



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

***Financial Statements for the Years Ended  
December 31, 1999 and 1998 and Independent  
Auditors' Report***



STATE OF OHIO  
OFFICE OF THE AUDITOR

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Members of Council  
City of Hamilton - Electric System

We have reviewed the Independent Auditor's Report of the City of Hamilton - Electric System, Butler County, prepared by Deloitte & Touche LLP for the audit period January 1, 1999 through December 31, 1999. 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 is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro", written over a printed name and title.

JIM PETRO  
Auditor of State

July 8, 2000



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of the City of Hamilton! Ohio -- Electric System (Electric System) as of December 31, 1999 and 1998, and the related statements of operations and changes in retained earnings (deficit), 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 Electric System of the City of Hamilton! Ohio 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! Ohio in accordance with auditing standards generally accepted in the United States of America.

As described in Note 10, the Electric System changed its method of accounting for fixed assets in 1999.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Electric System at December 31, 1999 and 1998, and the results of that fund's operations and its cash flows for the years then ended in conformity with auditing standards generally accepted in the United States of America.

*Deloitte & Touche LLP*

June 2, 2000

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

**BALANCE SHEETS  
DECEMBER 31, 1999 AND 1998**

	1999	1998	LIABILITIES AND FUND BALANCES	1999	1998
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and cash equivalents	\$ 742,323	\$ 1,048,573	Long-term debt due within one year	\$ 3,590,000	\$ 3,415,000
Investments	11,265,862	13,852,694	Accounts payable	1,962,422	2,159,709
Current portion of restricted assets - Investments	6,322,040	6,245,270	Interest payable	2,732,040	2,830,270
Accounts receivable (less allowance for uncollectible accounts of \$2,274,000 in 1999 and \$1,876,000 in 1998)	6,146,501	5,530,975	Accrued payroll	262,874	191,086
Inventories	1,170,523	1,461,423	Customer deposits	269,651	57,662
Prepaid expenses	546,953	313,363	Due to other City funds	771,390	771,390
Total current assets	<u>26,194,202</u>	<u>28,452,298</u>	Notes payable	6,400,000	6,400,000
			Total current liabilities	<u>15,988,377</u>	<u>15,825,117</u>
			<b>LONG-TERM DEBT</b>	<u>194,112,156</u>	<u>197,209,243</u>
<b>RESTRICTED ASSETS:</b>					
Cash and cash equivalents	70,486	73,270	<b>OTHER LONG-TERM OBLIGATIONS -</b>		
Investments	15,923,549	16,141,770	Accrued sick leave	<u>1,887,761</u>	<u>1,966,547</u>
Total restricted assets	<u>15,994,035</u>	<u>16,215,040</u>			
<b>ELECTRIC UTILITY PLANT:</b>			<b>FUND BALANCE:</b>		
Land	1,537,894	1,537,894	Contributed capital	6,787,608	4,922,693
Buildings and improvements	105,366,365	53,782,749	Retained earnings (deficit)	<u>(1,337,852)</u>	<u>(8,855,938)</u>
Machinery and equipment	219,206,218	206,800,080	Total	<u>5,449,756</u>	<u>(3,933,245)</u>
Other service assets	2,708,405	9,290,128			
Accumulated depreciation	<u>328,818,882</u>	<u>271,410,851</u>			
Construction in progress	<u>(157,124,374)</u>	<u>(107,539,653)</u>			
Net electric utility plant	<u>171,694,508</u>	<u>163,871,198</u>			
	1,529,101	325,303			
	<u>173,223,609</u>	<u>164,196,501</u>			
<b>BOND ISSUANCE COSTS</b>	<u>2,026,204</u>	<u>2,203,823</u>			
<b>TOTAL</b>	<u>\$217,438,050</u>	<u>\$211,067,662</u>	<b>TOTAL</b>	<u>\$217,438,050</u>	<u>\$211,067,662</u>

See notes to financial statements.

# CITY OF HAMILTON! OHIO -- ELECTRIC SYSTEM

## STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
OPERATING REVENUES	<u>\$ 44,109,645</u>	<u>\$45,449,500</u>
OPERATING EXPENSES:		
Purchased electricity	11,299,369	12,863,499
Personal services	6,911,495	6,713,083
Contractual services	1,936,589	1,806,227
Materials and supplies	1,016,868	974,121
Other operating expenses	7,683,246	5,932,620
Depreciation	9,848,430	7,300,855
Total operating expenses	<u>38,695,997</u>	<u>35,590,405</u>
OPERATING INCOME	<u>5,413,648</u>	<u>9,859,095</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	2,163,006	2,180,110
Change in unrealized gains (losses) on investments	(722,458)	(8,986)
Interest expense	(13,206,930)	(13,262,188)
Total non-operating revenues (expenses)	<u>(11,766,382)</u>	<u>(11,060,618)</u>
NET LOSS	<u>(6,352,734)</u>	<u>(1,201,523)</u>
DEPRECIATION ON FIXED ASSETS, DONATED OR ACQUIRED BY USE OF GRANT FUNDS, INCLUDED IN CONTRIBUTED CAPITAL	<u>174,041</u>	<u>                    </u>
ACCUMULATED DEFICIT, Beginning of year (as previously reported)	(8,855,938)	(7,654,415)
PROPERTY ADJUSTMENT (Note 10)	<u>13,696,779</u>	<u>                    </u>
ACCUMULATED (DEFICIT) RETAINED EARNINGS, Beginning of year (as restated)	<u>4,840,841</u>	<u>(7,654,415)</u>
ACCUMULATED DEFICIT, End of year	<u>\$ (15,034,631)</u>	<u>\$ (8,855,938)</u>

See notes to financial statements.

