

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

Financial Statements

Years Ended December 31, 2009 and 2008

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 - Water System, an enterprise fund of the City of Hamilton, Ohio as of and for the years ended December 31, 2009 and 2008, 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 Water System and do not purport to, and do not, present fairly the financial position of the City of Hamilton, Ohio as of December 31, 2009 and 2008, and the changes in its financial position and cash flows, where applicable, 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 - Water System as of December 31, 2009 and 2008 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.

The Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
June 8, 2010

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# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Years Ended December 31, 2009 and 2008  
Unaudited

The discussion and analysis of the City of Hamilton, Ohio's Water System's financial performance provide an overall review of that System's financial activities for the years ended December 31, 2009 and 2008. 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 2009 and 2008 are as follows:

- The assets of the Hamilton Water System exceeded its liabilities at the close of 2009 and 2008, respectively, by \$83,521,119 and \$84,968,333 (net assets). Of this amount, \$8,433,172 and \$9,468,579 (unrestricted net assets) may be used to meet the system's ongoing obligations to customers and creditors.
- The system's total net assets decreased by \$1,447,214 in 2009.
- The system's investment in capital assets, net of related debt decreased by \$741,093 in 2009.
- In September 2009, the City issued \$18,590,000 in revenue bonds to retire outstanding bond anticipation notes and finance the water system improvements.

### Water System Summary and Using this Annual Report

The System is a fully integrated water supply, treatment, transmission and distribution system. The System has two water treatment facilities and two well fields that draw water from the Great Miami Valley Aquifer. The transmission and distribution system consists of more than 289 miles of various size main piping, storage facilities and pumping stations.

The City began operation of its Water System in 1884. The Water System initially consisted of well fields, a 6 million gallon open reservoir, and distribution mains. Due in part to the development of the Water System, the City's population grew rapidly during the next twenty-five years, necessitating the drilling of new wells and other measures to increase the Water System's capacity. By 1929, the City's population had grown to about 53,000 and the City began planning for the development of a new well field, a second reservoir, a water treatment plant, and new transmission mains. The North Water Treatment Plant (the "North Plant"), with an initial capacity of 6 million gallons per day ("mgd"), was placed in operation in 1934. Anticipating increased water demands, the City acquired existing well fields south of the City in 1947. Construction of a new 6 mgd water treatment plant, the South Water Treatment Plant (the "South Plant"), was completed in 1956 and, with the south well field and new transmission lines, began operation. The capacity of the South Plant was increased in 1973 to 16 mgd by adding filters, aerators, and high service pumps.

# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Years Ended December 31, 2009 and 2008  
Unaudited

The Water System currently provides water service to approximately 24,694 customers who represent a diverse mixture of residential, as well as small and large commercial and industrial customers. The County is the single largest customer of the Water System and for the last several years has accounted for in excess of fifty percent of the Water System's revenue. The Water System provides water service to an area within the City limits and areas in the immediate surrounding environs. No water utility other than the Water System can serve new customers in the City without a franchise, and, under the City Charter, only the City Council has the authority to grant utility franchises. City Council has not granted any franchises.

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 Water System for the years ended December 31, 2009 and 2008.

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

The financial statements contained within this report include the City of Hamilton, Ohio's Water System *only*. Readers desiring to view city-wide financial statements, as well as the impact that the Water 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 2009 and 2008. The City of Hamilton's Water System is reported as a business-type, proprietary, enterprise fund and is considered a major fund for purposes of individual fund reporting. Payments made from the Water Fund are restricted to Water 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 Water Fund and asks the question, "How did we do financially during 2009 and 2008?" 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 Water 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 Water System charges fees to recoup the cost of the entire operation of the Water System as well as all capital expenses associated with these facilities.

# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Years Ended December 31, 2009 and 2008  
Unaudited

