

***City of Hamilton! Ohio --
Electric System***

*Financial Statements for the Years Ended
December 31, 2001 and 2000 and
Independent Auditors' Report*



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street
Columbus, Ohio 43215
Telephone 614-466-3402
800-443-9275
Facsimile 614-728-7199
www.auditor.state.oh.us

Members of City Council
City of Hamilton

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, 2001 through December 31, 2001. 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".

JIM PETRO
Auditor of State

July 10, 2002

This Page is Intentionally Left Blank.

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, 2001 and 2000, and the related statements of operations and changes in accumulated 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 accounting principles generally accepted in the United States of America.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Electric System at December 31, 2001 and 2000, and the results of the Electric System'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

May 29, 2002

CITY OF HAMILTON! OHIO -- ELECTRIC SYSTEM

BALANCE SHEETS DECEMBER 31, 2001 AND 2000

| ASSETS | 2001 | 2000 | LIABILITIES AND FUND BALANCES | 2001 | 2000 |
|---|-----------------------|-----------------------|--------------------------------------|-----------------------|-----------------------|
| CURRENT ASSETS: | | | CURRENT LIABILITIES: | | |
| Cash and cash equivalents | \$ 1,130,281 | \$ 1,373,136 | Long-term debt due within one year | \$ 3,980,000 | \$ 3,775,000 |
| Investments | 7,101,732 | 8,009,478 | Accounts payable | 2,077,675 | 2,785,521 |
| Current portion of restricted assets - | | | Interest payable | 2,524,219 | 2,589,645 |
| Investments | 6,504,219 | 6,364,645 | Accrued payroll | 316,877 | 264,048 |
| Accounts receivable (less allowance for | | | Customer deposits | 328,520 | 291,135 |
| uncollectible accounts of \$2,893,100 in 2001 | | | Due to other City funds | 331,476 | 771,390 |
| and \$2,548,000 in 2000) | 5,983,795 | 7,299,475 | Notes payable | <u>9,558,767</u> | <u>900,000</u> |
| Inventories | 1,029,231 | 899,779 | Total current liabilities | | <u>11,376,739</u> |
| Prepaid expenses | 686,427 | 560,781 | | | |
| Total current assets | <u>22,435,685</u> | <u>24,507,294</u> | LONG-TERM DEBT | <u>187,005,157</u> | <u>190,663,680</u> |
| RESTRICTED ASSETS: | | | OTHER LONG-TERM OBLIGATIONS - | | |
| Cash and cash equivalents | 15,268,857 | 1,737,893 | Accrued sick leave | <u>1,991,194</u> | <u>1,845,644</u> |
| Investments | 698,309 | 14,448,332 | | | |
| Total restricted assets | <u>15,967,166</u> | <u>16,186,225</u> | FUND BALANCE: | | |
| ELECTRIC UTILITY PLANT: | | | Contributed capital | 6,439,526 | 6,613,567 |
| Land | 1,547,563 | 1,537,894 | Accumulated deficit | <u>(4,864,636)</u> | <u>(1,647,604)</u> |
| Buildings and improvements | 14,337,444 | 14,403,161 | Total | <u>1,574,890</u> | <u>4,965,963</u> |
| Machinery and equipment | 315,546,666 | 314,164,237 | | | |
| Accumulated depreciation | 331,431,673 | 330,105,292 | | | |
| Construction in progress | (176,265,602) | (166,802,879) | | | |
| Net electric utility plant | <u>155,166,071</u> | <u>163,302,413</u> | | | |
| | 4,768,390 | 2,947,553 | | | |
| | <u>159,934,461</u> | <u>166,249,966</u> | | | |
| BOND ISSUANCE COSTS | <u>1,792,696</u> | <u>1,908,541</u> | | | |
| TOTAL | <u>\$ 200,130,008</u> | <u>\$ 208,852,026</u> | TOTAL | <u>\$ 200,130,008</u> | <u>\$ 208,852,026</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, 2001 AND 2000

