

**CITY OF HAMILTON! OHIO  
WASTEWATER SYSTEM**

**Financial Statements  
Years Ended December 31, 2005 and 2004  
With Independent Auditors' Report**





**Auditor of State  
Betty Montgomery**

City Council  
City of Hamilton Wastewater System  
345 High Street  
Hamilton, Ohio 45011

We have reviewed the *Independent Auditors' Report* of the City of Hamilton Wastewater System, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

August 2, 2006

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# CITY OF HAMILTON! OHIO – WASTEWATER SYSTEM

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**Clark, Schaefer, Hackett & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

## 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, 2005 and 2004, 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, 2005 and 2004, 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 - Wastewater System as of December 31, 2005 and 2004 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 19, 2006

# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Year Ended December 31, 2005 and 2004  
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, 2005 and 2004. 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 2005 and 2004 are as follows:

- ❑ The assets of the Hamilton Wastewater System exceeded its liabilities at the close of 2005 and 2004 respectively by \$29,713,317 and \$29,772,766 (net assets). Of this amount, \$7,710,352 and \$6,490,905 (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 \$59,449 between 2005 and 2004, representing a .2% decrease.
- ❑ The system's investment in capital assets, net of related debt decreased by \$1,080,871 in 2005.

### Wastewater System Summary and Using this Annual Report

The City of Hamilton, Ohio owns and operates the Wastewater System. 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.

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, 2005 and 2004.

### 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 2005 and 2004. The City of Hamilton's Wastewater 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 Wastewater Fund are restricted to Wastewater System purposes by municipal ordinance, Ohio Revised Code and indentures issued pursuant to long-term financing.

# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Year Ended December 31, 2005 and 2004  
Unaudited

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 2005 and 2004?" 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.

### 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 \$29,713,317 as of December 31, 2005. 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 (65.5% for 2005 and 61.8% for 2004). 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, since 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, 2005 and 2004.

	2005	2004
Current and Other Assets	\$11,795,740	\$12,812,139
Capital Assets	45,801,044	47,478,962
Total Assets	57,596,784	60,291,101
Long-term Liabilities	23,451,546	26,292,306
Other Liabilities	4,431,921	4,226,029
Total Liabilities	27,883,467	30,518,335
Invested in capital assets, net of related debt	19,473,208	18,392,337
Restricted	2,529,757	4,889,524
Unrestricted	9,710,352	6,490,905
Total Net Assets	29,713,317	29,772,766



# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Year Ended December 31, 2005 and 2004  
Unaudited

As of December 31, 2005 and 2004, the City is able to report positive balances in net assets. After an increasing balance in the overall change in net assets of \$123,526 in 2004; a negative growth of (\$59,449) returned in 2005. Operating income of \$1,531,056 for 2005 and \$1,490,273 for 2004 were positive. Maintenance of positive operating income is primarily due to controlling the growth of expenses and maintaining rates commensurate with costs.

	2005	2004
Operating Revenues	\$11,458,512	\$11,117,997
Operating Expenses:		
Depreciation	2,358,148	2,356,663
Other Operating Expenses	7,569,308	7,271,061
Total Operating Expenses	9,927,456	9,627,724
Operating income	1,531,056	1,490,273
Non-Operating revenues (expenses)		
Interest and fiscal charges	(1,871,401)	(1,489,410)
Other non-operating revenues (expenses)	286,683	122,663
Total non-operating revenues (expenses)	(1,584,718)	(1,366,747)
Transfers	(5,787)	-
Change in Net Assets	(59,449)	123,526
Beginning Net Assets	29,772,766	29,649,240
Ending Net Assets	\$29,713,317	\$29,772,766

### Capital Assets and Debt Administration

*Capital Assets:* The City's investment in capital assets of the Wastewater System as of December 31, 2005 and 2004 amounted to \$19.5 Million and \$18.4 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 2005 and 2004.

