

**Deloitte &
Touche**



***CITY OF HAMILTON!
OHIO -- WASTEWATER
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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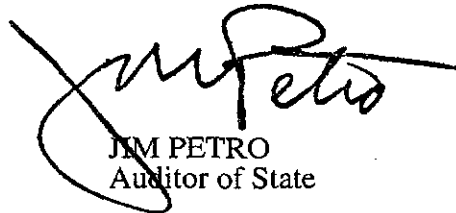
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Members of Council
City of Hamilton - Wastewater System

We have reviewed the Independent Auditor's Report of the City of Hamilton - Wastewater 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 the State of Ohio

We have audited the accompanying balance sheets of the City of Hamilton! Ohio -- Wastewater System (Wastewater 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 -- Wastewater 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 Wastewater 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 Wastewater System at December 31, 1999 and 1998, and the results of that funds 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 -- WASTEWATER 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	\$ 466,076	\$ 258,203	Long-term debt due within one year	\$ 1,182,367	\$ 1,113,000
Investments	6,481,040	5,634,236	Accounts payable	807,595	1,403,029
Current portion of restricted assets -			Accrued interest	736,053	755,127
Investments	1,918,420	2,999,857	Accrued payroll	59,568	49,622
Accounts receivable (less allowance for			Other accrued liabilities	297,998	236,040
doubtful accounts of (\$627,000 in 1999			Total current liabilities	<u>3,083,581</u>	<u>3,556,818</u>
and \$544,000 in 1998)	1,824,670	1,863,118			
Prepaid expenses and other assets	57,583	53,430	LONG-TERM DEBT		
Total current assets	<u>10,747,789</u>	<u>10,808,844</u>		<u>38,157,497</u>	<u>39,325,108</u>
			OTHER LONG-TERM OBLIGATIONS -		
RESTRICTED ASSETS:			Accrued sick leave	<u>507,558</u>	<u>782,906</u>
Cash and Cash Equivalents	978,116	864,230			
Investments	9,202,094	18,727,137	FUND BALANCES:		
	<u>10,180,210</u>	<u>19,591,367</u>	Contributed capital	12,535,037	3,920,375
			Retained earnings	13,441,123	12,235,857
			Total	<u>25,976,160</u>	<u>16,156,232</u>
WASTEWATER UTILITY PLANT					
AND EQUIPMENT:					
Land	6,080,343	23,859			
Building and improvements	8,308,421				
Machinery and equipment	50,784,251	43,451,684			
Accumulated depreciation	65,173,015	43,475,543			
	<u>(31,575,965)</u>	<u>(18,307,618)</u>			
Construction in progress	33,597,050	25,167,925			
Net wastewater utility plant and	12,863,429	3,893,915			
equipment	<u>46,460,479</u>	<u>29,061,840</u>			
BOND ISSUANCE COSTS, NET	336,318	359,013			
TOTAL	<u>\$67,724,796</u>	<u>\$59,821,064</u>	TOTAL	<u>\$67,724,796</u>	<u>\$59,821,064</u>

See notes to financial statements.

CITY OF HAMILTON! OHIO -- WASTEWATER SYSTEM

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

	1999	1998
OPERATING REVENUES	<u>\$ 11,899,598</u>	<u>\$ 11,571,666</u>
OPERATING EXPENSES:		
Personal services	1,691,406	1,999,454
Contractual services	952,515	1,403,534
Materials and supplies	404,463	1,733,274
Depreciation	1,587,869	1,223,384
Other operating expenses	1,779,783	2,956,015
Total operating expenses	<u>6,416,036</u>	<u>9,315,661</u>
OPERATING INCOME	<u>5,483,562</u>	<u>2,256,005</u>
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,256,011	1,581,634
Change in unrealized gains (losses) on investments	(199,767)	(16,085)
Interest expense	<u>(2,390,367)</u>	<u>(2,381,199)</u>
Total nonoperating revenues (expenses)	<u>(1,334,123)</u>	<u>(815,650)</u>
NET INCOME	<u>4,149,439</u>	<u>1,440,355</u>
DEPRECIATION ON FIXED ASSETS, DONATED OR ACQUIRED BY USE OF GRANT FUNDS, INCLUDED IN CONTRIBUTED CAPITAL	<u>569,281</u>	<u>147,948</u>
RETAINED EARNINGS, Beginning of year (as previously reported)	12,235,857	10,647,554
PROPERTY ADJUSTMENT (Note 9)	<u>(3,513,454)</u>	<u>-</u>
RETAINED EARNINGS, Beginning of year (as stated)	<u>8,722,403</u>	<u>10,647,554</u>
RETAINED EARNINGS, End of year	<u>\$ 13,441,123</u>	<u>\$ 12,235,857</u>

