

**CITY OF HAMILTON! OHIO  
WATER SYSTEM**

**Financial Statements  
Years Ended December 31, 2007 and 2006  
With Independent Auditors' Report**





Mary Taylor, CPA  
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of Hamilton Water System, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2007 through December 31, 2007. 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 Water System is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

August 5, 2008

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# CITY OF HAMILTON! OHIO – WATER 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 - Water System, an enterprise fund of the City of Hamilton! Ohio as of and for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, 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, 2007 and 2006 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 2-5 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 23, 2008

# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and 2006  
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, 2007 and 2006. 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 2007 and 2006 are as follows:

- The assets of the Hamilton Water System exceeded its liabilities at the close of 2007 and 2006 respectively by \$85,579,999 and \$84,405,473 (net assets). Of this amount, \$12,375,076 and \$11,037,767 (unrestricted net assets) may be used to meet the system's ongoing obligations to customers and creditors.
- The system's total net assets increased by \$1,174,526 in 2007, representing a 1.4% increase.
- The system's investment in capital assets, net of related debt decreased by \$165,717 in 2007.
- In September 2007, the City issued bond anticipation notes in the amount of \$7,000,000 to finance the water system improvements.

### Water System Summary and Using this Annual Report

The City of Hamilton, Ohio has owned and operated a water utility system since 1884. 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 275 miles of various size main piping, storage facilities and pumping stations.

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, 2007 and 2006.

### 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 2007 and 2006. 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.



# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and 2006  
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 Water Fund and asks the question, "How did we do financially during 2007 and 2006?" 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.

### 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 \$85,579,999 as of December 31, 2007. 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 (84.06% for 2007, 85.42% for 2006 and 81.37% for 2005). 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, 2007, 2006 and 2005.

	2007	2006	2005
Current and Other Assets	\$16,339,014	\$14,761,137	\$18,054,646
Capital Assets	90,351,410	84,373,452	82,413,878
Total Assets	<u>106,690,424</u>	<u>99,134,589</u>	<u>100,468,524</u>
Long-term Liabilities	8,834,058	9,253,320	9,630,660
Other Liabilities	12,276,367	5,475,796	5,768,252
Total Liabilities	<u>21,110,425</u>	<u>14,729,116</u>	<u>15,398,912</u>
Invested in capital assets, net of related debt	71,934,399	72,100,116	69,193,868
Restricted	1,270,524	1,267,590	1,256,456
Unrestricted	12,375,076	11,037,767	14,619,288
Total Net Assets	<u>\$85,579,999</u>	<u>\$84,405,473</u>	<u>\$85,069,612</u>

# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and 2006  
Unaudited

As of December 31, 2007, the City reported a positive balance of \$1,174,526 in net assets as compared to a negative balance of \$664,139 and a positive balance of \$2,085,334, for years 2006 and 2005, respectively. Operating income of \$2,110,294 for 2007, \$517,930 for 2006 and \$2,496,712 for 2005 were positive. The significant increase in operating revenues was due to a dry, hot summer and increased sales to the County.

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

	2007	2006	2005
Operating Revenues	\$15,828,437	\$13,735,240	\$14,339,708
Operating Expenses:			
Depreciation	2,633,598	2,395,352	2,268,021
Other Operating Expenses	11,084,545	10,821,958	9,574,975
Total Operating Expenses	13,718,143	13,217,310	11,842,996
Operating income	2,110,294	517,930	2,496,712
Non-Operating revenues (expenses)			
Interest and fiscal charges	(1,462,667)	(831,011)	(837,872)
Other non-operating revenues	526,899	47,434	435,639
Total non-operating revenues (expenses)	(935,768)	(783,577)	(402,233)
Contributions	-	598,920	-
Transfers	-	(997,412)	(9,145)
Change in Net Assets	1,174,526	(664,139)	2,085,334
Beginning Net Assets	84,405,473	85,069,612	82,984,278
Ending Net Assets	\$85,579,999	\$84,405,473	\$85,069,612

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

*Capital Assets:* The City's investment in capital assets of the Water System as of December 31, 2007, 2006 and 2005 amounted to \$71.9 Million, \$72.1 Million and \$69.2 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 2007 and 2006.