*Debt Administration:* At the end of 2004, the City had two outstanding Wastewater System Revenue Bonds, the 1996 Wastewater System Revenue bonds with a balance of \$7,595,000; and the 1998 Wastewater System Revenue Bonds with a balance of \$18,890,000, totaling \$26,485,000. These bonds were advance refunded in March 2005. The City issued Wastewater System Revenue Refunding Bonds in the amount of \$25,070,000 to provide resources to advance refund the 1996 and 1998 Wastewater Revenue Bonds outstanding at December 31, 2004. The refunded bonds are now considered defeased.

# City of Hamilton, Ohio

## Wastewater System

Management's Discussion and Analysis  
For the Year Ended December 31, 2005 and 2004  
Unaudited

In January 2003, the City issued \$1,550,000 in general obligation bond anticipation notes and an additional \$1,200,000 BAN in June 2003 to fund Wastewater System improvements. These notes were combined and rolled over with no principal reduction in January 2004 with a BAN issue of \$2,750,000. In January 2005, the City issued bond anticipation notes in the amount of \$2,750,000 that provided funding to rollover a bond anticipation note originally issued in January 2004.

### **Economic Factors and the Future of the System**

The City's Wastewater System is continually monitoring the costs of treatment and collection. However, the loss of industrial revenue over the past five years has impacted rate structures and the City is required by both ordinance and indentures to pass the cost of running the system and maintaining environmental compliance increases on to its customers. Maintaining compliance with environmental protection regulations has continued to be problematic (see contingency note regarding the Ohio Environmental Protection Agency). The number of customers has remained steady although the reliance formerly placed on industrial revenue to buffer residential rates grows increasingly difficult to maintain, especially in light of both the infrastructure, maintenance and environmental protection regulation required of the system.

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

In spite of increasing costs and a renewed focus on main replacements and lining programs to control inflow and infiltration of stormwater into the City Sanitary Sewer Collection system, the City's Wastewater System has maintained its fiscal health. All bond anticipation notes of the City have received a MIG-1 rating, the highest possible rating.

In October 1988, the State of Ohio commenced litigation in the Butler County Court of Common Pleas against the City alleging violations of the State's environmental laws and regulations in connection with, inter alia, the City's wastewater treatment and collection system. The City and the State settled the litigation by entering into the Consent Order which was filed with the Court on May 13, 1990. The City believes it is in compliance with the provisions of the Consent Order except those relating to the elimination of discharges from overflows from its collection system. The City has proposed to the State at the Consent Order be modified to, inter alia, extend the schedule for mitigating the remaining discharges and to revise the monitoring and reporting requirements accordingly. The parties are currently in negotiations with the State relative to modification to the Consent Order. The City disagrees with certain demands made by the State and certain positions taken by the State in connection with the negotiations as to modification of the Consent Order. As of this date, the City cannot effectively predict the outcome of these negotiations; however in the event that no modification of the Consent Order is agreed upon by the parties, litigation is possible.

