

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

Financial Statements

Years Ended December 31, 2009 and 2008

With Independent Auditors' Report

**TABLE OF CONTENTS**

Independent Auditors' Report ..... 1

Management's Discussion and Analysis ..... 2 - 6

Financial Statements:

    Statements of Net Assets ..... 7

    Statements of Revenues, Expenses and Changes in Net Assets ..... 8

    Statements of Cash Flows ..... 9

    Notes to Financial Statements ..... 10 - 18

## **INDEPENDENT AUDITORS' REPORT**

Honorable City Council  
City of Hamilton, Ohio

We have audited the accompanying financial statements of the City of Hamilton, Ohio - Gas System, an enterprise fund of the City of Hamilton, Ohio as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the City of Hamilton's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only the Gas System and do not purport to, and do not, present fairly the financial position of the City of Hamilton, Ohio as of December 31, 2009 and 2008, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Hamilton, Ohio - Gas System as of December 31, 2009 and 2008 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
June 8, 2010

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# City of Hamilton, Ohio

## Gas System

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

The discussion and analysis of the City of Hamilton, Ohio's Gas System's financial performance provide an overall review of that system's financial activities for the years ended December 31, 2009 and 2008. While the intent of this discussion and analysis is to look at the system's financial performance, readers should also review the Statements of Net Assets, Revenues, Expenses and Changes in Net Assets, and Cash Flows to enhance their understanding of the system's fiscal performance.

### Financial Highlights

Key highlights for 2009 and 2008 are as follows:

- ❑ The assets of the Hamilton Gas System exceeded its liabilities at the close of 2009 and 2008, respectively, by \$38,006,987 and \$36,026,692 (net assets). Of these amounts, \$9,490,159 and \$7,832,503 (unrestricted net assets) in those years can be used to meet the system's ongoing obligations to customers and creditors.
- ❑ The system's total net assets increased by \$1,980,295 in 2009.
- ❑ In September 2009, the City issued \$4,500,000 in revenue bonds to retire outstanding bond anticipation notes and finance distribution system improvements.

### Gas System Summary and Using this Annual Report

The City has owned and operated a natural gas utility system since 1890. It is currently the largest municipal gas distribution operation in Ohio and serves approximately 23,900 customers located in the City and the immediate environs through approximately 275 miles of pipe. The City purchases natural gas from a supplier, then resells the gas to residential and general service (commercial and industrial) customers. The City also provides distribution delivery service to six large non-residential customers who have each contracted with natural gas suppliers. The natural gas supplier for Mohawk Fine Papers (Beckett Mill), USALCO, OMEGA JV2 (JV2) and the City's Thermal Power Plant is the City. Smart Papers and Terry Materials have natural gas suppliers other than the City.

The Gas System provides gas service to customers located in the City and its immediate environs. The Gas System provides full service (acquisition of gas supply, transportation of the gas supply to the City's interconnections, and distribution of gas supply from the City's interconnections to the customer meter) and distribution delivery service (distribution delivery of the gas arranged for by, or on behalf of, the customer from the City's interconnections to the customer's meter.) Currently, the Gas System provides full service to residential and general service customers.

The City provides a Gas Purchasing Service to Mohawk Fine Papers (Beckett Mill) and USALCO wherein the City purchases gas at its City gate specifically for their individual usage. The costs of the Beckett Mill's and USALCO's gas supply are accounted for individually and paid for directly by each customer.

Smart Papers and Terry Materials have agreements with the City pursuant to which the City has agreed to provide distribution delivery services. Smart Papers and Terry Materials each purchase gas from their own natural gas suppliers and arrange for the transportation of the gas to the City's interconnections.

# City of Hamilton, Ohio

## Gas System

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

The City's Electrical System arranges for its own supply of gas used to fuel its Electrical Generating Thermal Power Plant. The City's Electrical System also purchases gas for AMP Inc.'s OMEGA JV2. The Thermal Power Plant and the JV2, however, pay the City for distribution delivery service and certain other charges.