# CITY OF HAMILTON! OHIO -- ELECTRIC SYSTEM

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 5,413,648	\$ 9,859,095
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	9,848,430	7,300,855
Changes in assets and liabilities:		
Accounts receivable	(564,018)	6,529
Inventories	290,900	239,763
Prepaid expenses	(233,590)	(9,728)
Accrued payroll	(565,224)	3,280
Accounts payable	71,788	195,435
Accrued liabilities and sick leave	(78,786)	412,112
Customer deposits	211,989	(156,129)
Net cash provided by operating activities	<u>14,395,137</u>	<u>17,851,212</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(418,711)	(1,168,630)
Sale of investments	2,424,536	
Interest from investments	2,111,498	2,176,955
Net cash provided by investing activities	<u>4,117,323</u>	<u>1,008,325</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from issuance of short-term debt	6,400,000	6,400,000
Principal payments on long-term debt	(9,815,000)	(9,655,000)
Additions to electric utility plant	(2,771,866)	(4,950,452)
Interest on debt	(12,634,628)	(12,830,353)
Net cash used in capital and related financing activities	<u>(18,821,494)</u>	<u>(21,035,805)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(309,034)</b>	<b>(2,176,268)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>1,121,843</u></b>	<b><u>3,298,111</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b><u>\$ 812,809</u></b>	<b><u>\$ 1,121,843</u></b>

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

At December 31, 1999 and 1998, Wastewater System had outstanding liabilities of \$495,618 and \$127,821, respectively, included in accounts payable for the purchase of certain capital assets.

See notes to financial statements.

# CITY OF HAMILTON! OHIO -- ELECTRIC SYSTEM

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Reporting Entity** - The City of Hamilton! Ohio -- Electric System (Electric System) is a utility operating as a separate enterprise fund of the City of Hamilton! Ohio (City). The Electric 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.

**Electric 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. The range of useful lives for computing depreciation is 10 to 40 years.

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

**Cash and Investments** - Certain Electric 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 Electric System is reported as either cash and cash equivalents or investments, as appropriate. The Electric System's investments are stated at market. Interest earned on funds invested is distributed on the basis of the relationship of the average monthly balance of all funds, including the Electric System. The City Treasury includes \$1,051,046 of securities issued by the City. Based on the percentage of the Electric System's ownership of these funds, the Electric System owns approximately \$224,000 of City securities at December 31, 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 discounts and issuance costs amounted to \$492,913 and \$177,619, respectively in 1999 and \$309,788 and \$111,633, respectively, in 1998.

**Income Taxes** - The Electric System, which is owned and operated by the City, is exempt from income taxes since it is a division of a municipality.

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

**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 is charged to contributed capital.

**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 Electric 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.

*Use of Estimates* - The preparation of the financial statements in conformity with generally accepted accounting principles 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 reclassifications have been made to the 1998 balances to make them consistent with the classification used in 1999.

## 2. ACCOUNTS RECEIVABLE

	December 31,	
	1999	1998
Earned and unbilled consumer accounts	\$2,518,232	\$2,414,732
Earned and billed consumer accounts	5,220,411	4,323,386
Other	681,858	668,857
Less allowance for uncollectible accounts	<u>(2,274,000)</u>	<u>(1,876,000)</u>
Total	<u>\$6,146,501</u>	<u>\$5,530,975</u>

## 3. CASH AND INVESTMENTS

The Electric 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 totaled \$11,160,004 at December 31, 1999 and consisted of demand deposits, money market funds and government securities.

*Deposits* - The carrying amount of the Electric System's deposits at December 31, 1999 was \$647,770 and the corresponding depository balance was \$709,310. 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: \$58,521 by Federal depository insurance and the remaining \$650,789 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 authorize the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, and repurchase agreements.



The Electric 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.

