

**CITY OF HAMILTON! OHIO
ELECTRIC SYSTEM**

**Financial Statements
Year Ended December 31, 2002
With Independent Auditors' Report**



**Auditor of State
Betty Montgomery**

Mayor and Members of Council
City of Hamilton!
345 High Street
Hamilton, Ohio 45011

We have reviewed the Independent Auditor's Report of the City of Hamilton! Ohio – Electric System, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2002 to December 31, 2002. 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! Ohio – Electric System is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 4, 2003

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CITY OF HAMILTON! OHIO – ELECTRIC SYSTEM

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Honorable City Council
City of Hamilton! Ohio

We have audited the accompanying financial statements of the City of Hamilton! Ohio - Electric System, an enterprise fund of the City of Hamilton! Ohio as of and for the year ended December 31, 2002, as listed in the table of contents. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Electric System and do not purport to, and do not, present fairly the financial position of the City of Hamilton! Ohio as of December 31, 2002, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Hamilton! Ohio - Electric System as of December 31, 2002 and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Electric System adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments*; Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of January 1, 2002. This results in a change to the Electric System's format and content of the financial statements.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 16, 2003

CITY OF HAMILTON! OHIO – ELECTRIC SYSTEM
STATEMENT OF NET ASSETS
DECEMBER 31, 2002

ASSETS

Current assets:

Cash and cash equivalents	\$ 4,751,166
Investments	6,788,366
Accounts receivable (less allowance for uncollectible accounts of \$3,490,170)	6,520,022
Interest receivable	108,582
Due from other funds	5,000
Inventory of supplies at cost	931,964
Prepaid expenses	<u>659,299</u>
Total current assets	<u>19,764,399</u>

Restricted assets:

Cash and cash equivalents	1,993,664
Investments	<u>2,064,153</u>
Total restricted assets	<u>4,057,817</u>

Bond issuance costs

3,658,126

Capital assets:

Property, plant and equipment	335,404,713
Construction in progress	3,618,754
Accumulated depreciation	<u>(185,644,278)</u>
Total capital assets	<u>153,379,189</u>

Total assets

\$ 180,859,531

LIABILITIES

Current liabilities:

Accounts payable	\$ 3,543,495
Accrued wages and benefits	352,710
Intergovernmental payable	98,925
Accrued interest payable	755,364
Revenue bonds payable - current portion	<u>5,425,000</u>
Total current liabilities	<u>10,175,494</u>

Non-current liabilities:

Customer deposits payable	390,046
Compensated absences payable	2,043,740
Revenue bonds payable (net of unamortized discounts)	<u>167,921,014</u>
Total noncurrent liabilities	<u>170,354,800</u>

Total liabilities

180,530,294

NET ASSETS

Invested in capital assets, net of related debt	(24,807,327)
Unrestricted	<u>25,136,564</u>
Total net assets	\$ <u>329,237</u>

See notes to financial statements.

CITY OF HAMILTON! OHIO - ELECTRIC SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2002

Operating revenues:	
Charges for services	\$ 54,428,459
Other operating revenues	<u>126,890</u>
Total operating revenues	<u>54,555,349</u>
Operating expenses:	
Purchased electric	17,976,986
Personal services	7,957,200
Contractual services	4,338,938
Depreciation	9,738,402
Materials and supplies	993,088
Other operating expenses	<u>6,570,265</u>
Total operating expenses	<u>47,574,879</u>
Operating income	6,980,470
Non-operating revenues (expenses):	
Investment earnings	172,258
Loss on disposal of capital assets	(91,222)
Interest and fiscal charges	<u>(8,307,159)</u>
Total non-operating revenues (expenses)	<u>(8,226,123)</u>
Change in net assets	(1,245,653)
Net assets - beginning of year	<u>1,574,890</u>
Net assets - end of year	\$ <u><u>329,237</u></u>

See notes to financial statements.

CITY OF HAMILTON! OHIO - ELECTRIC SYSTEM
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2002

Cash flows from operating activities:	
Cash received from customers	\$ 53,703,327
Cash paid for employee services and benefits	(8,149,915)
Cash paid to suppliers for goods and services	(28,144,848)
Other operating revenues	113,545
Net cash provided by operating activities	<u>17,522,109</u>
Cash flows from capital and related financing activities:	
Proceeds from refunding bonds	184,360,000
Acquisition and construction of capital assets	(3,312,419)
Payment to escrow agent for refunding of debt	(195,819,600)
Principal payment on debt	(3,980,000)
Interest payment on debt	(14,140,990)
Net cash used in capital and related financing activities	<u>(32,893,009)</u>
Cash flows from investing activities:	
Purchase of investments	(8,852,519)
Sale of investments	14,304,260
Interest from investments	264,851
Net cash provided by investing activities	<u>5,716,592</u>
Net change in cash and cash equivalents	(9,654,308)
Cash and cash equivalents at beginning of year	<u>16,399,138</u>
Cash and cash equivalents at end of year	\$ <u>6,744,830</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 6,980,470
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	9,738,402
Changes in assets and liabilities:	
Accounts receivable	(742,402)
Inventories	97,267
Prepaid expenses	27,128
Accrued wages and benefits	35,833
Intergovernmental payables	49,125
Accounts payable	1,551,593
Compensated absences payable	52,546
Customer deposits	61,529
Due to other funds	(329,382)
Net cash provided by operating activities	\$ <u>17,522,109</u>

See notes to financial statements.