# **City of Hamilton, Ohio**

## **Wastewater System**

Management's Discussion and Analysis  
For the Year Ended December 31, 2005 and 2004  
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 Ana Ramanathan, CPA, City of Hamilton Finance Director, 345 High Street, Hamilton, Ohio 45011, (513) 785-7170, (email at [ramanata@ci.hamilton.oh.us](mailto:ramanata@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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 7,515,904	6,052,837
Accounts receivable (less allowance for uncollectible accounts of \$1,483,636 and \$1,272,007, respectively)	1,295,824	1,495,047
Interest receivable	37,243	41,807
Inventory of supplies at cost	1,549	1,392
Prepaid expenses	<u>103,471</u>	<u>102,107</u>
Total current assets	<u>8,953,991</u>	<u>7,693,190</u>
Restricted assets:		
Cash and investments	<u>2,529,757</u>	<u>4,889,524</u>
Bond issuance costs	<u>311,992</u>	<u>229,425</u>
Capital assets:		
Property, plant and equipment	88,316,861	87,192,740
Construction in progress	1,158,685	1,703,242
Accumulated depreciation	<u>(43,674,502)</u>	<u>(41,417,020)</u>
Total capital assets	<u>45,801,044</u>	<u>47,478,962</u>
Total assets	\$ <u>57,596,784</u>	<u>60,291,101</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 249,464	150,581
Accrued wages and benefits	40,785	40,310
Intergovernmental payable	67,394	43,487
Accrued interest payable	354,278	336,651
General obligation anticipation notes payable	2,750,000	2,750,000
Revenue bonds payable - current portion	<u>970,000</u>	<u>905,000</u>
Total current liabilities	<u>4,431,921</u>	<u>4,226,029</u>
Non-current liabilities:		
Customer deposits payable	111,464	97,869
Compensated absences payable	732,249	762,812
Revenue bonds payable (net of unamortized discounts)	<u>22,607,833</u>	<u>25,431,625</u>
Total noncurrent liabilities	<u>23,451,546</u>	<u>26,292,306</u>
Total liabilities	<u>27,883,467</u>	<u>30,518,335</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	19,473,208	18,392,337
Restricted for debt service	529,757	2,889,524
Restricted for rate stabilization	2,000,000	2,000,000
Unrestricted	<u>7,710,352</u>	<u>6,490,905</u>
Total net assets	\$ <u>29,713,317</u>	<u>29,772,766</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, 2005 AND 2004**

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	<u>2005</u>	<u>2004</u>
<b>Operating revenues:</b>		
Charges for services	\$ 11,264,327	10,531,796
Other operating revenues	<u>194,185</u>	<u>586,201</u>
Total operating revenues	<u>11,458,512</u>	<u>11,117,997</u>
<b>Operating expenses:</b>		
Personal services	2,379,044	2,336,233
Contractual services	1,770,845	945,070
Depreciation	2,358,148	2,356,663
Materials and supplies	748,751	1,346,441
Other operating expenses	<u>2,670,668</u>	<u>2,643,317</u>
Total operating expenses	<u>9,927,456</u>	<u>9,627,724</u>
Operating income	1,531,056	1,490,273
<b>Non-operating revenues (expenses):</b>		
Investment earnings	308,740	154,494
Loss on disposal of capital assets	(22,057)	(31,831)
Interest and fiscal charges	<u>(1,871,401)</u>	<u>(1,489,410)</u>
Total non-operating revenues (expenses)	<u>(1,584,718)</u>	<u>(1,366,747)</u>
Income before transfers	(53,662)	123,526
Transfers out	<u>(5,787)</u>	<u>-</u>
Change in net assets	(59,449)	123,526
Net assets - beginning of year	<u>29,772,766</u>	<u>29,649,240</u>
Net assets - end of year	\$ <u>29,713,317</u>	<u>29,772,766</u>

See notes to financial statements.

**CITY OF HAMILTON! OHIO - WASTEWATER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 11,306,989	11,128,961
Cash paid for employee services and benefits	(2,385,600)	(2,363,686)
Cash paid to suppliers for goods and services	(2,420,539)	(2,456,524)
Other operating revenues	290,715	15,003
Other operating expenses	<u>(2,658,393)</u>	<u>(2,644,058)</u>
Net cash provided by operating activities	<u>4,133,172</u>	<u>3,679,696</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfers to other funds	<u>(5,787)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(702,650)	(1,109,496)
Proceeds from notes	2,750,000	2,750,000
Proceeds from sale of refunding debt	26,511,303	-
Principal paid on general obligation notes	(2,750,000)	(2,750,000)
Principal payment on debt	-	(865,000)
Principal Paid on Mortgage Revenue Bonds	(1,440,000)	-
Payment to escrow agent for refunding debt	(28,277,179)	-
Interest payment on debt	(1,429,226)	(1,461,056)
Proceeds from sale of assets	<u>363</u>	<u>57</u>
Net cash used in capital and related financing activities	<u>(5,337,389)</u>	<u>(3,435,495)</u>
<b>Cash flows from investing activities:</b>		
Interest from investments	<u>313,304</u>	<u>150,875</u>
Net cash provided by investing activities	<u>313,304</u>	<u>150,875</u>
Net change in cash and investments	(896,700)	395,076
Cash and investments at beginning of year	<u>10,942,361</u>	<u>10,547,285</u>
Cash and investments at end of year	\$ <u>10,045,661</u>	<u>10,942,361</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,531,056	1,490,273
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,358,148	2,356,663
Changes in assets and liabilities:		
Accounts receivable	199,223	25,967
Inventories	(157)	(189)
Prepaid expenses	(1,364)	1,001
Accrued wages and benefits	475	(51,669)
Intergovernmental payables	23,907	8,256
Accounts payable	98,883	(175,209)
Compensated absences payable	(30,563)	14,359
Customer deposits	<u>13,595</u>	<u>10,244</u>
Net cash provided by operating activities	\$ <u>4,193,203</u>	<u>3,679,696</u>