	<u>Categories</u>		Total Market/Carrying Value
	1	3	
Investments:			
Categorized investments:			
Pooled investments held by City Treasurer	\$ 10,273,672	N/A	\$ 10,273,672
Investment held in Trust:			
U.S. Government Securities	N/A	\$ 23,237,779	23,237,779
Total categorized investments	10,273,672	23,237,779	33,511,451
Non-Categorized investments:			
STAR Ohio pooled, held by City Treasurer	N/A	N/A	165,042
Total investments	<u>\$ 10,273,672</u>	<u>\$ 23,237,779</u>	<u>\$ 33,676,493</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 of this note are as follows:

	Cash and Cash Equivalents	Investments
Per Balance Sheet	\$ 812,812	\$ 33,511,451
Investments:		
STAR Ohio	(165,042)	165,042
Per GASB Statement No. 3	<u>\$ 647,770</u>	<u>\$ 33,676,493</u>

**4. RESTRICTED ASSETS**

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

	December 31,	
	1999	1998
Debt service	\$ 2,631,955	\$ 2,626,755
Reserve for debt service	15,748,875	15,826,835
Electric rate stabilization	3,935,245	4,006,720
<b>Total</b>	<b><u>\$22,316,075</u></b>	<b><u>\$22,460,310</u></b>

**5. NOTES PAYABLE**

Notes payable with interest at 3.40% is scheduled to mature in June 2000.

**6. LONG-TERM DEBT**

Long-term debt consists of the following:

	December 31,	
	1999	1998
1992 Series A, due serially through 2023 with interest from 3% to 6% per annum, net of unamortized discount of \$4,944,342 in 1999 and \$5,433,910 in 1998	\$ 173,845,658	\$ 176,771,090
1992 Series B, due serially through 2025, with interest at 6.3% per annum, net of unamortized discount of \$678,502 in 1999 and \$681,847 in 1998	23,856,498	23,853,153
<b>Total</b>	<b>197,702,156</b>	<b>200,624,243</b>
Less current portion	(3,590,000)	(3,415,000)
<b>Total</b>	<b><u>\$ 194,112,156</u></b>	<b><u>\$ 197,209,243</u></b>

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

Maturities of long-term debt at December 31, 1999 for the five succeeding years are \$3,590,000 for 2000; \$3,775,000 for 2001; \$3,980,000 for 2002; \$4,200,000 for 2003; and \$4,440,000 for 2004.

**7. 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 Employee Retirement System (the "PERS of Ohio") to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio 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. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. 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. The employee contribution rate is 8.5%. The 1998 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.35% to fund the pension and 4.2% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The Electric System's contributions to the PERS of Ohio for the years ending December 31, 1999, 1998 and 1997 were \$479,000, \$484,000 and \$459,000, respectively, which were equal to the required contributions for each year.

In addition the PERS of Ohio provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. 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 contribution to the PERS of Ohio. The portion of the 1999 employer contribution rate (identified above) that was used to fund health care for the year 1999 was 4.2% of covered payroll which amounted to \$1480,000.

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Funding and accounting were on a pay-as-you-go basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. PERS's expenditures for other postemployment benefits during 1999 were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

## **8. CONTINGENT LIABILITIES**

Various claims and lawsuits are pending against the City and the Electric System. Management estimates that potential claims not covered by insurance resulting from such litigation would not have a material impact on the Electric System's financial position.

The City performs risk management oversight for the Electric System. The Electric System has specific insurance coverage required by trust indentures. All properties of the City are insured for fire and extended coverage, boiler insurance where applicable, automotive physical damage and liability insurance. Public liability insurance for utility and other operations has been determined to be necessary and therefore has been purchased.

## **9. RELATED PARTY TRANSACTIONS**

Under an arrangement with the City, the Electric System provides street lighting and traffic light services to the City, without charge. Street and traffic light facilities used approximately 11,000,000

kilowatt-hours of electrical energy in 1999 and 1998, at an estimated operating cost of approximately \$400,000 per year.

The City's Gas System sells gas to the Electric System for use in the generation of electricity. Gas costs of \$1,414,000 and \$1,232,000 paid to the Gas System are included in materials and supplies expense in 1999 and 1998, respectively.

The Electric System sells electricity to the City's Water and Wastewater Systems. Included in revenues are sales to the Water System of approximately \$619,000 in 1999 and \$595,000 in 1998; and sales to the Wastewater System of approximately \$480,400 and \$551,000 in 1999 and 1998, respectively.

The net amount due to other City funds was \$763,367 at December 31, 1999 and 1998.

The Electric System is allocated from the City a portion of the City's administrative cost. In addition, it was charged expenses by the City's internal service funds which provide services to various City departments. Total expenses for these items were \$5,418,800 in 1999 and \$5,208,000 in 1998 and are included in other operating expenses.

#### 10. PROPERTY ADJUSTMENT

In 1999, the City completed an upgrade of its fixed assets accounting records. This information was developed from physical inventory listings maintained by City Departments using actual cost, estimated historical cost, or estimated replacement costs discounted to year of acquisition. In addition, depreciation was recalculated based on the specific useful life and the estimated cost of the fixed assets. The effect of the above as of January 1, 1999 was to increase balance sheet accounts as follows:

Net fixed assets	\$ 15,735,735
Contributed capital	2,038,956
Retained earnings	13,696,779

\* \* \* \* \*



STATE OF OHIO  
OFFICE OF THE AUDITOR  
JIM PETRO, AUDITOR OF STATE

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CITY OF HAMILTON - ELECTRIC 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.

By: Susan Babbitt

Date: AUG 17 2000