| | 2001 | 2000 |
|---|-----------------------|-----------------------|
| OPERATING REVENUES | <u>\$51,548,421</u> | <u>\$ 48,119,925</u> |
| OPERATING EXPENSES: | | |
| Purchased electricity | 17,104,274 | 13,641,760 |
| Personal services | 8,221,143 | 7,239,276 |
| Contractual services | 3,315,898 | 3,449,650 |
| Materials and supplies | 1,671,554 | 1,099,137 |
| Other operating expenses | 3,757,159 | 2,725,049 |
| Depreciation | 9,746,742 | 9,980,219 |
| Total operating expenses | <u>43,816,770</u> | <u>38,135,091</u> |
| OPERATING INCOME | <u>7,731,651</u> | <u>9,984,834</u> |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Interest income | 1,482,763 | 2,135,608 |
| Change in unrealized gains on investments | 155,987 | 616,473 |
| Interest expense | (12,442,870) | (12,812,986) |
| Loss on disposal of fixed assets | (318,604) | (407,722) |
| Total non-operating expenses | <u>(11,122,724)</u> | <u>(10,468,627)</u> |
| NET LOSS | <u>(3,391,073)</u> | <u>(483,793)</u> |
| ADD: DEPRECIATION ON FIXED ASSETS, DONATED OR ACQUIRED BY USE OF GRANT FUNDS, INCLUDED IN CONTRIBUTED CAPITAL | 174,041 | 174,041 |
| ACCUMULATED DEFICIT, Beginning of year | <u>(1,647,604)</u> | <u>(1,337,852)</u> |
| ACCUMULATED DEFICIT, End of year | <u>\$ (4,864,636)</u> | <u>\$ (1,647,604)</u> |

See notes to financial statements.

CITY OF HAMILTON! OHIO -- ELECTRIC SYSTEM

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

| | 2001 | 2000 |
|---|-----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Operating income | \$ 7,731,651 | \$ 9,984,834 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 9,746,742 | 9,980,219 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,125,127 | (1,207,534) |
| Inventories | (129,452) | 270,744 |
| Prepaid expenses | (125,646) | (13,828) |
| Accrued payroll | 52,829 | 1,174 |
| Accounts payable and due to other funds | (1,147,760) | 978,053 |
| Accrued sick leave | 145,550 | (42,117) |
| Customer deposits | 37,385 | 21,484 |
| Net cash provided by operating activities | <u>17,436,426</u> | <u>19,973,029</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments | (14,304,260) | |
| Sale of investments | 28,822,455 | 5,305,470 |
| Interest from investments | 1,829,303 | 2,190,167 |
| Net cash provided by investing activities | <u>16,347,498</u> | <u>7,495,637</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Proceeds from issuance of notes payable | | 6,400,000 |
| Principal payments on notes payable | (900,000) | (11,900,000) |
| Principal payments on long-term debt and short-term debt | (3,775,000) | (3,590,000) |
| Additions to electric utility plant | (3,749,840) | (3,569,252) |
| Interest on debt | (12,070,975) | (12,511,194) |
| Net cash used in capital and related financing activities | <u>(20,495,815)</u> | <u>(25,170,446)</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 13,288,109 | 2,298,220 |
| CASH AND CASH EQUIVALENTS, Beginning of year | <u>3,111,029</u> | <u>812,809</u> |
| CASH AND CASH EQUIVALENTS, End of year | <u>\$ 16,399,138</u> | <u>\$ 3,111,029</u> |

SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

At December 31, 2001 and 2000, Electric System had outstanding liabilities of \$125,970 and \$340,664, 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, 2001 AND 2000

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.

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 \$190,000 (2001) and \$666,815 (2000) of securities issued by the City. Based on the percentage of the Electric System's ownership of these funds, the Electric System owns approximately \$33,000 and \$143,000 of City securities at December 31, 2001 and 2000.

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 \$321,477 and \$115,845, respectively, in 2001 and \$326,524 and \$117,663, respectively, in 2000.

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. Effective January 1, 2001, the recording of contributed capital was changed in accordance with GASB No. 33.