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 Gas System for the year ended December 31, 2009 and 2008.

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

The financial statements contained within this report include the City of Hamilton, Ohio's Gas System *only*. Readers desiring to view city-wide financial statements, as well as the impact that the Gas System has on the City's overall financial position and operating results, should refer to the City's Basic Financial Statements appearing in the Comprehensive Annual Financial Report for 2009 and 2008. The City of Hamilton's Gas System is reported as a business-type, enterprise fund and is considered a major fund for purposes of individual fund reporting. Payments made from the Gas Fund are restricted to Gas System purposes by municipal ordinance, Ohio Revised Code and indentures issued pursuant to long-term financing.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the view of the system looks at all financial transactions of the Gas Fund and asks the question, "How did we do financially during 2009 and 2008?" These statements provide answers to that question. The statements include all assets and liabilities of the System using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the System's net assets and the changes in those net assets. The change in net assets is important because it tells the reader whether, for the System, the financial position of the City has improved or diminished. However, in evaluating this position, non-financial information including the condition of capital assets will also need to be evaluated. The Notes to the Gas 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 Gas System charges fees to recoup the cost of the entire operation of the Gas System as well as all capital expenses associated with these facilities.

# City of Hamilton, Ohio

## Gas System

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

### Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. In the case of the Gas Fund, assets exceeded liabilities by \$38,006,987 as of December 31, 2009. By far the largest portion of the net assets of the Gas 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 is still outstanding. The ratios of net assets invested in capital assets, net of related debt to total net assets are as follows: 66.18% for 2009, 70.28% for 2008 and 70.01% for 2007. The System employs these assets in the delivery of natural gas 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 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 Gas System's Statement of Net Assets for the Years Ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Current and other assets	\$19,073,903	\$20,143,966	\$15,233,069
Capital assets	35,048,966	35,987,783	36,956,446
Total assets	<u>54,122,869</u>	<u>56,131,749</u>	<u>52,189,515</u>
Long-term liabilities	10,916,556	7,527,116	8,523,645
Other liabilities	5,199,326	12,577,941	9,282,064
Total liabilities	<u>16,115,882</u>	<u>20,105,057</u>	<u>17,805,709</u>
Invested in capital assets, net of related debt	25,154,191	25,319,048	24,074,257
Restricted	3,362,637	2,875,141	2,902,477
Unrestricted	9,490,159	7,832,503	7,407,072
Total net assets	<u>\$38,006,987</u>	<u>\$36,026,692</u>	<u>\$34,383,806</u>

As of December 31, 2009, 2008 and 2007, the City reported positive balances in the overall changes in net assets of \$1,980,295, \$1,642,886 and \$3,130,166, respectively. For the years ended December 31, 2009, 2008 and 2007, there was operating income of \$2,658,171, \$1,897,350 and \$3,382,547, respectively. Net operating income of \$2,658,171, which is an increase of \$760,821 from 2008 to 2009, was primarily due to a significant decline in the cost of natural gas and a reduction in other operating costs. Although operating revenue decreased, expenses decreased even more. The gas cost reduction is passed on to customers by rate adjustments. Non-operating expenses of \$495,376 increased by \$300,912, primarily because investment earnings decreased due to low interest rates. In addition, transfers out increased by \$122,500.

# City of Hamilton, Ohio

## Gas System

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

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

	2009	2008	2007
Operating revenues	\$31,662,109	\$39,522,340	\$37,972,254
Operating expenses:			
Purchased gas	21,199,188	30,014,934	27,483,706
Depreciation	1,908,856	1,938,931	1,948,022
Other operating expenses	5,895,894	5,671,125	5,157,979
Total operating expenses	29,003,938	37,624,990	34,589,707
Operating income (loss)	2,658,171	1,897,350	3,382,547
Non-Operating revenues (expenses)			
Interest and fiscal charges	(579,889)	(652,483)	(831,464)
Loss on disposal of capital assets	(48,837)	-	-
Other non-operating revenues	133,350	458,019	579,083
Total non-operating revenues (expenses)	(495,376)	(194,464)	(252,381)
Transfers	(182,500)	(60,000)	-
Change in net assets	1,980,295	1,642,886	3,130,166
Beginning net assets	36,026,692	34,383,806	31,253,640
Ending net assets	\$38,006,987	\$36,026,692	\$34,383,806

