

**Deloitte &
Touche**



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

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



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Members of Council
City of Hamilton - Water System

We have reviewed the Independent Auditor's Report of the City of Hamilton - Water 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.



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 City of Hamilton! Ohio -- Water System (Water System) as of December 31, 1999 and 1998, 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 Water 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! in accordance with accounting principles generally accepted in the United States of America.

As described in Note 10, the Water 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 Water 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 accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 2, 2000

CITY OF HAMILTON! OHIO -- WATER SYSTEM

BALANCE SHEETS DECEMBER 31, 1999 AND 1998

ASSETS	1999	1998	LIABILITIES AND FUND BALANCES	1999	1998
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 131,569	\$ 831,227	Current portion of long-term debt	\$ 1,210,000	\$ 1,145,000
Investments	5,461,159	7,807,813	Accounts payable	591,121	1,046,452
Current portion of restricted assets - Investments	1,941,129	1,896,326	Interest accrued	731,129	751,326
Accounts receivable (less allowance for uncollectible accounts \$372,000 in 1999 and \$328,000 in 1998)	1,595,268	1,397,422	Customer deposits	63,639	35,051
Inventories	143,253	129,729	Accrued payroll	72,994	65,804
Prepaid expenses	56,575	53,681	Due to other City funds	450,859	450,859
Total current assets	<u>9,328,953</u>	<u>12,116,198</u>	Total current liabilities	<u>3,119,742</u>	<u>3,494,492</u>
			LONG-TERM DEBT	<u>51,783,578</u>	<u>52,898,316</u>
RESTRICTED ASSETS:			OTHER LONG-TERM OBLIGATIONS -		
Cash and cash equivalents	200,260	67,697	Accrued sick leave	<u>647,183</u>	<u>721,587</u>
Investments	4,445,012	4,697,981			
Total restricted assets	<u>4,645,272</u>	<u>4,765,678</u>	FUND BALANCES:		
			Contributed capital	13,538,432	6,296,006
WATER UTILITY PLANT:			Retained earnings	<u>15,017,881</u>	<u>13,445,634</u>
Land	3,126,780	1,758,112	Total	<u>28,556,313</u>	<u>19,741,640</u>
Buildings	15,530,116	19,871,938			
Machinery and equipment	69,792,569	49,100,476			
Accumulated depreciation	<u>88,449,465</u>	<u>70,730,526</u>			
Construction in progress	(22,674,650)	(11,881,216)			
Net water utility plant	<u>65,774,815</u>	<u>58,849,310</u>			
	3,588,153	298,233			
	<u>69,362,968</u>	<u>59,147,543</u>			
BOND ISSUANCE COSTS, NET	<u>769,623</u>	<u>826,616</u>			
TOTAL	<u>\$ 84,106,816</u>	<u>\$ 76,856,035</u>	TOTAL	<u>\$ 84,106,816</u>	<u>\$ 76,856,035</u>

See notes to financial statements.

CITY OF HAMILTON! OHIO -- WATER SYSTEM

STATEMENTS OF OPERATIONS AND CHANGES IN RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
OPERATING REVENUES	<u>\$ 15,423,457</u>	<u>\$ 13,791,382</u>
OPERATING EXPENSES:		
Personal services	2,410,710	2,573,169
Contractual services	2,246,720	2,849,398
Materials and supplies	884,244	878,772
Other operating expenses	4,228,883	2,981,358
Depreciation	1,817,284	1,459,414
Total operating expenses	<u>11,587,841</u>	<u>10,742,111</u>
OPERATING INCOME	<u>3,835,616</u>	<u>3,049,271</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	738,036	937,463
Change in unrealized gains (losses) on investments	(274,384)	(35,721)
Interest expense	(3,620,463)	(3,696,621)
Intergovernmental grants	5,000	-
Total	<u>(3,151,811)</u>	<u>(2,794,879)</u>
NET INCOME	<u>683,805</u>	<u>254,392</u>
DEPRECIATION ON FIXED ASSETS, DONATED OR ACQUIRED BY USE OF GRANT FUNDS, INCLUDED IN CONTRIBUTED CAPITAL	<u>326,540</u>	<u> </u>
RETAINED EARNINGS, Beginning of year (as previously reported)	13,445,634	13,191,242
PROPERTY ADJUSTMENT (Note 10)	<u>561,902</u>	<u> </u>
RETAINED EARNINGS, Beginning of year (as restated)	<u>14,007,536</u>	<u>13,191,242</u>
RETAINED EARNINGS, End of year	<u>\$ 15,017,881</u>	<u>\$ 13,445,634</u>

See notes to financial statements.

