

***CITY OF HAMILTON!***  
***OHIO -- WASTEWATER***  
***SYSTEM***

*Financial Statements for the Years Ended  
December 31, 2000 and 1999 and  
Independent Auditors' Report*





**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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Members of City Council  
City of Hamilton

We have reviewed the Independent Auditor's Report of the City of Hamilton - Wastewater System, Butler County, prepared by Deloitte & Touche LLP for the audit period January 1, 2000 through December 31, 2000. Based upon this review, we have accepted this report 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 is responsible for compliance with these laws and regulations.

JIM PETRO  
Auditor of State

July 8, 2001

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## **INDEPENDENT AUDITORS' REPORT**

Honorable City Council  
City of Hamilton! Ohio and  
Jim Petro, Auditor of the State of Ohio

We have audited the accompanying balance sheets of the City of Hamilton! Ohio -- Wastewater System (Wastewater System) as of December 31, 2000 and 1999, and the related statements of operations and changes in retained earnings, and of cash flows for the years then ended. 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 referred to above present only the City of Hamilton! Ohio -- Wastewater System and are not intended to present the financial position and results of operations and the cash flows of the proprietary fund types of the City of Hamilton! in accordance with accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Wastewater System at December 31, 2000 and 1999, and the results of that funds operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

May 25, 2001

**CITY OF HAMILTON! OHIO -- WASTEWATER SYSTEM  
BALANCE SHEETS  
DECEMBER 31, 2000 AND 1999**

<b>ASSETS</b>	<b>2000</b>	<b>1999</b>	<b>LIABILITIES AND FUND BALANCES</b>	<b>2000</b>	<b>1999</b>
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and cash equivalents	\$ 1,142,302	\$ 466,076	Long-term debt due within one year	\$ 1,243,845	\$ 1,182,367
Investments	6,663,025	6,481,040	Accounts payable	1,161,859	807,595
Current portion of restricted assets -			Accrued interest	710,336	736,053
Investments	1,954,181	1,918,420	Accrued payroll	73,457	59,568
Accounts receivable (less allowance for			Other accrued liabilities	301,862	297,998
doubtful accounts of (\$711,072 in 2000	1,813,169	1,824,670	Total current liabilities	<u>3,491,359</u>	<u>3,083,581</u>
and \$627,000 in 1999 )	48,139	57,583	<b>LONG-TERM DEBT</b>	<u>36,928,787</u>	<u>38,157,497</u>
Prepaid expenses and other assets	<u>11,620,816</u>	<u>10,747,789</u>	<b>OTHER LONG-TERM OBLIGATIONS -</b>		
Total current assets			Accrued sick leave	<u>607,079</u>	<u>507,558</u>
<b>RESTRICTED ASSETS:</b>			<b>FUND BALANCES:</b>		
Cash and Cash Equivalents	889,187	978,116	Contributed capital	11,965,756	12,535,037
Investments	<u>5,838,310</u>	<u>9,202,094</u>	Retained earnings	<u>17,131,854</u>	<u>13,441,123</u>
	<u>6,727,497</u>	<u>10,180,210</u>	Total	<u>29,097,610</u>	<u>25,976,160</u>
<b>WASTEWATER UTILITY PLANT</b>					
<b>AND EQUIPMENT:</b>					
Land	6,080,342	6,080,342			
Building and improvements	52,236,119	46,541,238			
Machinery and equipment	24,910,992	12,551,435			
Accumulated depreciation	<u>83,227,453</u>	<u>65,173,015</u>			
	<u>(32,476,760)</u>	<u>(31,575,965)</u>			
Construction in progress	50,750,693	33,597,050			
Net wastewater utility plant and	711,806	12,863,429			
equipment	<u>51,462,499</u>	<u>46,460,479</u>			
<b>BOND ISSUANCE COSTS, NET</b>	<u>314,023</u>	<u>336,318</u>			
<b>TOTAL</b>	<u>\$70,124,835</u>	<u>\$67,724,796</u>	<b>TOTAL</b>	<u>\$70,124,835</u>	<u>\$67,724,796</u>

See notes to financial statements.

# CITY OF HAMILTON! OHIO -- WASTEWATER SYSTEM

## STATEMENTS OF OPERATIONS AND CHANGES IN RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
OPERATING REVENUES	<u>\$11,975,014</u>	<u>\$11,899,598</u>
OPERATING EXPENSES:		
Personal services	2,272,624	1,905,392
Contractual services	1,594,997	1,292,434
Materials and supplies	486,715	409,459
Depreciation	2,009,979	1,587,869
Other operating expenses	1,220,464	1,220,882
Total operating expenses	<u>7,584,779</u>	<u>6,416,036</u>
OPERATING INCOME	<u>4,390,235</u>	<u>5,483,562</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,082,840	1,256,011
Change in unrealized gains (losses) on investments	199,160	(199,767)
Interest expense	(2,312,911)	(2,390,367)
Loss on disposal of fixed assets	(237,874)	
Total nonoperating revenues (expenses)	<u>(1,268,785)</u>	<u>(1,334,123)</u>
NET INCOME	3,121,450	4,149,439
ADD: DEPRECIATION ON FIXED ASSETS, DONATED OR ACQUIRED BY USE OF GRANT FUNDS, INCLUDED IN CONTRIBUTED CAPITAL	569,281	569,281
RETAINED EARNINGS, Beginning of year	<u>13,441,123</u>	<u>8,722,403</u>
RETAINED EARNINGS, End of year	<u>\$17,131,854</u>	<u>\$13,441,123</u>

See notes to financial statements.