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the Water Fund, assets exceeded liabilities by \$83,521,119 and \$84,968,333 as of December 31, 2009 and 2008, respectively. By far, the largest portion of the net assets of the Water 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 ratios of net assets invested in capital assets, net of related debt to total net assets are as follows: 88.01% for 2009, 87.38% for 2008 and 84.06% for 2007. The System employs these assets in the treatment and distribution of water to customers; 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, since the capital assets themselves cannot be used to liquidate the liabilities. Table 1 provides a summary of the Water System's Statement of Net Assets for the Years Ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
Current and Other Assets	\$20,545,430	\$13,549,303	\$16,339,014
Capital Assets	91,195,736	92,198,265	90,351,410
Total Assets	<u>111,741,166</u>	<u>105,747,568</u>	<u>106,690,424</u>
Long-term Liabilities	25,891,154	8,146,610	8,487,344
Other Liabilities	2,328,893	12,632,625	12,623,081
Total Liabilities	<u>28,220,047</u>	<u>20,779,235</u>	<u>21,110,425</u>
Invested in capital assets, net of related debt	73,505,673	74,246,766	71,934,399
Restricted	1,582,274	1,252,988	1,270,524
Unrestricted	8,433,172	9,468,579	12,375,076
Total Net Assets	<u>\$83,521,119</u>	<u>\$84,968,333</u>	<u>\$85,579,999</u>

In 2009 and 2008, the City reported a negative change in net assets of \$1,447,214 and \$611,666, respectively, as compared a positive change of \$1,174,526 for year 2007. For the years ended December 31, 2009 and 2008, there were operating losses of \$185,882 and \$99,355, respectively, compared to operating gains of \$2,110,294 for December 31, 2007. The net operating loss for 2009 was \$185,882, an increase of \$86,527 over 2008. Although revenue was essentially flat from 2008 to 2009, expenses increased slightly. Non-operating expenses of \$1.3 million increased by \$749,021 primarily because investment earnings declined due to low interest rates and an increase in the loss on disposal of capital assets due to replacing reservoir lining that had not been fully depreciated.

# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Years Ended December 31, 2009 and 2008  
Unaudited

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

	2009	2008	2007
Operating Revenues	\$14,231,316	\$14,266,483	\$15,828,437
Operating Expenses:			
Depreciation	2,622,445	2,740,797	2,633,598
Other Operating Expenses	11,794,753	11,625,041	11,084,545
Total Operating Expenses	14,417,198	14,365,838	13,718,143
Operating income (loss)	(185,882)	(99,355)	2,110,294
Non-Operating revenues (expenses)			
Interest and fiscal charges	(1,003,054)	(998,023)	(1,462,667)
Other non-operating revenues (exp)	(258,278)	485,712	526,899
Total non-operating revenues (expenses)	(1,261,332)	(512,311)	(935,768)
Change in Net Assets	(1,447,214)	(611,666)	1,174,526
Beginning Net Assets	84,968,333	85,579,999	84,405,473
Ending Net Assets	\$83,521,119	\$84,968,333	\$85,579,999

### **Capital Assets and Debt Administration**

*Capital Assets:* The City's investment in capital assets of the Water System as of December 31, 2009, 2008 and 2007 amounted to \$73.5 Million, \$74.2 Million, and \$71.9 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 Water System asset activity during 2009 and 2008.

*Debt Administration:* At the end of 2009, the City had two outstanding long-term revenue bond issues, the 2002 Water System Revenue Refunding Bonds totaling \$9,195,000 and the 2009 Water System Revenue Bonds totaling \$18,590,000.

A portion of the 2009 Revenue Bonds was used to retire the outstanding bond anticipation notes.

See Notes 6 and 7 for a discussion of outstanding Water System bonds, notes and related activity.

# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Years Ended December 31, 2009 and 2008  
Unaudited

### **Economic Factors and Future Trends**

In the last decade, the City has implemented improvements to the Water System, thus providing increased capability and reliability. Specifically, the City added three new wells, installed a new raw water main from the new wells, rehabilitated the North Plant, increased the treatment capacity of the South Plant from 16 mgd to 40 mgd by adding five wells at the South Well Field, and improved the North Plant transmission and distribution system. A Water System Master Plan was developed in 2007 to identify storage and transmission/distribution capacity constraints within the system.

The City's Water System is continually monitoring its costs and seeking ways to maintain its rates. However, the cost of providing water continues to escalate with rising chemical costs and environmental regulation and these costs are required by both ordinance and indentures to be passed along to its customers. The number of customers has remained steady. The City has 6% annual rate increases enacted through 2012.

The annual budget of the City Water System is adopted in accordance with ten-year projections developed by a rate consultant, and these projections are reviewed and updated in the spring and fall of each year, or more often as deemed by necessary City Management.

In spite of increasing costs and a continued focus on main replacements, the City's Water System has prospered. The City maintains an Aa3 bond rating with a stable outlook for its Water System.

