

**Deloitte &
Touche**



***CITY OF HAMILTON!
OHIO -- GAS 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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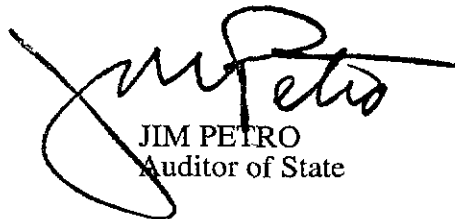
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Members of Council
City of Hamilton - Gas System

We have reviewed the Independent Auditor's Report of the City of Hamilton - Gas 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
Jim Pero, Auditor of State of Ohio:

We have audited the accompanying balance sheets of the City of Hamilton! Ohio -- Gas System (Gas 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 City of Hamilton! Ohio -- Gas System and are not intended to present the financial position and results of operations and the cash flows of the proprietary fund types of the City of Hamilton! in accordance with accounting principles generally accepted in the United States of America.

As described in Note 9, the Gas 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 Gas 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 -- GAS 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	\$ 748,934	\$ 1,020,036	Long-term debt due within one year	\$ 615,000	\$ 590,000
Investments	10,615,424	9,898,473	Accounts payable	2,780,591	2,719,705
Current portion of restricted assets - investments	888,991	863,405	Accrued payroll	31,676	20,941
Accounts receivable (net of allowance for uncollectible accounts of \$1,563,000 in 1999 and \$1,396,000 in 1998)	3,709,972	3,579,027	Interest payable	273,991	273,405
Inventories	161,501	183,063	Customer deposits	333,384	458,117
Prepaid expenses	61,387	53,765	Due to other city funds	447,017	447,017
Total current assets	<u>16,186,209</u>	<u>15,597,769</u>	Total current liabilities	<u>4,481,659</u>	<u>4,509,185</u>
			LONG-TERM DEBT	<u>25,169,350</u>	<u>25,737,196</u>
RESTRICTED ASSETS:			OTHER LONG-TERM OBLIGATIONS -		
Cash and cash equivalents	105,646	856,337	Accrued sick leave	398,586	450,137
Investments	2,986,527	2,311,749			
Total restricted assets	<u>3,092,173</u>	<u>3,168,086</u>	FUND BALANCES:		
			Contributed capital	1,784,410	111,270
GAS UTILITY PLANT:			Retained earnings	28,872,440	21,476,689
Land	92,101	186,934	Total	<u>30,656,850</u>	<u>21,587,959</u>
Supply piping and appurtenances	45,965,905	40,990,082			
Other service assets	9,174,052	6,254,623			
Total gas utility plant	<u>55,232,058</u>	<u>47,431,639</u>			
Accumulated depreciation	(14,603,301)	(14,380,291)			
Construction in progress	40,628,757	33,051,348			
Net gas utility plant	<u>41,107,965</u>	<u>33,176,348</u>			
BOND ISSUANCE COSTS, NET	<u>320,098</u>	<u>342,274</u>			
TOTAL	<u>\$60,706,445</u>	<u>\$52,284,477</u>	TOTAL	<u>\$60,706,445</u>	<u>\$52,284,477</u>

See notes to financial statements.

CITY OF HAMILTON! OHIO -- GAS SYSTEM

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

	1999	1998
OPERATING REVENUES	<u>\$18,369,950</u>	<u>\$20,153,911</u>
OPERATING EXPENSES:		
Purchased gas	10,911,559	13,632,620
Personal services	872,234	829,249
Contractual services	255,041	456,042
Depreciation	1,772,819	1,221,024
Materials and supplies	155,987	96,632
Other operating expenses	3,106,324	2,988,698
Total operating expenses	<u>17,073,964</u>	<u>19,224,265</u>
OPERATING INCOME	<u>1,295,986</u>	<u>929,646</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	926,467	916,595
Change in unrealized gains (losses) on investments	(251,695)	(9,705)
Interest expense	(1,376,426)	(1,388,821)
Total	<u>(701,654)</u>	<u>(481,931)</u>
NET INCOME	<u>594,332</u>	<u>447,715</u>
DEPRECIATION ON FIXED ASSETS, DONATED OR ACQUIRED BY USE OF GRANT FUNDS, INCLUDED IN CONTRIBUTED CAPITAL	<u>54,749</u>	<u> </u>
RETAINED EARNINGS, Beginning of year (as previously reported)	21,476,689	21,028,974
PROPERTY ADJUSTMENT (Note 9)	<u>6,746,670</u>	<u> </u>
RETAINED EARNINGS, Beginng of year (as restated)	<u>28,223,359</u>	<u>21,028,974</u>
RETAINED EARNINGS, End of year	<u>\$28,872,440</u>	<u>\$21,476,689</u>

See notes to financial statements.