See notes to financial statements.

CITY OF HAMILTON! OHIO -- WASTEWATER SYSTEM

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

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 5,483,562	\$ 2,256,005
Other nonoperating revenue		
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,587,869	1,223,384
Changes in assets and liabilities:		
Accounts receivable	(41,694)	252,000
Prepaid expenses and other assets	(4,153)	13,171
Accounts payable and other accrued liabilities	2,311	1,106,380
Accrued payroll	9,946	(2,399)
Accrued sick leave	(275,348)	126,118
Net cash provided by operating activities	<u>6,762,493</u>	<u>4,974,659</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(943,750)	(20,044,758)
Sale of investments	10,503,659	
Interest received	1,336,153	1,357,383
Net cash provided by (used in) investing activities	<u>10,896,062</u>	<u>(18,687,375)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of debt		22,526,913
Principal payments on debt	(1,113,660)	(1,396,701)
Interest on debt	(2,371,330)	(2,122,717)
Additions to wastewater utility plant	(13,851,806)	(4,847,374)
Net cash provided by (used in) capital and related financing activities	<u>(17,336,796)</u>	<u>14,160,121</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	321,759	447,405
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,122,433</u>	<u>675,028</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,444,192</u>	<u>\$ 1,122,433</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

At December 31, 1999 and 1998, Wastewater System had outstanding liabilities of \$595,943 and \$1,131,730, respectively, included in accounts payable for the purchase of certain capital assets.

See notes to financial statements.

CITY OF HAMILTON! OHIO -- WASTEWATER 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 -- Wastewater System (Wastewater System) is a utility operating as a separate enterprise fund of the City of Hamilton! Ohio (City). The Wastewater 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.

Wastewater 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.

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 resulting from grants or donated items is charged to contributed capital.

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

Cash and Investments - Certain Wastewater 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 Wastewater System is reported as either cash and cash equivalents or investments, as appropriate. The Wastewater System's investments are stated at fair value. Interest earned on funds invested is distributed on the basis of the relationship of the average monthly balance of all funds, including the Wastewater System. The City Treasury includes \$1,051,046 of securities issued by the City. Based on the percentage of Wastewater System's ownership of these funds, the Wastewater System owns approximately \$141,000 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 discount and issuance costs amounted to \$15,416 and \$22,695, respectively for 1999 and \$13,580 and \$17,918, respectively, in 1998. In connection with the issuance of bonds during 1998, bond issuance costs of \$339,188 were capitalized and a bond discount of \$138,087 was reported in the accompanying financial statements.

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

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 Wastewater 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 classifications used in 1999.

2. ACCOUNTS RECEIVABLE

	December 31,	
	1999	1998
Earned and unbilled consumer accounts	\$ 537,376	\$ 501,280
Earned and billed consumer accounts	1,221,230	1,099,337
Other	693,064	801,501
Less allowance for uncollectible accounts	<u>(627,000)</u>	<u>(544,000)</u>
Total	<u>\$1,824,670</u>	<u>\$1,858,118</u>

3. CASH AND INVESTMENTS

The Wastewater System follows the practice of pooling cash and investments with the City Treasurer. Pooled cash and investments totaled \$7,040,173 at December 31, 1999 and consisted of demand deposits, money market funds and government securities.

Deposits - The carrying amount of the Wastewater System's deposits at December 31, 1999 was \$1,150,947 and the corresponding depository balance was \$1,260,296. 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: \$103,979 by Federal depository insurance and the remaining \$1,156,317 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 authorizes the City to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, and repurchase agreements.