The City has completed a System Master Plan to identify capacity requirements and a Distribution System Main Replacement Plan to identify funding needs for maintaining the water system integrity. The City intends to implement a rate rider to cover the annual cost of these programs beginning in 2010.

### **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 Electric 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 William E. Moller, City of Hamilton Finance Director, 345 High Street, Hamilton, Ohio 45011, (513) 785-7161, (email at [mollerb@ci.hamilton.oh.us](mailto:mollerb@ci.hamilton.oh.us)) or visit the City website at [www.hamilton-city.org](http://www.hamilton-city.org).

**CITY OF HAMILTON, OHIO – WATER SYSTEM  
STATEMENTS OF NET ASSETS  
DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 16,700,658	10,438,040
Accounts receivable (less allowance for uncollectible accounts of \$800,503 and \$1,037,207, respectively)	1,419,058	1,389,764
Interest receivable	49,731	67,220
Inventory of supplies at cost	154,732	155,925
Prepaid expenses	65,150	60,009
Total current assets	<u>18,389,329</u>	<u>12,110,958</u>
Restricted assets:		
Cash and investments	<u>1,582,274</u>	<u>1,252,988</u>
Bond issuance costs	<u>573,827</u>	<u>185,357</u>
Capital assets:		
Property, plant and equipment	128,511,568	124,225,103
Construction in progress	5,190,771	8,331,309
Accumulated depreciation	<u>(42,506,603)</u>	<u>(40,358,147)</u>
Total capital assets	<u>91,195,736</u>	<u>92,198,265</u>
Total assets	<u>\$ 111,741,166</u>	<u>105,747,568</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 542,761	822,021
Accrued wages and benefits	99,717	85,045
Intergovernmental payable	88,166	97,833
Accrued interest payable	308,270	156,597
Customer deposits payable	131,120	131,313
Compensated absences payable-current	268,859	249,816
General obligation notes payable	-	10,510,000
Revenue bonds payable - current portion	<u>890,000</u>	<u>580,000</u>
Total current liabilities	<u>2,328,893</u>	<u>12,632,625</u>
Non-current liabilities:		
Compensated absences payable	459,961	433,024
Revenue bonds payable (net of unamortized discounts)	<u>25,431,193</u>	<u>7,713,586</u>
Total noncurrent liabilities	<u>25,891,154</u>	<u>8,146,610</u>
Total liabilities	<u>28,220,047</u>	<u>20,779,235</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	73,505,673	74,246,766
Restricted for debt service	582,274	252,988
Restricted for rate stabilization	1,000,000	1,000,000
Unrestricted	<u>8,433,172</u>	<u>9,468,579</u>
Total net assets	<u>83,521,119</u>	<u>84,968,333</u>

See notes to financial statements.

**CITY OF HAMILTON, OHIO - WATER SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

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	<u>2009</u>	<u>2008</u>
<b>Operating revenues:</b>		
Charges for services	\$ 14,041,949	14,104,823
Other operating revenues	<u>189,367</u>	<u>161,660</u>
Total operating revenues	<u>14,231,316</u>	<u>14,266,483</u>
<b>Operating expenses:</b>		
Personal services	3,527,254	3,433,897
Materials and supplies	1,907,280	1,483,174
Contractual services	4,339,956	4,058,638
Depreciation	2,622,445	2,740,797
Other operating expenses	<u>2,020,263</u>	<u>2,649,332</u>
Total operating expenses	<u>14,417,198</u>	<u>14,365,838</u>
Operating loss	(185,882)	(99,355)
<b>Non-operating revenues (expenses):</b>		
Investment earnings	134,089	486,668
Loss on disposal of capital assets	(392,367)	(956)
Interest and fiscal charges	<u>(1,003,054)</u>	<u>(998,023)</u>
Total non-operating revenues (expenses)	<u>(1,261,332)</u>	<u>(512,311)</u>
Change in net assets	(1,447,214)	(611,666)
Net assets - beginning of year	<u>84,968,333</u>	<u>85,579,999</u>
Net assets - end of year	\$ <u><u>83,521,119</u></u>	<u><u>84,968,333</u></u>

See notes to financial statements.