# CITY OF HAMILTON! OHIO -- WASTEWATER SYSTEM

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 4,390,235	\$ 5,483,562
Other nonoperating revenue		
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,009,979	1,587,869
Changes in assets and liabilities:		
Accounts receivable	(26,434)	(41,694)
Prepaid expenses and other assets	9,444	(4,153)
Accounts payable and other accrued liabilities	(24,851)	2,311
Accrued payroll	13,889	9,946
Accrued sick leave	99,521	(275,348)
Net cash provided by operating activities	<u>6,471,783</u>	<u>6,762,493</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(87,318)	(943,750)
Sale of investments	3,432,516	10,503,659
Interest received	1,120,775	1,336,153
Net cash provided by investing activities	<u>4,465,973</u>	<u>10,896,062</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(1,182,367)	(1,113,660)
Interest on debt	(2,301,198)	(2,371,330)
Additions to wastewater utility plant	<u>(6,866,894)</u>	<u>(13,851,806)</u>
Net cash used in capital and related financing activities	<u>(10,350,459)</u>	<u>(17,336,796)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	587,297	321,759
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,444,192</u>	<u>1,122,433</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 2,031,489</u>	<u>\$ 1,444,192</u>

### SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

At December 31, 2000 and 1999, Wastewater System had outstanding liabilities of \$978,922 and \$595,943, respectively, included in accounts payable for the purchase of certain capital assets.

See notes to financial statements.



# CITY OF HAMILTON! OHIO -- WASTEWATER SYSTEM

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2000 AND 1999

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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.

**Wastewater Utility Plant** - Expenditures which 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. Depreciation is calculated on a straight-line basis over the estimated useful life of the various classes of assets.

**Contributed Capital** - Contributed capital consists of fixed assets donated or acquired from restricted grants and is recorded at fair market value at the date received. Depreciation on contributed fixed assets resulting from grants or donated items is charged to contributed capital.

**Cash and Cash Equivalents** - The Wastewater System considers all highly liquid investments with a maturity of three months or less when purchased are considered to be cash and cash equivalents.

**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 either cash and cash equivalents or investments, as appropriate. 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. The City Treasury includes \$666,815 (2000) and \$1,051,046 (1999) of securities issued by the City. Based on the percentage of Wastewater System's ownership of these funds, the Wastewater System owns approximately \$119,000 and \$141,000 of City securities at December 31, 2000 and 1999.

**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 discount and issuance costs amounted to \$15,135 and \$22,295, respectively in 2000 and \$15,416 and \$22,695, respectively, for 1999.

**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.

**Measurement Focus, Basis of Accounting and Basis of Presentation** - The financial statements are prepared in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB). These standards include the effective pronouncements of the National Council on Governmental Accounting and the American Institute of Certified Public Accountants which are considered to be "generally accepted accounting principles" for state and local entities, until they are

altered, amended, supplemented, revoked or superseded by a subsequent GASB pronouncement. The Wastewater System has elected to apply only Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**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.

**Reclassification** - Certain reclassifications have been made to the 1999 balances to make them consistent with the classification used in 2000.

**2. ACCOUNTS RECEIVABLE**

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Earned and unbilled consumer accounts	\$ 461,613	\$ 537,376
Earned and billed consumer accounts	1,305,304	1,221,230
Other	757,252	693,064
Less allowance for uncollectible accounts	<u>(711,000)</u>	<u>(627,000)</u>
Total	<u>\$1,813,169</u>	<u>\$1,824,670</u>

**3. CASH AND INVESTMENTS**

The Wastewater System follows the practice of pooling cash and investments with the City Treasurer. Pooled cash and investments totaled \$7,805,327 at December 31, 2000 and consisted of demand deposits, money market funds and government securities.

**Deposits** - The carrying amount of the Wastewater System's deposits at December 31, 2000 was \$155,464 and the corresponding depository balance was \$164,008. The difference between the carrying amount and the depository balance is due to outstanding checks and deposits in transit. Of the deposit balance, collateralization was as follows: \$11,574 by Federal depository insurance and the remaining \$152,434 was uninsured and uncollateralized as defined by the *Governmental Accounting Standards Board*. The uncollateralized deposits were, however, covered by a pledged collateral pool not held in the City's name, as permitted under Ohio law.

**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.

The Wastewater System's investments are categorized as either (1) insured or registered, or securities held by the City or its agent in the City's name; or (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; or (3) uninsured and unregistered with securities held by the counterparty or its trust department or agent but not in the City's name.

