>
Total accumulated depreciation	<u>54,433,175</u>	<u>2,272,079</u>	<u>(9,011)</u>	<u>56,696,243</u>
Capital assets, net	\$ <u>41,840,967</u>	<u>1,740,137</u>	<u>(1,046,913)</u>	<u>42,534,191</u>
	Balance 1/1/10	Increases	Decreases	Balance 12/31/10
<i>Nondepreciable capital assets:</i>				
Land	\$ 2,863,793	-	-	2,863,793
Construction in progress	<u>1,989,722</u>	<u>1,595,486</u>	<u>(29,323)</u>	<u>3,555,885</u>
Subtotal	<u>4,853,515</u>	<u>1,595,486</u>	<u>(29,323)</u>	<u>6,419,678</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	55,733,797	-	-	55,733,797
Machinery and equipment	<u>32,472,014</u>	<u>1,713,993</u>	<u>(65,340)</u>	<u>34,120,667</u>
Subtotal	<u>88,205,811</u>	<u>1,713,993</u>	<u>(65,340)</u>	<u>89,854,464</u>
Totals at historical cost	<u>93,059,326</u>	<u>3,309,479</u>	<u>(94,663)</u>	<u>96,274,142</u>
Less accumulated depreciation:				
Buildings and improvements	34,974,096	719,150	-	35,693,246
Machinery and equipment	<u>17,337,896</u>	<u>1,439,655</u>	<u>(37,622)</u>	<u>18,739,929</u>
Total accumulated depreciation	<u>52,311,992</u>	<u>2,158,805</u>	<u>(37,622)</u>	<u>54,433,175</u>
Capital assets, net	\$ <u>40,747,334</u>	<u>1,150,674</u>	<u>(57,041)</u>	<u>41,840,967</u>

## 6. LONG TERM DEBT

During 2005, the City issued Wastewater System Revenue Refunding Bonds in the amount of \$25,070,000 to provide resources to refund the 1996 and 1998 Wastewater Revenue Bonds outstanding.

On September 9, 2009, the City issued \$2,125,000 in Series 2009A Wastewater System Revenue Bonds and \$11,465,000 in Series 2009B Taxable Wastewater System Build America Revenue Bonds to currently refund bond anticipation notes and provide funding for Wastewater System overflow mitigation and treatment enhancements. With the issuance of the Build America Bonds, the City will be entitled to receive an interest subsidy payment of 35% from the U.S. Treasury on any interest payment date. The Series 2009A revenue bonds fully mature in 2017 with interest from 2.00% to 3.375% per annum. The Series 2009B Build America Bonds fully mature in 2039 with interest ranging from 6.11% to 6.62% per annum.

On October 5, 2011, the City issued \$29,620,000 in Series 2011 Wastewater System Revenue Bonds to finance the Overflow Mitigation Project. The Series 2011 revenue bonds fully mature in 2041 with interest ranging from 2.00% to 5.00% per annum.

Debt activity for the year ended December 31, 2011 was as follows:

	Balance 1/1/11	Additions	Reductions	Balance 12/31/11	Due Within One Year
2005 Refunding Bonds	\$ 18,470,000	-	(1,130,000)	17,340,000	1,185,000
Series 2009A Revenue Bonds	1,910,000	-	(255,000)	1,655,000	265,000
Series 2009B Revenue BABs	11,465,000	-	-	11,465,000	-
Series 2011 Revenue Bonds	-	29,620,000	-	29,620,000	545,000
Less deferred amount					
on refunding	(690,441)	-	92,824	(597,617)	-
for issuance premiums	800,107	-	(108,995)	691,112	-
for issuance discounts	(191,029)	(137,799)	20,912	(307,916)	-
OWDA loan	431,837	-	(15,624)	416,213	16,136
Total bonds	\$ <u>32,195,474</u>	<u>29,482,201</u>	<u>(1,395,883)</u>	<u>60,281,792</u>	<u>2,011,136</u>

Debt activity for the year ended December 31, 2010 was as follows:

	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
2005 Refunding Bonds	\$ 19,570,000	-	(1,100,000)	18,470,000	1,130,000
Series 2009A Revenue Bonds	2,125,000	-	(215,000)	1,910,000	255,000
Series 2009B Revenue BABs	11,465,000	-	-	11,465,000	-
Less deferred amount on refunding	(787,137)	-	96,696	(690,441)	-
for issuance premiums	914,047	-	(113,940)	800,107	-
for issuance discounts	(213,779)	-	22,750	(191,029)	-
OWDA loan	-	431,837	-	431,837	10,547
Total bonds	\$ <u>33,073,131</u>	<u>431,837</u>	<u>(1,309,494)</u>	<u>32,195,474</u>	<u>1,395,547</u>

All property and revenue of the Wastewater System facilities have been pledged as collateral on the indebtedness. Under the terms of the revenue bond indenture, the City has agreed to certain covenants including, among other things, maintaining revenue levels and providing for operating expenses and debt service. The Mortgage Revenue Bonds are insured under a municipal bond insurance policy. Under the terms of this policy, the payments of principal and interest are guaranteed by the insurer. Maturities of mortgage revenue bonds at December 31, 2011 are as follows:

	Principal	Interest	Total
2012	\$ 1,995,000	2,858,775	4,853,775
2013	2,045,000	2,805,708	4,850,708
2014	2,125,000	2,727,096	4,852,096
2015	2,200,000	2,644,371	4,844,371
2016	2,300,000	2,546,321	4,846,321
2017-2021	13,325,000	11,095,238	24,420,238
2022-2026	8,425,000	8,225,168	16,650,168
2027-2031	7,465,000	6,550,108	14,015,108
2032-2036	9,675,000	4,368,725	14,043,725
2037-2041	10,525,000	1,482,488	12,007,488
Total	\$ <u>60,080,000</u>	<u>45,303,998</u>	<u>105,383,998</u>

In 2010, the City entered into an agreement with the Ohio Water Development Authority (OWDA), as administrator for the U. S. Environmental Protection Agency (EPA), for the City to receive a loan for sanitary sewer improvements. The total amount loaned was \$431,837. The interest rate on the loan is 3.25%, per annum. This loan is payable from wastewater utility charges and is received by the City in increments as the project is completed.