The Wastewater 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	\$ 6,481,040	N/A	\$ 6,481,040
Investment held in Trust:			
U.S. Government Securities	N/A	\$ 11,120,514	11,120,514
Total categorized investments	<u>6,481,040</u>	<u>11,120,514</u>	<u>17,601,554</u>
Non-Categorized investments -			
STAR Ohio pooled, held by City Treasurer	N/A	N/A	<u>293,245</u>
Total investments	<u>\$ 6,481,040</u>	<u>\$ 11,120,514</u>	<u>\$ 17,894,799</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 used in this note are as follows:

	Cash and Cash Equivalents	Investments
Per Balance Sheet	\$ 1,444,192	\$ 17,601,554
Investments:		
STAR Ohio	<u>(293,245)</u>	<u>293,245</u>
Per GASB Statement No. 3	<u>\$ 1,150,947</u>	<u>\$ 17,894,799</u>

4. RESTRICTED ASSETS

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

	December 31,	
	1999	1998
Debt service	\$ 382,629	\$ 418,539
Construction of capital improvements	7,475,804	17,859,450
Reserve for debt service	2,264,704	2,315,735
Rate stabilization	<u>1,975,493</u>	<u>1,997,500</u>
Total	<u>\$ 12,098,630</u>	<u>\$ 22,591,224</u>

Outstanding commitments for construction of capital improvements, some of which will be financed by use of restricted assets, totaled \$5,300,000 at December 31, 1999.

5. LONG-TERM DEBT

	<u>December 31,</u>	
	<u>1999</u>	<u>1998</u>
Mortgage Revenue Bonds, 1998 Series, due serially through 2023, with interest from 3.7% to 5.2% net of unamortized discount of \$123,541 in 1999 and \$131,795 in 1998	\$21,566,459	\$22,053,205
Mortgage Revenue Bonds, 1996 Series, due serially through 2021, with interest from 4.1% to 6.1% net of unamortized discount of \$97,290 in 1999 and \$104,452 in 1998	8,682,710	8,880,548
Ohio Water Development Authority Notes:		
1988 Note, due serially through 2013 with interest rate at 8.48%	8,951,449	9,301,630
1996 Note, due serially through 2001 with interest rate at 6.3%	139,246	202,725
Total	<u>39,339,864</u>	<u>40,438,108</u>
Less current portion	<u>(1,182,367)</u>	<u>(1,113,000)</u>
Total	<u>\$38,157,497</u>	<u>\$39,325,108</u>

Maturities of long-term debt at December 31, 1999 for the five succeeding years are; \$1,182,367 for 2000; \$1,243,864 for 2001 and \$1,242,035 for 2002; \$1,314,944 for 2003; and \$1,391,067 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 Employees Retirement System (the "PERS of Ohio") to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental 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 Wastewater System are established and may be amended by the Public Employees Retirement Board. The Wastewater Systems contributions to the PERS of Ohio for the years ending December 31, 1999, 1998 and 1997 were \$132,000, \$123,000, and \$122,000, 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 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. A portion of each employer's contributions 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 postemployment health care through their contributions 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 \$40,900.

Other Postemployment Benefits (OPEB) are financed through employer contribution and investments 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 Wastewater System. Management estimates that potential claims not covered by insurance resulting from such litigation would not have a material impact on the Wastewater System's financial position.

The City performs risk management oversight for the Wastewater System. The Wastewater 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 Wastewater System purchases electricity from the City's Electric System. Included in expenses are purchases from the Electric System of approximately \$480,400 in 1999 and \$551,000 in 1998.

The net amount owed to other City funds was \$231,000 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 Wastewater System for these services were \$2,631,000 in 1999 and \$2,826,000 in 1998 and are included in operating expenses.

9. 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 acquisition. In addition, depreciaton 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 (decrease) balance sheet accounts as follows:

Net fixed assets	\$ 5,670,489
Contributed capital	9,183,943
Retained earnings	(3,513,454)

* * * * *



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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CITY OF HAMILTON - WASTEWATER 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