*Debt Administration:* At the end of 2007, the City had one outstanding long-term revenue bond issue, the 2002 Water System Revenue Refunding Bonds totaling \$10,335,000.

# City of Hamilton, Ohio

## Water System

Management's Discussion and Analysis  
For the Year Ended December 31, 2007 and 2006  
Unaudited

In March 2005, the City issued \$9,800,000 (Water's System portion \$3,900,400) in bond anticipation notes that were authorized by Council in December 2004 for the purpose of acquiring, installing and paying all related costs for a new automated meter reading (AMR) system. The installation of meters began in March 2005 and was completed and functioning by September 2006. In September 2007, the City continued to rollover these bond anticipation notes in the amount of \$7,070,000 (Water System portion \$2,760,000).

In September 2007, the City issued \$7,000,000 in bond anticipation notes that were authorized by Council in August 2007 for the purpose of various improvements in the Water System.

### **Economic Factors and the Future of 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 chemical 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 no plans to change its rates other than those required.

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 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, the City's Water System has prospered. All bond anticipation notes of the City have received a MIG-1 rating, the highest possible rating. The City's Water System maintains an A3 underlying rating for both its system and the 2002 Water System Revenue Refunding Bonds.

### **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, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 13,063,732	12,125,025
Accounts receivable (less allowance for uncollectible accounts of \$952,930 and \$1,101,444, respectively)	1,408,217	799,229
Interest receivable	95,584	99,976
Inventory of supplies at cost	142,180	135,739
Prepaid expenses	91,528	98,189
Total current assets	<u>14,801,241</u>	<u>13,258,158</u>
Restricted assets:		
Cash and investments	<u>1,327,820</u>	<u>1,267,590</u>
Bond issuance costs	<u>209,953</u>	<u>235,389</u>
Capital assets:		
Property, plant and equipment	118,807,525	114,961,080
Construction in progress	9,444,999	4,912,069
Accumulated depreciation	(37,901,114)	(35,499,697)
Total capital assets	<u>90,351,410</u>	<u>84,373,452</u>
Total assets	<u>\$ 106,690,424</u>	<u>99,134,589</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 1,606,287	1,161,416
Accrued wages and benefits	52,904	46,322
Intergovernmental payable	83,320	66,560
Accrued interest payable	213,856	146,498
General obligation notes payable	9,760,000	3,510,000
Revenue bonds payable - current portion	560,000	545,000
Total current liabilities	<u>12,276,367</u>	<u>5,475,796</u>
Non-current liabilities:		
Customer deposits payable	128,843	126,817
Compensated absences payable	608,204	672,779
Revenue bonds payable (net of unamortized discounts)	8,097,011	8,453,724
Total noncurrent liabilities	<u>8,834,058</u>	<u>9,253,320</u>
Total liabilities	<u>21,110,425</u>	<u>14,729,116</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	71,934,399	72,100,116
Restricted for debt service	270,524	267,590
Restricted for rate stabilization	1,000,000	1,000,000
Unrestricted	12,375,076	11,037,767
Total net assets	<u>85,579,999</u>	<u>84,405,473</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, 2007 AND 2006**