CITY OF HAMILTON! OHIO – ELECTRIC SYSTEM

Notes to Financial Statements Year Ended December 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus, Basis of Accounting and Basis of Presentation – The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. 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.

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Electric System's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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

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

Capital Assets – Expenditures that 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 3 to 75 years.

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 \$263,349 and \$94,898, respectively, in 2002.

Compensated Absences - The Electric System follows the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”. Vacation and compensatory time benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Electric System will compensate the employees for the benefits through paid time off or some other means. Sick leave termination benefits are accrued using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those employees for whom it is probable that they will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end.

Changes in Accounting Principles – For 2002, the Electric System implemented the following:

- GASB Statement No. 34 “*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.*”
- GASB Statement No. 37 “*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus.*”
- GASB Statement No. 38 “*Certain Financial Statement Note Disclosure*”.
- GASB Interpretation No. 6 “*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*”

GASB Statements no. 34, 37, and 38 create and amend new basic financial statements and note disclosure for reporting on the Electric System's financial activities. These changes had no impact on prior year ending net assets.

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. 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 of the Electric System totaled \$11,538,669 at December 31, 2002 and consisted of demand deposits, money market funds, U.S. government securities and STAR Ohio.

Star Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2002.

Deposits – The carrying amount of the Electric System's deposits at December 31, 2002 was \$1,798,730 and the bank balance was \$1,819,092. Of the bank balance, \$86,008 was covered by federal depository insurance. The remaining amounts are considered uninsured and uncollateralized as defined by GASB Statement No. 3. However, the State of Ohio has established by statute a collateral pooling system for financial institutions acting as public depositories. Public depositories must pledge qualified securities with fair values greater than the total amount of all public deposits to be secured by the collateral pool. This pooled collateral covers the Electric System's uninsured and uncollateralized deposits.

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.

	<u>Fair</u> <u>Value</u>	<u>Risk</u> <u>Category</u>
Pooled investments held by City Treasurer:		
U.S. Government Securities	\$ 6,788,366	Category 1
Investments held in trust:		
U.S. Government Securities	2,064,153	Category 2
Pooled and held by City Treasurer:		
STAR Ohio	<u>4,946,100</u>	Uncategorized
	\$ <u>13,798,619</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. 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 GASB Statements No. 9 and No. 3 follows:

	<u>Cash and Cash</u> <u>Equivalents/</u> <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 6,744,830	8,852,519
Investments:		
STAR Ohio	<u>(4,946,100)</u>	<u>4,946,100</u>
GASB Statement No. 3	\$ <u>1,798,730</u>	<u>13,798,619</u>

3. ACCOUNTS RECEIVABLE

Receivables at December 31, 2002 consist of the following:

Earned and unbilled consumer accounts	\$ 3,404,688
Earned and billed consumer accounts	6,575,794
Other	29,710
Less allowance for uncollectible accounts	<u>(3,490,170)</u>
 Total	 \$ <u><u>6,520,022</u></u>

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2002 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated:</i>				
Land	\$ 1,547,563	141,399	-	1,688,962
Construction in progress	4,768,390	612,871	(1,762,506)	3,618,755
Subtotal	<u>6,315,953</u>	<u>754,270</u>	<u>(1,762,506)</u>	<u>5,307,717</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	14,412,711	-	(22,004)	14,390,707
Machinery and equipment	315,471,399	4,308,517	(454,873)	319,325,043
Subtotal	<u>329,884,110</u>	<u>4,308,517</u>	<u>(476,877)</u>	<u>333,715,750</u>
Totals at historical cost	<u>336,200,063</u>	<u>5,062,787</u>	<u>(2,239,383)</u>	<u>339,023,467</u>
 Less accumulated depreciation:				
Buildings and improvements	4,938,685	236,871	-	5,175,556
Machinery and equipment	171,326,917	9,501,531	(359,726)	180,468,722
Total accumulated depreciation	<u>176,265,602</u>	<u>9,738,402</u>	<u>(359,726)</u>	<u>185,644,278</u>
 Capital assets, net	 \$ <u><u>159,934,461</u></u>	 <u><u>(4,675,615)</u></u>	 <u><u>(1,879,657)</u></u>	 <u><u>153,379,189</u></u>

5. RESTRICTED ASSETS

Restricted assets consist of 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:

Debt service	\$	6,514
Electric rate stabilization		<u>4,051,303</u>
Total	\$	<u>4,057,817</u>

6. LONG-TERM DEBT

The Electric System issued \$184,360,000 of variable rate revenue refunding bonds to provide resources to purchase United States Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$191,380,000 of revenue bonds. The Electric System used the new bonds plus the \$15,882,820 in the revenue bond debt reserve account to defease the revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$10,248,892. This amount will be amortized over the remaining life of the new debt, which was issued at the same life as the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next nineteen years by \$25,793,583 and resulted in an economic gain of \$21,385,439.