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

*Capital Assets:* The City's investment in capital assets of the Gas System as of December 31, 2009, 2008 and 2007 amounted to \$25.2 million, \$25.3 million, and \$24.1 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) provide Gas System capital asset activity during 2009 and 2008.

*Debt Administration:* At the end of 2009, the City had two outstanding long-term revenue bond issues, the 2003 Gas System Revenue Refunding Bonds totaling \$7,590,000 and the 2009 Gas System Revenue Bonds totaling \$4,500,000.

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

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

# **City of Hamilton, Ohio**

## **Gas System**

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

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

The City's Gas System is continually monitoring the cost of natural gas and employs a structured hedging plan to mitigate price fluctuations to its customers. The cost of natural gas is highly volatile and the City is required by both ordinance and indentures to pass through these gas costs to its customers via the GCR. The overall number of customers has remained relatively steady while, like most gas systems, the usage per residential customer has continued to slowly decline as a result of improved efficiency of appliances. Rates are expected to be reduced from 2009 to 2012.

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

In spite of tough economic conditions and continued Natural Gas price volatility, the City's Gas System has continued its strong financial performance. The City maintains an A1 bond rating with a stable outlook for its Gas System and for both its 2003 Gas System Revenue Refunding Bonds, and its 2009 Gas System Revenue 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 Gas 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 – GAS SYSTEM  
STATEMENTS OF NET ASSETS  
DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 9,649,635	9,217,779
Accounts receivable (less allowance for uncollectible accounts of \$3,678,594 and \$4,655,172, respectively)	5,550,052	7,587,445
Interest receivable	27,757	47,508
Inventory of supplies at cost	147,584	155,634
Prepaid expenses	<u>103,555</u>	<u>93,258</u>
Total current assets	<u>15,478,583</u>	<u>17,101,624</u>
Restricted assets:		
Cash and investments	<u>3,362,637</u>	<u>2,875,141</u>
Bond issuance costs	<u>232,683</u>	<u>167,201</u>
Capital assets:		
Property, plant and equipment	64,177,028	63,880,289
Construction in progress	2,394,544	1,799,695
Accumulated depreciation	<u>(31,522,606)</u>	<u>(29,692,201)</u>
Total capital assets	<u>35,048,966</u>	<u>35,987,783</u>
Total assets	<u>\$ 54,122,869</u>	<u>56,131,749</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 3,207,467	4,418,685
Accrued wages and benefits	40,207	31,154
Intergovernmental payable	35,735	34,537
Accrued interest payable	122,725	100,462
Customer deposits payable	550,173	558,924
Compensated absences payable-current	123,019	109,179
General obligation notes payable	-	2,240,000
Revenue bonds payable and line of credit-current	<u>1,120,000</u>	<u>5,085,000</u>
Total current liabilities	<u>5,199,326</u>	<u>12,577,941</u>
Noncurrent liabilities:		
Compensated absences payable	190,711	183,381
Revenue bonds payable	<u>10,725,845</u>	<u>7,343,735</u>
Total noncurrent liabilities	<u>10,916,556</u>	<u>7,527,116</u>
Total liabilities	<u>16,115,882</u>	<u>20,105,057</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	25,154,191	25,319,048
Restricted for debt service	862,637	375,141
Restricted for rate stabilization	2,500,000	2,500,000
Unrestricted	<u>9,490,159</u>	<u>7,832,503</u>
Total net assets	<u>\$ 38,006,987</u>	<u>36,026,692</u>

See notes to financial statements.