See notes to financial statements.

# CITY OF HAMILTON! OHIO – WASTEWATER SYSTEM

## Notes to Financial Statements Year Ended December 31, 2005 and 2004

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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) pronouncements 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 Discounts and Issuance Costs*** – Unamortized bond discounts and issuance costs are amortized on the interest method over the term of the related bonds. Amortization of bond discounts was \$88,344 and \$14,171 in 2005 and 2004, respectively. Amortization of issuance costs in 2005 and 2006 amounted to \$16,019 and \$20,402, 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.

***Reclassifications*** – Certain items from the prior year financial statements have been reclassified to conform to the current year presentation.

## 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 \$7,515,904 and \$6,052,837 at December 31, 2005 and 2004, respectively, and consisted of demand deposits, money market funds, U.S. government agency securities and STAR Ohio.

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, 2005.

***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, 2005, nearly 96% 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 AAA and an average maximum maturity of 1.71 years and STAR Ohio which has a credit rating of AAAM.

**3. ACCOUNTS RECEIVABLE**

Receivables at December 31, 2005 and 2004 consist of the following:

		<u>2005</u>	<u>2004</u>
Earned and unbilled consumer accounts	\$	429,447	390,379
Earned and billed consumer accounts		2,346,383	2,367,117
Other		3,630	9,558
Less allowance for uncollectible accounts		<u>(1,483,636)</u>	<u>(1,272,007)</u>
Total	\$	<u><u>1,295,824</u></u>	<u><u>1,495,047</u></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 \$2,529,757 and \$4,889,524 at December 31, 2005 and 2004, respectively.

## 5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2005 and 2004 was as follows:

	Balance			Balance
	<u>1/1/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/05</u>
<i>Nondepreciable capital assets:</i>				
Land	\$ 6,087,501	-	-	6,087,501
Construction in progress	<u>1,703,242</u>	<u>70,273</u>	<u>(614,830)</u>	<u>1,158,685</u>
Subtotal	<u>7,790,743</u>	<u>70,273</u>	<u>(614,830)</u>	<u>7,246,186</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	55,796,203	-	-	55,796,203
Machinery and equipment	<u>25,309,036</u>	<u>1,247,207</u>	<u>(123,086)</u>	<u>26,433,157</u>
Subtotal	<u>81,105,239</u>	<u>1,247,207</u>	<u>(123,086)</u>	<u>82,229,360</u>
Totals at historical cost	<u>88,895,982</u>	<u>1,317,480</u>	<u>(737,916)</u>	<u>89,475,546</u>
Less accumulated depreciation:				
Buildings and improvements	30,242,925	728,100	-	30,971,025
Machinery and equipment	<u>11,174,095</u>	<u>1,630,048</u>	<u>(100,666)</u>	<u>12,703,477</u>
Total accumulated depreciation	<u>41,417,020</u>	<u>2,358,148</u>	<u>(100,666)</u>	<u>43,674,502</u>
Capital assets, net	\$ <u>47,478,962</u>	<u>(1,040,668)</u>	<u>(637,250)</u>	<u>45,801,044</u>
	Balance			Balance
	<u>1/1/04</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/04</u>
<i>Nondepreciable capital assets:</i>				
Land	\$ 6,087,501	-	-	6,087,501
Construction in progress	<u>1,712,424</u>	<u>868,136</u>	<u>(877,318)</u>	<u>1,703,242</u>
Subtotal	<u>7,799,925</u>	<u>868,136</u>	<u>(877,318)</u>	<u>7,790,743</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	54,859,049	937,154		55,796,203
Machinery and equipment	<u>25,346,027</u>	<u>76,922</u>	<u>(113,913)</u>	<u>25,309,036</u>
Subtotal	<u>80,205,076</u>	<u>1,014,076</u>	<u>(113,913)</u>	<u>81,105,239</u>
Totals at historical cost	<u>88,005,001</u>	<u>1,882,212</u>	<u>(991,231)</u>	<u>88,895,982</u>
Less accumulated depreciation:				
Buildings and improvements	29,514,825	728,100		30,242,925
Machinery and equipment	<u>9,589,577</u>	<u>1,628,563</u>	<u>(44,045)</u>	<u>11,174,095</u>
Total accumulated depreciation	<u>39,104,402</u>	<u>2,356,663</u>	<u>(44,045)</u>	<u>41,417,020</u>
Capital assets, net	\$ <u>48,900,599</u>	<u>(474,451)</u>	<u>(947,186)</u>	<u>47,478,962</u>