The future financing requirements on the loan balance at December 31, 2011 was:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$	16,136	13,397	29,533
2013		16,665	12,868	29,533
2014		17,211	12,322	29,533
2015		17,775	11,759	29,534
2016		18,358	11,176	29,534
2017-2021		101,212	46,455	147,667
2022-2026		118,914	28,750	147,664
2027-2030		109,942	8,190	118,132
Total	\$	<u>416,213</u>	<u>144,917</u>	<u>561,130</u>

**7. DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS**

The Wastewater System contributes to the Ohio Public Employees Retirement System, the City of Hamilton Metropolitan Pension Plan, and post-employment life insurance.

**Ohio Public Employees Retirement System (OPERS)**

The 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 in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.
- The Combined Plan – a cost sharing multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members and of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 10.0% of their annual covered salary. The City was required to contribute 14.0% of covered payroll for employees. The Gas System’s required contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were approximately \$250,000, \$234,000, and \$266,000 respectively, equal to the required contributions for each year.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability 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.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, the City contributed 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

The OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated for health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payments amounts vary depending on the number of covered dependents and the coverage selected. The portion of the Wastewater System's contributions that were used to fund post employment benefits was approximately \$71,000, \$85,000 and \$112,000 for 2011, 2010, and 2009, respectively.

The Health Care Preservation Plan adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Members and employer contribution rates increased on January 1 of each year from 2006 to 2008. These increases allowed additional funds to be allocated to the health care plan.

### **Metropolitan Pension Plan**

Employees of the City who were not included under the Ohio Public Employees Retirement System (OPERS) prior to May 15, 1962 and who were included under a Group Annuity Contract of the Metropolitan Life Insurance Company participate in the City of Hamilton Metropolitan Pension Plan, a single-employer defined benefit pension plan.

Upon retirement, plan participants are entitled to a supplemental retirement benefit paid by the City, equal to the difference between OPERS benefits that would have been payable to such employee had the employee been covered by OPERS during the full period of employment and actual OPERS benefits received. Benefit provisions of the plan are established and may be amended by the City Council through ordinance. All current participants in the Metropolitan Pension Plan are retired from service with the City.

For fiscal year 2011, the portion of the Wastewater System's annual pension cost was \$55,781. The Wastewater System contributed 89.8%, or \$50,116, resulting in a net pension obligation of \$5,665. For the preceding two years, the City determined the net pension obligation to be immaterial, as annual pension cost approximated City contributions. The Wastewater System's portion of the total unfunded accrued liability at year end was \$383,001.

The actuarial valuation date was December 31, 2011 and the accrued liability was calculated using the entry age normal cost method. The Metropolitan Pension Plan currently has no assets. The amortization method used was level dollar and the amortization period was 8 years.

### **Retiree Life Insurance**

The City provides post-employment life insurance coverage through the Hartford Insurance Company. The insurance coverage provided is considered an other post-employment benefit (OPEB) as described in GASB Statement No. 45.

Eligible employees are grouped into two classes. Employees who retired prior to March 1, 1977 are eligible to receive \$2,000 in life insurance benefits. Employees who retired after March 1, 1977 are eligible to receive \$4,000 in life insurance benefits. Benefit provisions of the plan are established and may be amended by City Council through ordinance.

For fiscal year 2011, the portion of the Wastewater System's annual OPEB cost was \$11,346. The Wastewater System contributed 85.8%, or \$9,729, resulting in a net OPEB obligation of \$1,617. For the preceding two years, the City determined the net OPEB obligation to be immaterial, as the annual OPEB cost approximated City contributions. The Wastewater System's portion of the total unfunded accrued liability at year end was \$163,186.

The actuarial valuation date was December 31, 2011 and the accrued liability was calculated using the entry age normal cost method. The City's post-employment life-insurance plan currently has no assets.

## **8. CONTINGENT LIABILITIES**

Various claims and lawsuits are pending against the City involving the Wastewater System. The City believes that the ultimate disposition of such claims and lawsuits will not have a material adverse effect on the financial position of the Wastewater System.

## **9. RELATED PARTY TRANSACTIONS**

The Wastewater System purchases electricity from the City's Electric System. Purchases of \$607,596 and \$659,823 were made in both 2011 and 2010 from the Electric System and are included in operating expenses.

The City allocates the cost of certain administrative services. In addition, the City established internal service funds which provide services to various City departments. Charges to the

Wastewater System for these services were approximately \$2,085,000 and \$2,011,000 in 2011 and 2010, respectively, and are included in other operating expenses.

**10. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts and liability, damage to and theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains comprehensive insurance coverage, for all City departments including the Wastewater System, with private carriers for real property, building contents, vehicle, property and general liability insurance, police professional liability, and public officials errors and omissions insurance. Vehicle policies include liability coverage for bodily injury and property damage. Claim payments have not exceeded coverage in the past three years. There was no decline in the level of coverage from the prior year.

**11. CONTRACTUAL COMMITMENTS**

At December 31, 2011, the Wastewater System had contractual commitments in the amounts of approximately \$5,720,000 related to property, plant and equipment improvements and additions, as well as various other contract and agreements to provide or receive services related to the Wastewater System operations.