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

	<u>2009</u>	<u>2008</u>
<b>Operating revenues:</b>		
Charges for services	\$ 31,656,094	39,493,942
Other operating revenues	<u>6,015</u>	<u>28,398</u>
Total operating revenues	<u>31,662,109</u>	<u>39,522,340</u>
<b>Operating expenses:</b>		
Personal services	1,474,053	1,279,694
Materials and supplies	344,967	141,800
Contractual services	1,629,271	1,494,088
Purchased gas	21,199,188	30,014,934
Depreciation	1,908,856	1,938,931
Other operating expenses	<u>2,447,603</u>	<u>2,755,543</u>
Total operating expenses	<u>29,003,938</u>	<u>37,624,990</u>
Operating income	2,658,171	1,897,350
<b>Non-operating revenues (expenses):</b>		
Investment earnings	133,350	458,019
Loss on disposal of capital assets	(48,837)	-
Interest and fiscal charges	<u>(579,889)</u>	<u>(652,483)</u>
Total non-operating revenues (expenses)	<u>(495,376)</u>	<u>(194,464)</u>
Income before transfers	2,162,795	1,702,886
Transfers out	<u>(182,500)</u>	<u>(60,000)</u>
Change in net assets	1,980,295	1,642,886
Net assets - beginning of year	<u>36,026,692</u>	<u>34,383,806</u>
Net assets - end of year	\$ <u>38,006,987</u>	<u>36,026,692</u>

See notes to financial statements.

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

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 33,690,751	38,446,167
Cash paid for employee services and benefits	(1,443,583)	(1,219,286)
Cash paid to suppliers for goods and services	<u>(26,853,410)</u>	<u>(33,960,614)</u>
Net cash provided by operating activities	<u>5,393,758</u>	<u>3,266,267</u>
<b>Cash flows from noncapital financing activities:</b>		
Transfers to other funds	<u>(182,500)</u>	<u>(60,000)</u>
Net cash used for noncapital financing activities	<u>(182,500)</u>	<u>(60,000)</u>
<b>Cash flows from capital and related financing activities:</b>		
Payments for capital acquisition	(999,009)	(925,671)
Debt proceeds	4,500,000	2,240,000
Line of credit proceeds (payments)	(4,000,000)	4,000,000
Debt principal payments	(3,325,000)	(4,515,000)
Debt interest payments	<u>(620,998)</u>	<u>(583,628)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,445,007)</u>	<u>215,701</u>
<b>Cash flows from investing activities:</b>		
Interest from investments	<u>153,101</u>	<u>456,525</u>
Net cash provided by investing activities	<u>153,101</u>	<u>456,525</u>
Net change in cash and investments	919,352	3,878,493
Cash and investments at beginning of year	<u>12,092,920</u>	<u>8,214,427</u>
Cash and investments at end of year	\$ <u>13,012,272</u>	<u>12,092,920</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,658,171	1,897,350
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,908,856	1,938,931
Changes in Assets and Liabilities:		
(Increase) decrease in receivables	2,037,393	(1,089,102)
(Increase) decrease in inventory	8,050	6,317
(Increase) decrease in prepaid items	(10,297)	10,089
Increase (decrease) in customer deposits payable	(8,751)	12,929
Increase (decrease) in payables	(1,231,085)	441,258
Increase (decrease) in accrued liabilities	30,223	45,327
Increase (decrease) in intergovernmental payables	<u>1,198</u>	<u>3,168</u>
Net cash provided by operating activities	\$ <u>5,393,758</u>	<u>3,266,267</u>
Schedule of noncash activities:		
Outstanding liabilities for purchase of certain capital assets	\$ 77,820	57,953
Change in fair value of investments	3,507	41,581

See notes to financial statements.