**6. BOND ANTICIPATION NOTES**

In January 2005, the City issued bond anticipation notes in the amount of \$2,750,000 that provided funding to rollover a bond anticipation notes originally issued in January 2004. Note activity for 2005 was as follows:

		Balance <u>1/1/05</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/05</u>
2004 System Improvement	1.40%	\$ 2,750,000	-	(2,750,000)	-
2005 System Improvement	3.00%	<u>-</u>	<u>2,750,000</u>	<u>-</u>	<u>2,750,000</u>
		<u>\$ 2,750,000</u>	<u>2,750,000</u>	<u>(2,750,000)</u>	<u>2,750,000</u>

During 2003, the City issued \$2,750,000 of bond anticipation notes that were outstanding as of December 31, 2003 and consisted of \$1,550,000 issued in January 2003 and \$1,200,000 issued in June 2003. Both notes paid interest at 1.49% and matured in January 2004. The notes were issued to provide funding for construction, acquisition and improvements to the Wastewater System in accordance with the City Council's 2002 Wastewater Rate Mitigation Program. In January 2004, the City issued a combined \$2,750,000 of bond anticipation notes to retire the two outstanding notes above. This note was outstanding at December 31, 2004, paid interest at 1.4% and matured in January 2005. Note activity for 2004 was as follows:

		Balance <u>1/1/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12/31/04</u>
2003 System Improvement	1.49%	\$ 1,550,000	-	(1,550,000)	-
2003 System Improvement	1.49%	1,200,000	-	(1,200,000)	-
2004 System Improvement	1.40%	<u>-</u>	<u>2,750,000</u>	<u>-</u>	<u>2,750,000</u>
		<u>\$ 2,750,000</u>	<u>2,750,000</u>	<u>(2,750,000)</u>	<u>2,750,000</u>

**7. LONG TERM DEBT**

At the beginning of 2005, long-term debt consisted of Wastewater System Mortgage Revenue Bonds including the 1998 Series, due serially through 2023 with an interest rate of 5.10% and the 1996 Series, due serially through 2021 with interest rates from 4% to 6%. During 2005, the City issued Wastewater System Revenue Refunding Bonds in the amount of \$25,070,000 to provide resources to advance refund the 1996 and 1998 Wastewater Revenue Bonds outstanding at December 31, 2004. The refunded bonds are now considered defeased.

The reacquisition price of the remaining outstanding mortgage revenue bonds exceeded the net carrying amount of the old debt by \$1,268,800 which will be amortized over the remaining life of the new debt. This advance refunding was undertaken to reduce total debt service payments by \$3,208,900 and resulted in an economic gain of \$351,634.