CITY OF HAMILTON! OHIO -- GAS SYSTEM

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

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 1,295,986	\$ 929,646
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,772,819	1,221,024
Changes in assets and liabilities:		
Accounts receivable	(109,653)	756,864
Inventories	21,562	898,121
Prepaid expenses	(7,622)	12,845
Accrued payroll	10,735	(51)
Accounts payable	70,849	1,092,834
Accrued liabilities and sick leave	(51,551)	78,651
Customer deposits	(124,733)	(117,094)
Net cash provided by operating activities	<u>2,878,392</u>	<u>4,872,840</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,669,010)	(1,635,644)
Interest from investments	905,175	895,752
Net cash provided by investing activities	<u>(763,835)</u>	<u>(739,892)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment on debt	(590,000)	(570,000)
Interest on debt	(1,306,510)	(1,328,799)
Additions to gas utility plant	(1,239,840)	(1,406,467)
Net cash used in capital and related financing activities	<u>(3,136,350)</u>	<u>(3,305,266)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,021,793)	827,682
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,876,373</u>	<u>1,048,691</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 854,580</u>	<u>\$ 1,876,373</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

At December 31, 1999 and 1998, Gas System had outstanding liabilities of \$57,581 and \$67,555, respectively, included in accounts payable for the purchase of certain capital assets.

See notes to financial statements.

CITY OF HAMILTON! OHIO -- GAS 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 -- 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.

Gas 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. 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 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 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 either cash and cash equivalents or investments, as appropriate. The Gas 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 Gas System. The City Treasury includes \$1,051,046 of securities issued by the City of Hamilton!. Based on the percentage of the Gas System's ownership of these funds, the Gas System owns approximately \$226,000 of City of Hamilton! 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 \$47,154 and \$22,176 in 1999, respectively and \$47,975 and \$22,562, respectively, in 1998.

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 Cash Equivalents - The Gas 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 Government 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 "accounting principles generally accepted in the United States of America" for state and local entities, until they are altered, amended, supplemented, revoked or superseded by a subsequent GASB pronouncement. The Gas 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 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 revenue 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 classifications used in 1999.

2. ACCOUNTS RECEIVABLE

	<u>December 31,</u>	
	1999	1998
Earned and unbilled consumer accounts	\$2,043,575	\$1,977,963
Earned and billed consumer accounts	2,942,087	2,574,967
Other	287,310	422,097
Less allowance for uncollectible accounts	<u>(1,563,000)</u>	<u>(1,396,000)</u>
Total	<u>\$3,709,972</u>	<u>\$3,579,027</u>

3. 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 \$11,260,010 at December 31, 1999, and consisted of demand deposits, money market funds, and government securities.

Deposits - The carrying amount of the Gas System's deposits at December 31, 1999 was \$679,511 and the corresponding depository balance was \$744,070. 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: \$61,389 by Federal depository insurance and the remaining \$682,681 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 Gas 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.

	Category 1	Category 3	Total Fair Value
Pooled investments held by City Treasurer	\$ 10,365,735	N/A	\$ 10,365,735
Investments held in trust - U.S. Government and Agency Securities	N/A	4,125,206	4,125,206
Total categorized investments	<u>10,365,735</u>	<u>4,125,206</u>	<u>14,490,941</u>
Non-Categorized investments - STAR Ohio pooled, held by City Treasurer	N/A	N/A	<u>173,525</u>
 Total investments	 <u>\$ 10,365,735</u>	 <u>\$ 4,125,206</u>	 <u>\$ 14,664,466</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 combined balance sheet	\$ 854,580	\$ 14,490,942
Investments: STAR Ohio	<u>(173,524)</u>	<u>173,524</u>
Per GASB Statement No. 3	<u>\$ 681,056</u>	<u>\$ 14,664,466</u>

*Includes cash on hand.

4. RESTRICTED ASSETS

Restricted assets consist of Gas System assets whose use has been restricted by City Council for capital improvements and other uses. Restrictions and related assets are as follows:

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Debt service	\$ 316,239	\$ 337,801
Reserve for debt service	1,890,556	1,889,537
Gas rate stabilization	<u>1,774,369</u>	<u>1,804,153</u>
 Total	 <u>\$3,981,164</u>	 <u>\$4,031,491</u>

5. LONG-TERM DEBT

	<u>1999</u>	<u>1998</u>
Gas System Revenue Bond - 1993 Series A, due serially through 2023 with interest from 3.2% to 5.15% per annum, net of \$680,650 (1999) and \$727,804 (1998) unamortized discount	\$25,784,350	\$26,327,196
Less current portion	<u>(615,000)</u>	<u>(590,000)</u>
 Total	 <u>\$25,169,350</u>	 <u>\$25,737,196</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. This borrowing is insured under a municipal bond insurance policy. Under the terms of this 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; \$615,000 for 2000; \$640,000 for 2001; \$670,000 for 2002; \$695,000 for 2003; and \$730,000 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 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 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 City are established and may be amended by the Public Employees Retirement Board. The Gas System's contributions to the PERS of Ohio for the years ending December 31, 1999, 1998 and 1997 were \$59,000, \$64,000 and \$63,000, 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 \$18,290.

Other Post-Employment 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. CONTINGENT LIABILITIES

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

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

8. RELATED PARTY TRANSACTIONS

The City's Gas System sells gas to the Electric System for use in the generation of electricity. Revenues of \$1,414,000 and \$1,232,000 from the Electric System to the Gas System are included in operating revenues in 1999 and 1998, respectively.

The net amount due to other City funds was \$442,017 at December 31, 1999 and 1998.

The City allocates the cost of certain administrative services. In addition, the City has established internal service funds which provide services to various City departments. Charges to the Gas System for these services were \$2,929,100 in 1999 and \$2,769,000 in 1998 and are included in other operating expenses.

9. 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	\$8,474,559
Contributed capital	1,727,889
Retained earnings	6,746,670

* * * * *



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

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CITY OF HAMILTON - GAS 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