Change in Accounting Principles - For fiscal year 2001, the System implemented GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions," and GASB Statement No. 36, "Recipient Reporting for Certain Shared Non-exchange Revenues," an amendment of GASB

No. 33, which changes how the System reports certain types of revenues. With the effect of GASB Statement No. 33, contributed capital will be reported as a non-operating revenue instead of as a direct increase in the fund balance. For the year ended December 31, 2001, no additions to contributed capital were recorded.

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 “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 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 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. ACCOUNTS RECEIVABLE

| | December 31, | |
|---|--------------------|--------------------|
| | 2001 | 2000 |
| Earned and unbilled consumer accounts | \$3,115,332 | \$3,825,750 |
| Earned and billed consumer accounts | 5,542,949 | 5,611,722 |
| Other | 218,614 | 410,003 |
| Less allowance for uncollectible accounts | <u>(2,893,100)</u> | <u>(2,548,000)</u> |
| Total | <u>\$5,983,795</u> | <u>\$7,299,475</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 \$8,232,013 at December 31, 2001 and consisted of demand deposits, money market funds and government securities.

Deposits - The carrying amount of the Electric System’s deposits at December 31, 2001 was \$15,350,889 and the corresponding depository balance was \$4,323,684. 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: \$260,127 by Federal depository insurance and the remaining \$15,316,193 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, Electric revenue bond indentures, and the City Charter authorize the City to invest in obligations of the U.S. Treasury, agencies, instrumentalities, and repurchase agreements.

The 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.

| | Categories | | Total Market/Carrying Value |
|---|--------------------|--------------------|-----------------------------------|
| | 1 | 2 | |
| Investments: | | | |
| Categorized investments: | | | |
| Pooled investments held by City Treasurer | \$7,101,732 | N/A | \$ 7,101,732 |
| Investment held in Trust: | | | |
| U.S. Government Securities | N/A | \$7,202,528 | 7,202,528 |
| Total categorized investments | 7,101,732 | 7,202,528 | 14,304,260 |
| Non-Categorized investments: | | | |
| STAR Ohio pooled, held by City Treasurer | N/A | N/A | 1,048,249 |
| Total investments | <u>\$7,101,732</u> | <u>\$7,202,528</u> | <u>\$ 15,352,509</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 | \$16,399,138 | \$14,304,260 |
| Investments: | | |
| STAR Ohio | (1,048,249) | 1,048,249 |
| Per GASB Statement No. 3 | <u>\$15,350,889</u> | <u>\$15,352,509</u> |

4. RESTRICTED ASSETS

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

| | December 31, | |
|-----------------------------|---------------------|---------------------|
| | 2001 | 2000 |
| Debt service | \$ 2,637,198 | \$ 2,678,926 |
| Reserve for debt service | 15,854,148 | 15,879,434 |
| Electric rate stabilization | <u>3,980,039</u> | <u>3,992,510</u> |
| Total | <u>\$22,471,385</u> | <u>\$22,550,870</u> |

5. NOTES PAYABLE

Notes payable with interest at 5.0% was retired in March 2001.

6. LONG-TERM DEBT

Long-term debt consists of the following:

| | December 31, | |
|--|-----------------------|-----------------------|
| | 2001 | 2000 |
| 1992 Electric System Mortgage Revenue Refunding Bond Series A, due serially through 2023 with interest from 3% to 6% per annum, net of unamortized discount of \$4,351,972 in 2001 and \$4,645,732 in 2000 | \$ 167,073,028 | \$ 170,554,268 |
| 1992 Electric System Mortgage Revenue Bond Series B, due serially through 2025, with interest at 6.3% per annum, net of unamortized discount of \$622,871 in 2001 and \$650,588 in 2000 | <u>23,912,129</u> | <u>23,884,412</u> |
| Total | 190,985,157 | 194,438,680 |
| Less current portion | <u>(3,980,000)</u> | <u>(3,775,000)</u> |
| Total | <u>\$ 187,005,157</u> | <u>\$ 190,663,680</u> |

All property and revenue of the Electric System facilities have been pledged as collateral on the indebtedness.