**CITY OF HAMILTON, OHIO - WATER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 14,201,829	14,287,406
Cash paid for employee services and benefits	(3,478,499)	(3,278,983)
Cash paid to suppliers for goods and services	<u>(8,451,743)</u>	<u>(8,239,688)</u>
Net cash provided by operating activities	<u>2,271,587</u>	<u>2,768,735</u>
<b>Cash flows from capital and related financing activities:</b>		
Payment for capital acquisitions	(2,109,017)	(5,340,180)
Debt proceeds	18,590,000	10,510,000
Debt principal payments	(11,090,000)	(10,320,000)
Debt interest payments	<u>(1,222,244)</u>	<u>(834,111)</u>
Net cash provided (used) by capital and related financing activities	<u>4,168,739</u>	<u>(5,984,291)</u>
<b>Cash flows from investing activities:</b>		
Interest from investments	<u>151,578</u>	<u>515,032</u>
Net cash provided by investing activities	<u>151,578</u>	<u>515,032</u>
Net change in cash and cash equivalents	6,591,904	(2,700,524)
Cash and cash equivalents at beginning of year	<u>11,691,028</u>	<u>14,391,552</u>
Cash and cash equivalents at end of year	\$ <u>18,282,932</u>	<u>11,691,028</u>
Reconciliation of operating loss to net cash providing by operating activities:		
Operating loss	\$ (185,882)	(99,355)
Adjustments to reconcile operating losses to net cash provided by operating activities:		
Depreciation	2,622,445	2,740,797
Changes in assets and liabilities:		
(Increase) decrease in receivables	(29,294)	18,453
(Increase) decrease in inventory	1,193	(13,745)
(Increase) decrease in prepaid items	(5,141)	31,519
Increase (decrease) in customer deposits payable	(193)	2,470
Increase (decrease) in payables	(182,526)	(32,694)
Increase (decrease) in accrued liabilities	60,652	106,777
Increase (decrease) in intergovernmental payables	<u>(9,667)</u>	<u>14,513</u>
Net cash provided by operating activities	\$ <u>2,271,587</u>	<u>2,768,735</u>
Schedule of noncash activities:		
Outstanding liabilities for purchase of certain capital assets	\$ 344,976	441,710
Change in fair value of investments	3,806	48,023

See notes to financial statements.

# CITY OF HAMILTON, OHIO – WATER SYSTEM

## Notes to Financial Statements Years Ended December 31, 2009 and 2008

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Reporting Entity** – The City of Hamilton, Ohio – Water System (Water System) is a utility operating as a separate enterprise fund of the City of Hamilton, Ohio (City). The Water 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 Water 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 Water 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 Water 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 Water 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 Water System is reported as cash and investments. The Water 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 Water 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 Discounts and Issuance Costs*** – Unamortized bond discounts and issuance costs are amortized on the interest method over the term of the related bonds. The Water System issued revenue bonds in 2009 that added \$171,210 in bond discounts and \$412,095 in bond issuance costs. Amortization of bond discounts was \$5,076 and \$5,286 in 2009 and 2008, respectively. Amortization of issuance costs in 2009 and 2008 amounted to \$23,625 and \$24,596, respectively.

***Compensated Absences*** - The Water 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 Water 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 Water 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 Water System totaled \$17,698,481 and \$11,435,696 at December 31, 2009 and 2008, respectively and consisted of demand deposits, money market funds, U.S. government agency securities and STAR Ohio. Cash and investments held by trustees were \$584,451 and \$255,332 at December 31, 2009 and 2008, 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, 2009.

***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, 2009, nearly 96% of the City’s deposits with financial institutions, including the amount of pooled deposits related to the Water 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 Water System’s uninsured and uncollateralized deposits.

**Investments** – The State of Ohio statutes, Water 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 Water System, are invested primarily in U.S. governmental agency securities with a credit rating of AAA and an average maximum maturity of 4.13 years and STAR Ohio which has a credit rating of AAAM.

**3. ACCOUNTS RECEIVABLE**

Receivables at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Earned and unbilled consumer accounts	\$ 1,019,336	964,833
Earned and billed consumer accounts	1,167,717	1,437,805
Other	32,508	24,333
Less allowance for uncollectible accounts	<u>(800,503)</u>	<u>(1,037,207)</u>
Total	\$ <u>1,419,058</u>	<u>1,389,764</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 \$1,582,274 and \$1,252,988 at December 31, 2009 and 2008, respectively.