	Categories		Total Market/Carrying Value
	1	3	
Investments:			
Categorized investments:			
Pooled investments held by City Treasurer	\$ 6,663,025	N/A	\$ 6,663,025
Investment held in Trust:			
U.S. Government Securities	N/A	\$ 7,792,491	7,792,491
Total categorized investments	6,663,025	7,792,491	14,455,516
Non-Categorized investments -			
STAR Ohio pooled, held by City Treasurer	N/A	N/A	1,876,025
Total investments	<u>\$ 6,663,025</u>	<u>\$ 7,792,491</u>	<u>\$ 16,331,541</u>

**Reconciliation of Cash, Cash Equivalents and Investments** - The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Repurchase agreements and STAR Ohio are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and cash equivalents and investments on the financial statements and the classifications used in this note are as follows:

	Cash and Cash Equivalents	Investments
Per Balance Sheet	\$2,031,489	\$14,455,516
Investments:		
STAR Ohio	(1,876,025)	1,876,025
Per GASB Statement No. 3	<u>\$ 155,464</u>	<u>\$16,331,541</u>

#### 4. RESTRICTED ASSETS

Restricted assets consist of Wastewater System assets whose use has been restricted by bond indenture, City Charter or City Council ordinance for debt service or capital improvements or wastewater rate stabilization. Restrictions and related assets are as follows:

	December 31,	
	2000	1999
Debt service	\$ 384,459	\$ 382,629
Construction of capital improvements	3,955,775	7,475,804
Reserve for debt service	2,342,686	2,264,704
Rate stabilization	1,998,758	1,975,493
Total	<u>\$ 8,681,678</u>	<u>\$12,098,630</u>

Outstanding commitments for construction of capital improvements, some of which will be financed by use of restricted assets, totaled approximately \$1,284,000 and \$5,300,000 at December 31, 2000 and 1999.

## 5. LONG-TERM DEBT

	December 31,	
	2000	1999
Wastewater System Mortgage Revenue Bonds, 1998 Series, due serially through 2023, with interest from 3.7% to 5.2% net of unamortized discount of \$115,431 in 2000 and \$123,541 in 1999	\$21,054,569	\$21,566,459
Wastewater System Mortgage Revenue Bonds, 1996 Series, due serially through 2021, with interest from 4.1% to 6.1% net of unamortized discount of \$90,265 in 2000 and \$97,290 in 1999	8,474,735	8,682,710
Ohio Water Development Authority Notes:		
1988 Note, due serially through 2013 with interest rate at 8.48%	8,571,573	8,951,449
1996 Note, due serially through 2001 with interest rate at 6.3%	71,755	139,246
Total	<u>38,172,632</u>	<u>39,339,864</u>
Less current portion	<u>(1,243,845)</u>	<u>(1,182,367)</u>
Total	<u><u>\$36,928,787</u></u>	<u><u>\$38,157,497</u></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 the policy, the payments of principal and interest are guaranteed by the insurer.

Maturities of long-term debt at December 31, 2000 for the five succeeding years are; \$1,243,846 for 2001; \$1,242,035 for 2002; \$1,314,944 for 2003; \$1,391,067 for 2004; and \$1,475,678 for 2005.

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

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans. The following information was provided by the Public Employees Retirement System of Ohio (the "PERS") to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the PERS, a cost-sharing multiple employer defined benefit pension plan. The PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. PERS issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees contribute 8.5% of their annual compensation. The PERS Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2000. The rate rollback was 20% for state and local divisions. The employer contribution rate for 2000 was 10.84% of covered payroll; 6.54% was the portion used to fund pension obligations and 4.30% was used to fund health care for 2000. The 1999 and 1998 employer contribution rates were 13.55%. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The Wastewater System's contributions to PERS for the years ending December 31, 2000, 1999, and 1998, were \$128,000, \$132,000 and \$123,000, respectively, equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2000 employer contribution rate (identified above) that was used to fund health care for the year 2000 was 4.3% of covered payroll which amounted to \$51,000.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 1999. 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 1999 was 7.75%. An annual increase of 4.75% 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 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 401,339. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 1999 is \$10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively.

## **7. CONTINGENT LIABILITIES**

Various claims and lawsuits are pending against the City involving the Wastewater System. With the possible exception described in the following paragraph, the City believes that the ultimate disposition of such claims and lawsuits will not have a material adverse effect on the financial position Wastewater System.

The City is party to certain litigations with Butler County over matters relating to the contract under which the City sells surplus water to the County. The County's claims include allegation of improper allocation of certain general and administrative charges of the City and expenses of the City's four utility systems. The City believes that its allocations have been proper. Should the County prevail,

however, the City is not able, at this stage in the litigations, to determine whether the consequences to the Wastewater System could be material.

**8. RELATED PARTY TRANSACTIONS**

The Wastewater System purchases electricity from the City's Electric System. Included in expenses are purchases from the Electric System of approximately \$487,000 in 2000 and \$480,400 in 1999.

The net amount owed to other City funds was \$231,089 at December 31, 2000 and 1999.

The City allocates the cost of certain administrative services. In addition, the City has established internal service funds which provide services to various City departments. Charges to the Wastewater System for these services were \$2,743,000 in 2000 and \$2,631,000 in 1999 and are included in operating expenses.

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STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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**CITY OF HAMILTON - SEWER 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  
JULY 31, 2001**