CITY OF HAMILTON! OHIO -- WATER SYSTEM

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

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$3,835,616	\$3,049,271
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,817,284	1,459,414
Changes in assets and liabilities:		
Accounts receivable	(215,407)	(445,470)
Inventories	(13,524)	15,416
Prepaid expenses	(2,894)	5,118
Accrued payroll	7,190	(726)
Accounts payable	(47,363)	452,222
Accrued liabilities and sick leave	(74,404)	495,964
Customer deposits	28,588	(25,011)
Net cash provided by operating activities	<u>5,335,086</u>	<u>4,537,275</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES - Operating grant received		
	<u>5,000</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	2,280,436	733,586
Interest from investments	755,597	981,526
Net cash provided by (used in) investing activities	<u>3,036,033</u>	<u>1,715,112</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on debt	(1,145,000)	(1,085,000)
Interest on debt	(3,488,405)	(3,550,135)
Additions to water utility plant	(4,309,809)	(2,323,317)
Net cash used in capital and related financing activities	<u>(8,943,214)</u>	<u>(6,958,452)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(567,095)	(706,065)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>898,924</u>	<u>1,604,989</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 331,829</u>	<u>\$ 898,924</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

At December 31, 1999 and 1998, Water System had outstanding liabilities of \$153,834 and \$561,802, respectively, included in accounts payable for the purchase of certain capital assets.

See notes to financial statements.

CITY OF HAMILTON! OHIO -- WATER SYSTEM

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity - The City of Hamilton! Ohio -- Water System (Water System) is a utility operating as a separate enterprise fund of the City of Hamilton! Ohio (City). The Water System is controlled by and is dependent on the City's executive and legislative branches. Control by or dependence on the City is determined on the basis of outstanding debt secured by revenues or general obligations of the City, obligation of the City to finance any deficits that may occur, or receipt of subsidies from the City.

Water 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 5 to 50 years.

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

Cash and Investments - Certain Water System cash and investments are held in the City Treasury and pooled for investment management purposes. The portion of these pooled funds owned by the Water System is reported as either cash and cash equivalents or investments, as appropriate. The Water 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 Water System. The City Treasury includes \$1,051,046 of securities issued by the City. Based on the percentage of the Water System's ownership of these funds, the Water System owns approximately \$119,000 of City of Hamilton! securities at December 31, 1999.

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

Bond Discounts and Issuance Costs - Bond discounts and issuance costs are capitalized and amortized on the interest method over the term of the related bonds. Amortization of bond discount and issuance costs amounted to \$95,262 and \$56,993, respectively, in 1999 and \$106,036 and \$58,017, respectively in 1998.

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

Contributed Capital - Contributed capital consists of fixed assets donated or acquired from restricted grants and are 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.

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 Government 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 Water System has elected only to apply Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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.

2. ACCOUNTS RECEIVABLE

	1999	1998
Earned and unbilled consumer accounts	\$ 426,844	\$ 405,752
Earned and billed consumer accounts	734,116	563,977
Other	806,308	755,693
Less allowance for uncollectible accounts	<u>(372,000)</u>	<u>(328,000)</u>
Total	<u>\$ 1,595,268</u>	<u>\$ 1,397,422</u>

3. CASH AND INVESTMENTS

The Water System follows the practice of pooling cash and investments with the City Treasurer except for the cash and investments of certain accounts maintained by trustees.

Pooled cash and investments of the Water System totaled \$5,932,305 at December 31, 1999 and consisted of demand deposits, money market funds and government securities.