At the time of issuance, the Electric System purchased an interest rate swap (or hedge) allowing the City to hedge the complete outstanding debt of the electric system to a fixed rate of 2.95% for four years. The revenue bonds fully mature in 2025.

Debt activity for the year ended December 31, 2002 was as follows:

	Balance January 1, <u>2002</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, 2002	Due Within <u>One Year</u>
1992 Series A&B Bonds	\$ 195,960,000	-	(195,960,000)	-	-
Less deferred amount for issuance discounts	(4,974,843)	-	4,974,843	-	-
2002 Electric Variable Refunding A/B Bonds	-	184,360,000	-	184,360,000	5,425,000
Less deferred amount: on refunding	-	(10,248,892)	-	(10,248,892)	-
for issuance discounts	-	<u>(765,094)</u>	-	<u>(765,094)</u>	-
	\$ <u>190,985,157</u>	<u>173,346,014</u>	<u>(190,985,157)</u>	<u>173,346,014</u>	<u>5,425,000</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. The revenue 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 annual debt service requirements as of December 31, 2002 follows:

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$	5,425,000	4,812,816	10,237,816
2004		5,605,000	5,293,044	10,898,044
2005		5,785,000	5,113,235	10,898,235
2006		5,975,000	4,942,577	10,917,577
2007		6,175,000	4,766,315	10,941,315
2008-2012		34,040,000	21,000,259	55,040,259
2013-2017		39,990,000	15,624,643	55,614,643
2018-2022		46,995,000	9,323,445	56,318,445
2023-2025		34,370,000	2,082,282	36,452,282
		<u>184,360,000</u>	<u>72,958,616</u>	<u>257,318,616</u>
Total	\$	<u>184,360,000</u>	<u>72,958,616</u>	<u>257,318,616</u>

Interest on the variable rate electric system revenue refunding bonds is paid at the current swap rate of 2.95%. The bonds re-price every seven days but the City has only a requirement to fund the 2.95% interest rate on all outstanding electric system bonds. The 2.95% rate is employed throughout the future long-term financing requirements until maturity. The swap rate is guaranteed for a period of four years until November 2006. The rate may vary only if the actual re-pricing rate of the variable rate bonds exceeds the BMHA rate. The City's interest rate in effect since the variable rate bonds were issued has not exceeded 1.29% through the end of 2002.

7. DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

The City contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that may be obtained by writing to PERS, 277 East Town Street, Columbus, Ohio 43215-4642.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members, other than law enforcement and public safety employees, are required to contribute 8.5% of their annual covered salary. The City was required to contribute 13.55% of covered payroll for employees. The Electric System's required contributions to PERS for the years ended December 31, 2002, 2001, and 2000 were approximately \$835,000, \$774,000 and \$577,000 respectively, equal to the required contributions for each year.

PERS provides postretirement health care coverage 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 available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55% of covered payroll for employees and 5.0% was the portion that was used to fund health care for the year.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001. 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 2001 was 8.00%. An annual increase of 4.00% 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 4.00% base increase, were assumed to range from 0.50% to 6.30%. Health care costs were assumed to increase 4.00% annually.

The OPEB's are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. The portion of the Electric Systems's contributions that were used to fund postemployment benefits was approximately \$308,000. At December 31, 2001, the actuarial value of the Retirement System's net assets available for OPEB was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

8. 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 10,132,000 kilowatt-hours of electrical energy in 2002 and the estimated operating cost of supplying these free services was \$1,130,040.

The City's Gas System provides gas to the Electric System for use in the generation of electricity. Gas costs of \$461,325 paid to the Gas System are included in operating expenses.

The Electric System sells electricity to the City's Water and Wastewater Systems. Included in revenues are sales to the Water System and Wastewater System of approximately \$792,000 and \$507,000, 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 \$2,488,367 in 2002 and are included in other operating expenses.

9. CONTINGENT LIABILITIES

Various claims and lawsuits are pending against the City involving the Electric System. 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.

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts and liability, damage to and theft of or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains comprehensive insurance coverage, for all City departments including the Electric System, with private carriers for real property, building contents, vehicle, property and general liability insurance, police professional liability, and public officials errors and omissions insurance. Vehicle policies include liability coverage for bodily injury and property damage. Claim payments have not exceeded coverage in the past three years. There was no decline in the level of coverage from the prior year.

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 Organizations 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 several 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.

The following amounts were expended by the Electric Fund and recorded within the Purchase of Electric expense account to the OMEGA JV2 in 2002:

Annual capacity	\$ 1,219,744
Power purchases	<u>602,306</u>
Total payments	\$ <u>1,822,050</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. CONTRACTUAL COMMITMENTS

As of December 31, 2002, the Electric System had contractual commitments of \$3,244,430 to purchase coal from Southern Appalachian Coal and \$1,956,450 to purchase electricity from Cinergy Services, Inc.

13. CLOSURE OF THE ELECTRIC SYSTEM TO COMPETITION

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.



**Auditor of State
Betty Montgomery**

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CITY OF HAMILTON - ELECTRIC SYSTEM

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 26, 2003**