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	<u>2007</u>	<u>2006</u>
<b>Operating revenues:</b>		
Charges for services	\$ 15,552,885	13,462,643
Other operating revenues	<u>275,552</u>	<u>272,597</u>
Total operating revenues	<u>15,828,437</u>	<u>13,735,240</u>
<b>Operating expenses:</b>		
Personal services	4,129,134	3,004,582
Materials and supplies	1,306,445	956,879
Contractual services	2,395,724	3,722,708
Depreciation	2,633,598	2,395,352
Other operating expenses	<u>3,253,242</u>	<u>3,137,789</u>
Total operating expenses	<u>13,718,143</u>	<u>13,217,310</u>
Operating income	2,110,294	517,930
<b>Non-operating revenues (expenses):</b>		
Investment earnings	872,709	720,255
Grants	117,344	23,547
Loss on disposal of capital assets	(463,154)	(696,368)
Interest and fiscal charges	<u>(1,462,667)</u>	<u>(831,011)</u>
Total non-operating revenues (expenses)	<u>(935,768)</u>	<u>(783,577)</u>
Income (loss) before contributions and transfers	1,174,526	(265,647)
Contributions	-	598,920
Transfers out	<u>-</u>	<u>(997,412)</u>
Change in net assets	1,174,526	(664,139)
Net assets - beginning of year	<u>84,405,473</u>	<u>85,069,612</u>
Net assets - end of year	<u>\$ 85,579,999</u>	<u>84,405,473</u>

See notes to financial statements.

**CITY OF HAMILTON! OHIO - WATER SYSTEM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 15,219,449	14,053,347
Cash paid for employee services and benefits	(4,166,054)	(3,107,596)
Cash paid to suppliers for goods and services	(3,271,294)	(4,495,053)
Other operating expenses	<u>(3,241,313)</u>	<u>(3,120,665)</u>
Net cash provided by operating activities	<u>4,540,788</u>	<u>3,330,033</u>
<b>Cash Flows from noncapital financing activities:</b>		
Operating grants received	117,344	23,547
Payment to other funds	<u>-</u>	<u>(997,412)</u>
Net cash used for noncapital financing activities	<u>117,344</u>	<u>(973,865)</u>
<b>Cash flows from capital and related financing activities:</b>		
Payment for capital acquisitions	(9,074,710)	(4,468,697)
Debt proceeds	9,760,000	7,020,000
Debt principal payments	(4,055,000)	(7,940,400)
Debt interest payments	(1,166,586)	(661,411)
Sale of capital assets	<u>-</u>	<u>16,323</u>
Net cash used in capital and related financing activities	<u>(4,536,296)</u>	<u>(6,034,185)</u>
<b>Cash flows from investing activities:</b>		
Interest from investments	<u>877,101</u>	<u>686,986</u>
Net cash provided by investing activities	<u>877,101</u>	<u>686,986</u>
Net change in cash and cash equivalents	998,937	(2,991,031)
Cash and cash equivalents at beginning of year	<u>13,392,615</u>	<u>16,383,646</u>
Cash and cash equivalents at end of year	\$ <u>14,391,552</u>	<u>13,392,615</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,110,294	517,930
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,633,598	2,395,352
Changes in assets and liabilities:		
(Increase) decrease in receivables	(608,988)	318,107
(Increase) decrease in inventory	(6,441)	(1,291)
(Increase) decrease in prepaid items	6,661	(7,234)
Increase (decrease) in customer deposits payable	2,026	12,055
Increase (decrease) in payables	444,871	162,421
Increase (decrease) in accrued liabilities	(57,993)	(50,390)
Increase (decrease) in intergovernmental payables	<u>16,760</u>	<u>(16,917)</u>
Net cash provided by operating activities	\$ <u>4,540,788</u>	<u>3,330,033</u>
Schedule of noncash activities:		
Capital contributions	\$ -	598,920
Change in fair value of investments	(166,500)	12,160

See notes to financial statements.

# CITY OF HAMILTON! OHIO – WATER SYSTEM

## Notes to Financial Statements Years Ended December 31, 2007 and 2006

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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) 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 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. Amortization of bond discounts was \$5,465 and \$5,622 in 2007 and 2006, respectively. Amortization of issuance costs in 2007 and 2006 amounted to \$25,436 and \$26,165, 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.