## 5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2009 and 2008 was as follows:

	Balance 1/1/09	Increases	Decreases	Balance 12/31/09
<i>Nondepreciable capital assets:</i>				
Land	\$ 2,528,827	-	-	2,528,827
Construction in progress	<u>8,331,309</u>	<u>1,264,834</u>	<u>(4,405,372)</u>	<u>5,190,771</u>
Subtotal	<u>10,860,136</u>	<u>1,264,834</u>	<u>(4,405,372)</u>	<u>7,719,598</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	22,267,396	20,397	-	22,287,793
Machinery and equipment	<u>99,428,880</u>	<u>5,132,424</u>	<u>(866,356)</u>	<u>103,694,948</u>
Subtotal	<u>121,696,276</u>	<u>5,152,821</u>	<u>(866,356)</u>	<u>125,982,741</u>
Totals at historical cost	<u>132,556,412</u>	<u>6,417,655</u>	<u>(5,271,728)</u>	<u>133,702,339</u>
Less accumulated depreciation:				
Buildings and improvements	11,609,120	623,939	-	12,233,059
Machinery and equipment	<u>28,749,027</u>	<u>1,998,506</u>	<u>(473,989)</u>	<u>30,273,544</u>
Total accumulated depreciation	<u>40,358,147</u>	<u>2,622,445</u>	<u>(473,989)</u>	<u>42,506,603</u>
Capital assets, net	\$ <u>92,198,265</u>	<u>3,795,210</u>	<u>(4,797,739)</u>	<u>91,195,736</u>
	Balance 1/1/08	Increases	Decreases	Balance 12/31/08
<i>Nondepreciable capital assets:</i>				
Land	\$ 2,528,827	-	-	2,528,827
Construction in progress	<u>9,444,999</u>	<u>1,627,635</u>	<u>(2,741,325)</u>	<u>8,331,309</u>
Subtotal	<u>11,973,826</u>	<u>1,627,635</u>	<u>(2,741,325)</u>	<u>10,860,136</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	22,267,396	-	-	22,267,396
Machinery and equipment	<u>94,011,302</u>	<u>5,702,298</u>	<u>(284,720)</u>	<u>99,428,880</u>
Subtotal	<u>116,278,698</u>	<u>5,702,298</u>	<u>(284,720)</u>	<u>121,696,276</u>
Totals at historical cost	<u>128,252,524</u>	<u>7,329,933</u>	<u>(3,026,045)</u>	<u>132,556,412</u>
Less accumulated depreciation:				
Buildings and improvements	10,773,514	835,606	-	11,609,120
Machinery and equipment	<u>27,127,600</u>	<u>1,905,191</u>	<u>(283,764)</u>	<u>28,749,027</u>
Total accumulated depreciation	<u>37,901,114</u>	<u>2,740,797</u>	<u>(283,764)</u>	<u>40,358,147</u>
Capital assets, net	\$ <u>90,351,410</u>	<u>4,589,136</u>	<u>(2,742,281)</u>	<u>92,198,265</u>

## 6. LONG TERM DEBT

In 2002, the Water System issued \$12,940,000 of water revenue refunding bonds to advance refunding outstanding mortgage revenue bonds of the Water System. The proceeds of these refunding bonds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the mortgage revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The 2002 refunding bonds are due serially through 2021 with an interest rate of 4.39%.

On September 9, 2009, the City issued \$9,675,000 in Series 2009A Water System Revenue Bonds and \$8,915,000 in Series 2009B Taxable Water System Build America Revenue Bonds to currently refund bond anticipation notes and provide funding for Water System production and distribution improvements. 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 2029 with interest from 2.00% to 6.25% per annum. The Series 2009B Build America Bonds fully mature in 2039 with interest of 6.62% per annum.

Debt activity for the year ended December 31, 2009 was as follows:

	Balance 1/1/09	Additions	Reductions	Balance 12/31/09	Due Within One Year
Series 2002 Refunding Bonds	\$ 9,775,000	-	(580,000)	9,195,000	600,000
Series 2009A Revenue Bonds	-	9,675,000	-	9,675,000	290,000
Series 2009B Revenue BABs	-	8,915,000	-	8,915,000	-
Less deferred amount:					
on refunding	(1,441,585)	-	183,741	(1,257,844)	-
for issuance discounts	(39,829)	(171,210)	5,076	(205,963)	-
	<u>\$ 8,293,586</u>	<u>18,418,790</u>	<u>(391,183)</u>	<u>26,321,193</u>	<u>890,000</u>

Debt activity for the year ended December 31, 2008 was as follows:

	Balance 1/1/08	Additions	Reductions	Balance 12/31/08	Due Within One Year
Series 2002 Refunding Bonds	\$ 10,335,000	-	(560,000)	9,775,000	580,000
Less deferred amount:					
on refunding	(1,632,874)	-	191,289	(1,441,585)	-
for issuance discounts	(45,115)	-	5,286	(39,829)	-
	<u>\$ 8,657,011</u>	<u>-</u>	<u>(363,425)</u>	<u>8,293,586</u>	<u>580,000</u>

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 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 revenue bonds at December 31, 2009 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 890,000	1,447,494	2,337,494
2011	995,000	1,326,067	2,321,067
2012	1,035,000	1,287,567	2,322,567
2013	1,065,000	1,255,492	2,320,492
2014	1,095,000	1,219,717	2,314,717
2015-2019	6,185,000	5,404,815	11,589,815
2020-2024	4,475,000	4,100,517	8,575,517
2025-2029	3,130,000	3,386,428	6,516,428
2030-2034	3,975,000	2,447,745	6,422,745
2035-2039	4,940,000	1,009,881	5,949,881
Total	\$ <u>27,785,000</u>	<u>22,885,723</u>	<u>50,670,723</u>

## 7. NOTES PAYABLE

In September 2008, the City issued \$5,320,000 (Water System's portion \$2,010,000) in bond anticipation notes that provided funding to rollover the bond anticipation notes issued in September 2007. The purpose of the original proceeds was to provide funding for the acquisition and installation of a new automated meter reading system.

In September 2008, the City issued bond anticipation notes in the amount of \$6,500,000 that provided funding to rollover the bond anticipation notes that were issued in September 2007.

Also in September 2008, the City issued bond anticipation notes in the amount of \$2,000,000 to finance certain water system improvement projects.

In September 2009, all three bond anticipation note issuances were currently refunded with the issuance of Series 2009 revenue bonds, see Note 6.

Note activity for the year ended December 31, 2009 was as follows:

	<u>Balance</u>		<u>Balance</u>
	1/1/09	<u>Additions</u>	12/31/09
2008 AMR System 2.00%	\$ 2,010,000	-	(2,010,000)
2008 Water System Imp. 2.00%	8,500,000	-	(8,500,000)
	\$ <u>10,510,000</u>	<u>-</u>	<u>(10,510,000)</u>

Note activity for the year ended December 31, 2008 was as follows:

	Balance 1/1/08	Additions	Reductions	Balance 12/31/08
2008 AMR System 2.00%	\$ -	2,010,000	-	2,010,000
2008 Water System Imp. 2.00%	-	8,500,000	-	8,500,000
2007 AMR System 4.00%	2,760,000	-	(2,760,000)	-
2007 Water System Imp. 4.00%	7,000,000	-	(7,000,000)	-
	<u>\$ 9,760,000</u>	<u>10,510,000</u>	<u>(9,760,000)</u>	<u>10,510,000</u>

## 8. DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

The Water System contributes to the Ohio Public Employees Retirement System (OPERS) which administers three separate pension plans as described below:

- 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 OPERS, 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 Water System's required contributions to PERS for the years ended December 31, 2009, 2008, and 2007 were approximately \$360,000, \$397,000, and \$311,000 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 2009, 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 Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. For 2009, the employer contribution allocated to the health care plan was 7.0% of covered payroll from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the Water System's contributions that were used to fund post employment benefits was approximately \$151,000, \$198,500 and \$123,000 for 2009, 2008, and 2007, respectively.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Members and employer contribution rates increased over a six year period beginning January 1, 2007, with a final rate increase on January 1, 2011. These increases allowed additional funds to be allocated to the health care plan.

## **9. CONTINGENT LIABILITIES**

Various claims and lawsuits are pending against the City involving the Water 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 Water System.

## **10. RELATED PARTY TRANSACTIONS**

The Water System purchases electricity from the City's Electric System. Purchases of approximately \$836,500 and \$944,000 from the Electric System are included in operating expenses in 2009 and 2008, respectively.

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 Water System for these services were approximately \$2,405,000 and \$3,084,000 in 2009 and 2008, respectively, and are included in other operating expenses.

**11. 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 Water 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.

**12. CONTRACTUAL COMMITMENTS**

At December 31, 2009, the Water System had contractual commitments in the amounts of approximately \$3,194,000 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 Water System operations.