Deposits - The carrying amount of the Water System deposits at December 31, 1999 was \$264,451 and the corresponding depository balance was \$289,575. 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: \$23,891 by Federal depository insurance and the remaining \$265,684 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 Water 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	\$ 5,461,159	N/A	\$ 5,461,159
Investment held in Trust:			
U.S. Government Securities	<u>N/A</u>	<u>\$6,386,141</u>	<u>6,386,141</u>
Total categorized investments	<u>5,461,159</u>	<u>6,386,141</u>	<u>11,847,300</u>
Non-Categorized investments - STAR Ohio pooled, held by City Treasurer	<u>N/A</u>	<u>N/A</u>	<u>67,378</u>
Total investments	<u>\$ 5,461,159</u>	<u>\$6,386,141</u>	<u>\$ 11,914,678</u>

Reconciliation of Cash, Cash Equivalents and Investments - The classification of cash, cash equivalents and investments on the combined 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 investments on the financial statements and the classifications of this note are as follows:

	Cash and Cash Equivalents	Investments
Per balance sheet	\$ 331,829	\$ 11,847,300
Investments:		
STAR Ohio	<u>(67,378)</u>	<u>67,378</u>
Per GASB Statement No. 3	<u>\$ 264,451</u>	<u>\$ 11,914,678</u>

4. RESTRICTED ASSETS

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

	1999	1998
Debt service	\$ 770,193	\$ 770,337
Reserve for debt service	4,592,001	4,643,229
Water rate stabilization	<u>1,224,207</u>	<u>1,248,438</u>
Total	<u>\$6,586,401</u>	<u>\$6,662,004</u>

5. LONG-TERM DEBT

Long-term debt consists of the following:

	December 31,	
	1999	1998
Water System Mortgage Revenue Bonds 1991 Series A, due serially through 2021, with interest from 5.10% to 6.40%, net of unamortized discount of \$1,286,422 and \$1,381,684 at December 31, 1999 and 1998, respectively	\$ 52,993,578	\$ 54,043,316
Less current portion	<u>(1,210,000)</u>	<u>(1,145,000)</u>
Total	<u>\$ 51,783,578</u>	<u>\$ 52,898,316</u>

All property and revenue of the Water System facilities have been pledged as collateral on the 1991 Series A 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 Water System Mortgage Revenue Bonds 1991 Series 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, 1999 for the five succeeding years are \$1,210,000 for 2000; \$1,285,000 for 2001; \$1,360,000 for 2002; \$1,445,000 for 2003; and \$1,535,000 for 2004.

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 Public Employees Retirement System (the "PERS of Ohio") of the 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 1999 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 Water System are established and may be amended by the Public Employees Retirement Board. The Water System's contributions to the PERS of Ohio for the years ending December 31, 1999, 1998 and 1997 were \$171,000, \$166,000 and \$171,000, 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 \$53,000.

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.

7. COMMITMENTS

On April 1, 1990, the City amended a previous agreement with Butler County, Ohio for the City to provide all of the water requirements within Butler County's "County Water Service Area." The term of the agreement is for 25 years or the period of time which debt issued by the City to expand the Water System to meet additional requirements is outstanding, whichever is longer. The City bills the county for water usage based on established rates adjusted for any rate changes billed to the City customers. The City is responsible for all maintenance and repair of the system.

8. RELATED PARTY TRANSACTIONS

The City's Electric System sells electricity to the Water System. Electric costs of approximately \$619,000 in 1999 and \$595,000 in 1998 are included in other operating expense. Net amounts due to other funds by the Water System were approximately \$446,000 at December 31, 1999 and 1998.

The City allocates the cost of certain administrative services. In addition, the City established internal service funds which provide services to various City departments. Charges to the Water System for these services were \$3,929,000 in 1999 and \$3,023,000 in 1998 and are included in contractual services and other operating expense.

9. CONTINGENT LIABILITIES

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

The City performs risk management oversight for the Water System. The Water 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.

10. PROPERTY ADJUSTMENT

During 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	\$ 8,130,868
Contributed capital	7,568,966
Retained earning	561,902

* * * * *



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF HAMILTON - WATER SYSTEM

BUTLER COUNTY

CLERK'S CERTIFICATION

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

By: Susan Babbitt

Date: AUG 17 2000