Under the terms of the revenue bond indenture, the City has agreed to certain covenants including, among other things, maintaining revenue levels and providing for operating expenses and debt service. The Series A and Series B 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.

A summary of the System's long-term debt funding requirements as of December 31, 2001 is as follows:

| | Principal | Interest | Total Debt Service |
|-------------|-----------------------|-----------------------|-----------------------|
| 2002 | \$ 3,980,000 | \$ 11,801,543 | \$ 15,781,543 |
| 2003 | 4,200,000 | 11,582,643 | 15,782,643 |
| 2004 | 4,440,000 | 11,343,243 | 15,783,243 |
| 2005 | 4,695,000 | 11,087,943 | 15,782,943 |
| 2006 | 4,970,000 | 10,812,111 | 15,782,111 |
| 2007 - 2011 | 29,785,000 | 49,126,619 | 78,911,619 |
| 2012 - 2016 | 39,880,000 | 39,027,525 | 78,907,525 |
| 2017 - 2021 | 53,375,000 | 25,538,625 | 78,913,625 |
| 2022 - 2025 | 50,635,000 | 7,805,235 | 58,440,235 |
| | <u>\$ 195,960,000</u> | <u>\$ 178,125,487</u> | <u>\$ 374,085,487</u> |

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. Employees contribute 8.5% of their annual compensation. The PERS Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2001. The rate rollback was 20% for state and local divisions. The employer contribution rate for 2001 was 13.55% of covered payroll; 9.25% was the portion used to fund pension obligations and 4.30% was used to fund health care for 2001. The 2000 and 1999 employer contribution rates were 10.84% and 13.55, respectively. 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 PERS for the years ending December 31, 2001, 2000, and 1999, were \$774,000, \$577,000 and \$676,000, respectively, equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers

to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was 4.3% of covered payroll which amounted to \$246,000.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 1999. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75%. An annual increase of 4.75% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 is \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

8. CONTINGENT LIABILITIES

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

The City is party to certain litigations with Butler County over matters relating to the contract under which the City sells surplus water to the County. The County's claims include allegations of over billing, failures to perform and improper allocation of certain general and administrative charges of the City and expenses of the City's utility systems. Since that time, and on April 26, 2002 the legislative bodies of the City and the County directed the entering into of a settlement memorandum with the intent to resolve all issues currently in litigation. However, should this agreement be the subject of successful attack in a subsequent determination, it could be necessary for the City to increase taxes to pay any judgment against the City and such increase could be material.

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 10,000,000 kilowatt-hours of electrical energy in 2001 and 2000, at an estimated operating cost of approximately \$500,000 per year.

The City's Gas System provides gas to the Electric System for use in the generation of electricity. Gas costs of \$950,000 and \$1,107,000 paid to the Gas System are included in materials and supplies expense in 2001 and 2000, 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 \$656,000 in 2001 and \$623,000 in 2000; and sales to the Wastewater System of approximately \$460,000 and \$487,000 in 2001 and 2000, respectively.

The net amount due to other City funds was approximately \$326,000 and \$763,000 at December 31, 2001 and 2000, respectively.

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 approximately \$2,522,000 in 2001 and \$5,320,000 in 2000 and are included in other operating expenses.

10. CONTRACTUAL COMMITMENTS

As of December 31, 2001, the City had contractual commitments of approximately \$4,000,000 related to property, plant and equipment improvements and additions, as well as various other contracts and agreements to provide or receive services related to operations of the City.

11. JOINT VENTURES/JOINTLY GOVERNED ORGANIZATIONS

The City of Hamilton is a member of a number of Governmental Joint Ventures and Jointly Governed Organizations as described in GASB Statement No. 14, The Financial Reporting Entity. The following is a list of organizations and a brief description of the Joint Venture and the Jointly Governed Organization pertaining specifically to the Electric System of the City.

(a) Amp Ohio, Inc. - The City of Hamilton is a member of American Municipal Power Ohio, Inc. (AMP-OHIO). AMP-OHIO is a non-profit corporation organized under Ohio law and Internal Revenue Code Section 501 and is a jointly governed organization. The organization operates on a non-profit basis for the mutual benefit of its member municipalities, all of whom own or operate a municipal electric system. The non-profit corporation is dedicated to providing member assistance and low-cost power supplies.