Debt activity for the year ended December 31, 2005 was as follows:

	Balance			Balance	Due
	<u>1/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/05</u>	<u>Within</u>
					<u>One Year</u>
1998 Series Bonds	\$ 18,890,000	-	(18,890,000)	-	-
1996 Series Bonds	7,595,000		(7,595,000)	-	-
2005 Refunding Bonds	-	25,070,000	(1,440,000)	23,630,000	970,000
Less deferred amount					
on refunding	-	(1,268,800)	47,473	(1,221,327)	-
for issuance discounts	<u>(148,375)</u>	<u>1,229,191</u>	<u>88,344</u>	<u>1,169,160</u>	<u>-</u>
Total bonds	\$ <u>26,336,625</u>	<u>25,030,391</u>	<u>(27,789,183)</u>	<u>23,577,833</u>	<u>970,000</u>

Debt activity for the year ended December 31, 2004 was as follows:

	Balance			Balance	Due
	<u>1/1/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04</u>	<u>Within</u>
					<u>One Year</u>
1998 Series Bonds	\$ 19,495,000	-	(605,000)	18,890,000	630,000
Less deferred amount					
for issuance discounts	(93,137)	-	7,429	(85,708)	-
1996 Series Bonds	7,855,000	-	(260,000)	7,595,000	275,000
Less deferred amount					
for issuance discounts	<u>(69,041)</u>	<u>-</u>	<u>6,374</u>	<u>(62,667)</u>	<u>-</u>
Total bonds	\$ <u>27,187,822</u>	<u>-</u>	<u>(851,197)</u>	<u>26,336,625</u>	<u>905,000</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, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	970,000	1,088,590	2,058,590
2007	1,000,000	1,059,490	2,059,490
2008	1,030,000	1,029,490	2,059,490
2009	1,060,000	996,015	2,056,015
2010	1,100,000	961,565	2,061,565
2011-2015	6,200,000	4,095,188	10,295,188
2016-2020	7,925,000	2,376,400	10,301,400
2021-2023	<u>4,345,000</u>	<u>394,320</u>	<u>4,739,320</u>
Total	\$ <u>23,630,000</u>	<u>12,001,058</u>	<u>35,631,058</u>

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

The Wastewater 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 Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5% of their annual covered salary. The City was required to contribute 13.55% of covered payroll for employees. The Wastewater System's required contributions to PERS for the years ended December 31, 2005, 2004, and 2003 were approximately \$237,000, \$244,000, \$235,000 respectively, equal to the required contributions for each year.

PERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 employer contribution rate was 13.55% of covered payroll for employees and 4.0% was the portion that was used to fund health care for the year.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2004. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2004 was 8.00%. An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1.00% to 6.00% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4.00% annually.

The OPEB's are advance-funded on an actuarially determined basis. The number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The portion of the Wastewater System's contributions that were used to fund postemployment benefits was approximately \$70,000 and \$72,000 in 2005 and 2004, respectively. At December 31, 2004, the actuarial value of the Retirement System's net assets available for OPEB was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

## **9. 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.

## **10. RELATED PARTY TRANSACTIONS**

The Wastewater System purchases electricity from the City's Electric System. Purchases of approximately \$548,000 and \$525,000 were made in both 2005 and 2004 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 \$2,169,000 and \$2,178,000 in 2005 and 2004, 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 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.

## **12. CONTRACTUAL COMMITMENTS**

At December 31, 2005, the Wastewater System had contractual commitments to in the amount of \$113,305.

## **13. SUBSEQUENT EVENTS**

In January 2006, the City issued a combined \$2,700,000 in bond anticipation notes that provided funding to rollover a \$2,750,000 bond anticipation issued in January 2005. Interest expense on the rollover of the notes was funded by the City and not capitalized into the financing. The purpose of the original proceeds was to provide funding for construction, acquisition and improvements to the Wastewater System in accordance with the Council authorized in 2002 Wastewater Rate Mitigation Program.



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**CITY OF HAMILTON  
WASTEWATER SYSTEM**

**BUTLER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 15, 2006**