# CITY OF HAMILTON, OHIO – GAS SYSTEM

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

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Reporting Entity** – The City of Hamilton, Ohio – Gas System (Gas System) is a utility operating as a separate enterprise fund of the City of Hamilton, Ohio (City). The Gas 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 Gas System has elected only to apply Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Gas 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 Gas 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 Gas 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 Gas System is reported as cash and investments. The Gas 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 Gas System.

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

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

***Bond Premiums, Discounts and Issuance Costs*** – Unamortized bond premiums and discounts as well as issuance costs are amortized on the interest method over the term of the related bonds. The Gas System issued revenue bonds in 2009 that added \$54,976 in bond discounts and \$104,240 in bond issuance costs. Amortization of bond premiums was \$82,685 and \$89,145 in 2009 and 2008, respectively. Amortization of bond discounts was \$14,355 and \$15,476 in 2009 and 2008, respectively. Amortization of issuance costs in 2009 and 2008 amounted to \$38,758 and \$41,786, respectively.

***Compensated Absences*** - The Gas 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 Gas System will compensate the employees for the benefits through paid time off or some other means. Sick leave termination benefits are accrued using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those employees for whom it is probable that they will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end.

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

## 2. CASH AND INVESTMENTS

The Gas 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 Gas System totaled \$12,148,645 and \$11,717,779 at December 31, 2009 and 2008, respectively and consisted of demand deposits, money market funds, U.S. government securities and STAR Ohio. Cash and investments held by trustees were \$863,627 and \$375,141 at December 31, 2009 and 2008, respectively.

Star Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2009.

***Deposits*** – Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a custodial risk policy. As of December 31, 2009, nearly 96% of the City’s deposits with financial institutions, including the amount of pooled deposits related to the Gas 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 Gas System’s uninsured and uncollateralized deposits.

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

**3. ACCOUNTS RECEIVABLE**

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

	<u>2009</u>	<u>2008</u>
Earned and unbilled consumer accounts	\$ 3,822,478	4,522,161
Earned and billed consumer accounts	5,406,168	7,720,456
Less allowance for uncollectible accounts	<u>(3,678,594)</u>	<u>(4,655,172)</u>
Total	<u>\$ 5,550,052</u>	<u>7,587,445</u>

**4. RESTRICTED ASSETS**

Restricted assets consist of assets whose use has been restricted by bond indenture for debt service. Restricted assets were \$3,362,637 and \$2,875,141 December 31, 2009 and 2008, respectively.

## 5. CAPITAL ASSETS

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

	Balance 1/1/09	Increases	Decreases	Balance 12/31/09
<i>Capital assets not being depreciated:</i>				
Land	\$ 92,101	-	-	92,101
Construction in progress	<u>1,799,695</u>	<u>608,724</u>	<u>(13,875)</u>	<u>2,394,544</u>
Subtotal	<u>1,891,796</u>	<u>608,724</u>	<u>(13,875)</u>	<u>2,486,645</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	516,419	-	-	516,419
Machinery and equipment	<u>63,271,769</u>	<u>424,027</u>	<u>(127,288)</u>	<u>63,568,508</u>
Subtotal	<u>63,788,188</u>	<u>424,027</u>	<u>(127,288)</u>	<u>64,084,927</u>
Totals at historical cost	<u>65,679,984</u>	<u>1,032,751</u>	<u>(141,163)</u>	<u>66,571,572</u>
Less accumulated depreciation:				
Buildings and improvements	439,699	19,448	-	459,147
Machinery and equipment	<u>29,252,502</u>	<u>1,889,408</u>	<u>(78,451)</u>	<u>31,063,459</u>
Total accumulated depreciation	<u>29,692,201</u>	<u>1,908,856</u>	<u>(78,451)</u>	<u>31,522,606</u>
Capital assets, net	\$ <u>35,987,783</u>	<u>(876,105)</u>	<u>(62,712)</u>	<u>35,048,966</u>
	Balance 1/1/08	Increases	Decreases	Balance 12/31/08
<i>Capital assets not being depreciated:</i>				
Land	\$ 92,101	-	-	92,101
Construction in progress	<u>1,250,812</u>	<u>548,883</u>	<u>-</u>	<u>1,799,695</u>
Subtotal	<u>1,342,913</u>	<u>548,883</u>	<u>-</u>	<u>1,891,796</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	516,419	-	-	516,419
Machinery and equipment	<u>62,876,000</u>	<u>421,385</u>	<u>(25,616)</u>	<u>63,271,769</u>
Subtotal	<u>63,392,419</u>	<u>421,385</u>	<u>(25,616)</u>	<u>63,788,188</u>
Totals at historical cost	<u>64,735,332</u>	<u>970,268</u>	<u>(25,616)</u>	<u>65,679,984</u>
Less accumulated depreciation:				
Buildings and improvements	420,251	19,448	-	439,699
Machinery and equipment	<u>27,358,635</u>	<u>1,919,483</u>	<u>(25,616)</u>	<u>29,252,502</u>
Total accumulated depreciation	<u>27,778,886</u>	<u>1,938,931</u>	<u>(25,616)</u>	<u>29,692,201</u>
Capital assets, net	\$ <u>36,956,446</u>	<u>(968,663)</u>	<u>-</u>	<u>35,987,783</u>