The controlling board of AMP-OHIO, Inc. is based upon a representative from various of the member communities. The degree of control exercised by any participating government is limited to its representation on the board. The continued existence of the corporation is not dependent upon the City. Complete financial statements may be obtained from AMP-OHIO, Inc., 2600 Airport Drive, Columbus, Ohio 43219.

(b) Amp Ohio, Inc. - OMEGA JV2 Project - In December, 2000, the City became a part of the OMEGA (Ohio Municipal Energy Generation Association) JV2 Project. The OMEGA JV2 project is a joint venture among the City of Hamilton and 35 other participating municipalities created under the auspices of the Ohio Constitution section XVIII, Sections 3 and 4 and Ohio Revised Code Section 715.02. All of the participating communities are members of AMP-OHIO, Inc. and the joint venture has appointed that non-profit corporation to perform certain management functions. The purpose of the joint venture is to create distributive generation among the participating members allowing for increased electric production capacity during peak demand. The degree of control exercised by any participating member is weighted in proportion to each participant's project share, which is 23.87% for the City (a non-majority voting position). Project share is equal to the amount of the distributive generation capacity for each of the members. Membership in the joint venture is defined as financing or non-financing Participant, as well as owner or purchasing participant, for which the City qualified as

a financing, purchasing participant. As a financing participant, the City makes payments to OMEGA JV2.

Dated January 1, 2001, AMP-OHIO on behalf of OMEGA JV2 participants issued \$50,260,000 of Distributive Generation Bonds, supported by financing participant payments. The issuance of the bonds retired \$50,000,000 of AMP-OHIO, Inc.'s Distributive Generation Notes, financing the remaining un-funded portion of the project and pay issuance costs. The Bonds do not represent an obligation on behalf of the financing participants to levy or pledge any form of taxation nor any mortgage on or interest in the project or the City's electric system or fund.

While the City made no payments to OMEGA JV2 in 2000, the following amounts were expended by the Electric Fund and recorded within the Purchase of Electric expense account to the OMEGA JV2 in 2001:

| | |
|-----------------------------------|---------------------------|
| Annual Capacity | \$1,161,715 |
| Power Purchases | 460,928 |
| Working Capital | <u>48,198</u> |
| Total payments - OMEGA JV2 - 2001 | <u><u>\$1,670,841</u></u> |

The continued existence of OMEGA JV2 is dependent upon the City's continued participation but the City, as a purchaser participant, does not have an equity interest in OMEGA JV2. Complete financial statements may be obtained from AMP-OHIO, Inc., 2600 Airport Drive, Columbus, Ohio 43219.

12. SUBSEQUENT EVENTS

In March 2002, the Hamilton City Council adopted an ordinance effectively closing the municipal borders of the City to electric deregulation. With the adoption of the ordinance, electric customers within these corporate boundaries must purchase their electricity from the Hamilton Electric System.

* * * * *

Deloitte & Touche LLP
250 East Fifth Street
P.O. Box 5340
Cincinnati, Ohio 45201-5340

Tel: (513) 784-7100
Fax: (513) 784-7204
www.deloitte.com

**Deloitte
& Touche**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of the City of Hamilton! Ohio - Electric System (Electric System) as of December 31, 2001, and the related statements of operations and changes in accumulated deficit and cash flows for the year then ended, and have issued our report thereon dated May 29, 2002.

In connection with our audit, nothing came to our attention that caused us to believe that the Electric System failed to comply with the terms, covenants, provisions or conditions of Sections 5.2, 5.5, 5.6, and 5.14 of the Indenture dated September 15, 1992, with U.S. Bank (formerly Firststar Bank), trustee, insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of noncompliance with such Sections.

This report is intended solely for the information and use of the City Council and management of the City of Hamilton! Ohio, Auditor of State of Ohio and U.S. Bank and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 29, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 6, 2002**