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

## **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 \$14,121,028 and \$13,125,025 at December 31, 2007 and 2006, respectively and consisted of demand deposits, money market funds, U.S. government agency securities and STAR Ohio. Cash and investments held by trustees were \$270,524 and \$267,590 at December 31, 2007 and 2006, 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, 2007.

***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, 2007, 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 1.38 years and STAR Ohio which has a credit rating of AAAM.

**3. ACCOUNTS RECEIVABLE**

Receivables at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Earned and unbilled consumer accounts	\$ 926,952	295,063
Earned and billed consumer accounts	1,415,420	1,527,916
Other	18,775	77,694
Less allowance for uncollectible accounts	<u>(952,930)</u>	<u>(1,101,444)</u>
Total	\$ <u>1,408,217</u>	<u>799,229</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 \$1,327,820 and \$1,267,590 at December 31, 2007 and 2006, respectively.

## 5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2007 and 2006 was as follows:

	Balance 1/1/07	Increases	Decreases	Balance 12/31/07
<i>Nondepreciable capital assets:</i>				
Land	\$ 2,528,827	-	-	2,528,827
Construction in progress	4,912,069	6,314,358	(1,781,428)	9,444,999
Subtotal	<u>7,440,896</u>	<u>6,314,358</u>	<u>(1,781,428)</u>	<u>11,973,826</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	22,148,353	119,043	-	22,267,396
Machinery and equipment	90,283,900	4,422,737	(695,335)	94,011,302
Subtotal	<u>112,432,253</u>	<u>4,541,780</u>	<u>(695,335)</u>	<u>116,278,698</u>
Totals at historical cost	<u>119,873,149</u>	<u>10,856,138</u>	<u>(2,476,763)</u>	<u>128,252,524</u>
Less accumulated depreciation:				
Buildings and improvements	9,937,908	835,606	-	10,773,514
Machinery and equipment	25,561,789	1,797,992	(232,181)	27,127,600
Total accumulated depreciation	<u>35,499,697</u>	<u>2,633,598</u>	<u>(232,181)</u>	<u>37,901,114</u>
Capital assets, net	<u>\$ 84,373,452</u>	<u>8,222,540</u>	<u>(2,244,582)</u>	<u>90,351,410</u>
	Balance 1/1/06	Increases	Decreases	Balance 12/31/06
<i>Nondepreciable capital assets:</i>				
Land	\$ 2,528,827	-	-	2,528,827
Construction in progress	8,760,482	1,505,632	(5,354,045)	4,912,069
Subtotal	<u>11,289,309</u>	<u>1,505,632</u>	<u>(5,354,045)</u>	<u>7,440,896</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	21,325,506	822,847	-	22,148,353
Machinery and equipment	83,626,790	8,093,183	(1,436,073)	90,283,900
Subtotal	<u>104,952,296</u>	<u>8,916,030</u>	<u>(1,436,073)</u>	<u>112,432,253</u>
Totals at historical cost	<u>116,241,605</u>	<u>10,421,662</u>	<u>(6,790,118)</u>	<u>119,873,149</u>
Less accumulated depreciation:				
Buildings and improvements	9,131,416	806,492	-	9,937,908
Machinery and equipment	24,696,311	1,588,860	(723,382)	25,561,789
Total accumulated depreciation	<u>33,827,727</u>	<u>2,395,352</u>	<u>(723,382)</u>	<u>35,499,697</u>
Capital assets, net	<u>\$ 82,413,878</u>	<u>8,026,310</u>	<u>(6,066,736)</u>	<u>84,373,452</u>

## 6. LONG TERM DEBT

Debt activity for the year ended December 31, 2007 was as follows:

	Balance 1/1/07	Additions	Reductions	Balance 12/31/07	Due Within One Year
2002 Refunding Bonds	\$ 10,880,000	-	(545,000)	10,335,000	560,000
Less deferred amount: on refunding	(1,830,696)	-	197,822	(1,632,874)	-
for issuance discounts	(50,580)	-	5,465	(45,115)	-
	<u>\$ 8,998,724</u>	<u>-</u>	<u>(341,713)</u>	<u>8,657,011</u>	<u>560,000</u>

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%.