## 6. LONG TERM DEBT

Dated May 1, 2003, the City issued Gas System Revenue Refunding Bonds intended to provide, in conjunction with an irrevocable escrow trust agreement with Huntington National Bank, for the advanced refunding and in-substance defeasance of the existing 1993 Gas System Revenue Bonds. The bonds were issued with a face value of \$14,540,000 and included the purchase of U.S. Government securities that when combined, with interest earned thereon, was considered sufficient to provide for an in-substance defeasance of the existing 1993 Gas System Revenue Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The Gas System Revenue Refunding Bonds are due serially through 2015 with interest from 2.0% to 5.0% per annum.

On September 9, 2009, the City issued \$4,500,000 in Gas System Revenue Bonds to currently refund bond anticipation notes and provide funding for various Gas System distribution improvements. These bonds are due serially through 2029 with interest from 2.75% to 5.0% per annum.

The line of credit is for operations of the gas and electric utilities. Interest, which is due monthly, is based on the LIBOR index plus 0.95%. The balance was paid off as of December 31, 2009.

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

	Balance 1/1/09	Additions	Reductions	Balance 12/31/09	Due Within One Year
Line of Credit	\$ 4,000,000	-	(4,000,000)	-	-
2003 Refunding Bonds	8,675,000	-	(1,085,000)	7,590,000	1,120,000
2009 Revenue Bonds	-	4,500,000	-	4,500,000	-
Less deferred amount on refunding	(541,037)	-	125,416	(415,621)	-
for issuance premium	356,697	-	(82,685)	274,012	-
for issuance discounts	(61,925)	(54,976)	14,355	(102,546)	-
	<u>\$ 12,428,735</u>	<u>4,445,024</u>	<u>(5,027,914)</u>	<u>11,845,845</u>	<u>1,120,000</u>

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

	Balance 1/1/08	Additions	Reductions	Balance 12/31/08	Due Within One Year
Line of Credit	\$ -	4,000,000	-	4,000,000	4,000,000
2003 Refunding Bonds	9,730,000	-	(1,055,000)	8,675,000	1,085,000
Less deferred amount on refunding	(676,252)	-	135,215	(541,037)	-
for issuance premium	445,842	-	(89,145)	356,697	-
for issuance discounts	(77,401)	-	15,476	(61,925)	-
	<u>\$ 9,422,189</u>	<u>4,000,000</u>	<u>(993,454)</u>	<u>12,428,735</u>	<u>5,085,000</u>

Under the terms of the revenue bond indenture, the City has agreed to certain covenants including, among other things, maintaining revenue levels and providing for operating expenses and debt service. The revenue bonds are insured under municipal bond insurance policies. Under the terms of the policies, the payments of principal and interest are guaranteed by the insurer.

Annual debt service requirements to maturity for the refunding bonds are as follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$	1,120,000	573,780	1,693,780
2011		1,175,000	499,487	1,674,487
2012		1,230,000	440,737	1,670,737
2013		1,290,000	379,237	1,669,237
2014		1,355,000	314,737	1,669,737
2015-2019		2,475,000	937,075	3,412,075
2020-2024		1,540,000	630,650	2,170,650
2025-2029		<u>1,905,000</u>	<u>275,525</u>	<u>2,180,525</u>
Total	\$	<u>12,090,000</u>	<u>4,051,228</u>	<u>16,141,228</u>

## 7. NOTES PAYABLE

In September 2008, the City issued \$5,320,000 (Gas System's portion \$1,790,000) in bond anticipation notes that provided funding to rollover the bond anticipation notes in September 2007. The purpose of the original proceeds was to provide funding for the acquisition and installation of a new automated meter reading system.

In September 2008, the City issued bond anticipation notes in the amount of \$450,000 that provided funding to rollover the bond anticipation notes that were issued in September 2007. The purpose of the original proceeds was to provide funding for various Gas System distribution improvements. In September

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

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

		<u>Balance</u>		<u>Balance</u>	
		<u>1/1/09</u>	<u>Additions</u>	<u>12/31/09</u>	
			<u>Reductions</u>		
2008 Gas System Improvement	2.00%	\$ 450,000	-	(450,000)	-
2008 AMR System	2.00%	<u>1,790,000</u>	-	<u>(1,790,000)</u>	-
		<u>\$ 2,240,000</u>	-	<u>(2,240,000)</u>	-

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

			Balance 1/1/08	Additions	Reductions	Balance 12/31/08
2008 Gas System Improvement	2.00%	\$	-	450,000	-	450,000
2008 AMR System	2.00%		-	1,790,000	-	1,790,000
2007 Gas System Improvement	4.00%		1,170,000	-	(1,170,000)	-
2007 AMR System	4.00%		<u>2,290,000</u>	<u>-</u>	<u>(2,290,000)</u>	<u>-</u>
		\$	<u>3,460,000</u>	<u>2,240,000</u>	<u>(3,460,000)</u>	<u>2,240,000</u>

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

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

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

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

Plan members are required to contribute 10.0% of their annual covered salary. The City was required to contribute 14.0% of covered payroll for employees. The Gas System's required contributions to OPERS for the years ended December 31, 2009, 2008, and 2007 were approximately \$146,000, \$140,000, and \$117,000 respectively, equal to the required contributions for each year.

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2009, the City contributed 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

The OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. For 2009, the employer contribution allocated to the health care plan was 7.0% of covered payroll from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the Gas System's contributions that were used to fund post employment benefits was approximately \$61,000, \$70,000, and \$46,000 for 2009, 2008, and 2007, respectively.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Members and employer contribution rates increased over a six year period beginning January 1, 2006, with a final rate increase on January 1, 2011. These increases allowed additional funds to be allocated to the health care plan.

## **9. CONTINGENT LIABILITIES**

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

## **10. RELATED PARTY TRANSACTIONS**

The Gas System sells gas to the City's Electric System for use in the generation of electricity. Revenues of approximately \$527,000 and \$728,000 from the Electric System to the Gas System are included in operating revenues in 2009 and 2008, respectively.

The City allocates the cost of certain administrative services. In addition, the City established internal service funds that provide services to various City departments. Charges to the Gas System for these services were approximately \$2,509,000 and \$2,856,000 in 2009 and 2008, respectively, and are included in other operating expenses.

**11. RISK MANAGEMENT**

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

**12. CONTRACTUAL COMMITMENTS**

At December 31, 2009, the Gas System had a contractual commitments related to property, plant and equipment improvements and additions, as well as various other contract and agreements to provide or receive services related to the operations of approximately \$1,025,000.