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.

Debt activity for the year ended December 31, 2006 was as follows:

	Balance 1/1/06	Additions	Reductions	Balance 12/31/06	Due Within One Year
2002 Refunding Bonds	\$ 11,410,000	-	(530,000)	10,880,000	545,000
Less deferred amount: on refunding	(2,034,188)	-	203,492	(1,830,696)	-
for issuance discounts	(56,202)	-	5,622	(50,580)	-
	<u>\$ 9,319,610</u>	<u>-</u>	<u>(320,886)</u>	<u>8,998,724</u>	<u>545,000</u>

Maturities of revenue bonds at December 31, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	560,000	446,964	1,006,964
2009	580,000	429,324	1,009,324
2010	600,000	409,894	1,009,894
2011	620,000	388,594	1,008,594
2012	650,000	357,594	1,007,594
2013-2017	3,680,000	1,362,595	5,042,595
2018-2021	<u>3,645,000</u>	<u>420,365</u>	<u>4,065,365</u>
Total	\$ <u>10,335,000</u>	<u>3,815,330</u>	<u>14,150,330</u>

**7. NOTES PAYABLE**

In September 2006, the City issued \$8,820,000 (Water System's portion \$3,510,000) in bond anticipation notes that provided funding to rollover the bond anticipation notes issued in March 2005. In September 2007, the City issued \$7,070,000 (Water System's portion \$2,760,000) in bond anticipation notes that provided funding to rollover the bond anticipation notes in September 2006. The purpose of the original proceeds was to provide funding for the acquisition and installation of a new automated meter reading system.

In September 2007, the City issued bond anticipation notes in the amount of \$7,000,000 that provided funding for various Water System infrastructure improvements.

Note activity for the year ended December 31, 2007 was as follows:

	<u>Balance</u>		<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
	1/1/07				12/31/07
2007 AMR System 4.00%	\$ -		2,760,000	-	2,760,000
2006 AMR System 4.25%	3,510,000		-	(3,510,000)	-
2007 Water System Imp. 4.00%	-		<u>7,000,000</u>	-	<u>7,000,000</u>
	\$ <u>3,510,000</u>		<u>9,760,000</u>	<u>(3,510,000)</u>	<u>9,760,000</u>

Note activity for the year ended December 31, 2006 was as follows:

	<u>Balance</u>		<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
	1/1/06				12/31/06
2006 AMR System 4.25%	\$ -		3,510,000	-	3,510,000
2005 AMR System 3.50%	<u>3,900,400</u>		-	(3,900,400)	-
	\$ <u>3,900,400</u>		<u>3,510,000</u>	<u>(3,900,400)</u>	<u>3,510,000</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 9.5% of their annual covered salary. The City was required to contribute 13.85% of covered payroll for employees. The Water System's required contributions to PERS for the years ended December 31, 2007, 2006, and 2005 were approximately \$311,000, \$311,000, and \$298,000 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 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 2007, the City contributed 13.85% 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.

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 post employment health care benefits. For 2007, the employer contribution allocated to the health care plan from January 1 through June 30, 2007 and July 1 through December 31, 2007 was 5.0% and 6.0% of covered payroll, respectively. 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 \$123,000, \$93,000 and \$88,000 for 2007, 2006, and 2005, 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 as of January 1, 2006, January 1, 2007 and January 1, 2008, which 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 \$955,000 and \$942,000 from the Electric System are included in operating expenses in 2007 and 2006, 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 \$2,976,000 and \$2,775,000 in 2007 and 2006, 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, 2007 and 2006, the Water System had contractual commitments in the amounts of approximately \$3,757,000 and \$1,729,000, respectively.



**Mary Taylor, CPA**  
Auditor of State

**CITY OF HAMILTON WATER 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 19, 2008**