CITY OF HAMILTON, OHIO – ELECTRIC SYSTEM

Financial Statements

Years Ended December 31, 2016 and 2015

With Independent Auditors' Report

CLARK SCHAEFER HACKETT
CPAS & ADVISORS

Dave Yost • Auditor of State

Members of Council
City of Hamilton-Electric System
345 High Street
Hamilton, Ohio 45011

We have reviewed the *Independent Auditor's Report* of the City of Hamilton-Electric System, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2016 through December 31, 2016. 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-Electric System is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

August 14, 2017

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of Council
City of Hamilton, Ohio:

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Hamilton, Ohio - Electric System, an enterprise fund of the City of Hamilton, Ohio (the Electric System), as of and for the years ended December 31, 2016 and 2015 and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the City of Hamilton, Ohio - Electric System as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described 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, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of net pension liability and pension contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 21, 2017

City of Hamilton, Ohio
Electric System

Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
Unaudited

The discussion and analysis of the City of Hamilton, Ohio's Electric System's financial performance provide an overall review of that system's financial activities for the years ended December 31, 2016 and 2015. While the intent of this discussion and analysis is to look at the system's financial performance, readers should also review the Statements of Net Position; Revenues, Expenses and Changes in Net Position; and Cash Flows to enhance their understanding of the system's fiscal performance.

Financial Highlights

Key highlights for 2016 and 2015 are as follows:

- The assets and deferred outflow of resources of the Hamilton Electric System exceeded its liabilities and deferred inflows of resources at the close of 2016 by $139,160,764 and $6,157,403 at the close of 2015 (net position). At December 31, 2016 and 2015, $43,859,592 and $11,530,709, respectively, (unrestricted net position) may be used to meet the system's ongoing obligations to customers and creditors.
- The system's total net position increased by $133,003,361 between 2016 and 2015, due to a sale of 48.6% ownership interest in the Greenup Hydroelectric Plant.
- In 2016, the Electric System's long-term debt, net of discounts, decreased by $813,274.

Electric System Summary

The City of Hamilton, Ohio has owned and operated an electric utility system since 1893. Currently, the system is the second largest municipally owned electric system in Ohio. The electric system is a fully integrated electric generation, transmission and distribution system. The system owns both thermal and hydroelectric generation facilities and maintains a diverse customer base, with approximately 29,300 customers. Customer rates are established by the City and are not subject to the regulatory jurisdiction of the Public Utilities Commission of Ohio (PUCO) or any other regulatory body.

This annual report consists only of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows as well as Notes to the Financial Statements for the City of Hamilton, Ohio's Electric System for the years ended December 31, 2016 and 2015.

Reporting Hamilton's Electric System (Whole and Significant Fund)

The financial statements contained within this report include the City of Hamilton, Ohio's Electric System *only*. Readers desiring to view city-wide financial statements, as well as the impact that the Electric System has on the City's overall financial position and operating results, should refer to the City's Basic Financial Statements appearing in the Comprehensive Annual Financial Report for 2016 and 2015. The City of Hamilton's Electric System is reported as a business-type, enterprise fund and is considered a major fund for purposes of individual fund reporting. Payments made from the Electric Fund are restricted to Electric System purposes by municipal ordinance, Ohio Revised Code and indentures issued pursuant to long-term financing.

City of Hamilton, Ohio
Electric System

Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
Unaudited

In the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, the view of the System looks at all financial transactions of the Electric Fund and asks the question, "How did we do financially during 2016 and 2015?" These statements provide answers to that question. The statements include all assets, deferred outflow of resources, liabilities, and deferred inflows of resources of the System using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the System's net position and the changes in net position. The change in net position is important because it tells the reader whether, for the system, the financial position of the City has improved or diminished. However, in evaluating this position, non-financial information including the condition of capital assets will also need to be evaluated. The Notes to the Electric System's Financial Statements provide additional information that is essential to a full understanding of the data provided.

The System provides services that have a charge based upon the amount of usage. The City's Electric System charges fees to recoup the cost of the entire operation of the Electric System as well as all capital expenses associated with these facilities.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of financial position. In the case of the Electric Fund, assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by $139,160,764 and $6,157,403 as of December 31, 2016 and 2015, respectively.

City of Hamilton, Ohio
Electric System

Management's Discussion and Analysis
For the Years Ended December 31, 2016 and 2015
Unaudited

Table 1 provides a summary of the Electric System's Statement of Net Position for the Years Ended December 31, 2016, 2015 and 2014.

	2016	*Restated* 2015	*Restated* 2014
Current and other assets	$ 65,890,034	$ 31,682,480	$ 35,775,833
Capital assets	117,792,669	121,109,806	123,012,685
Total assets	183,682,703	152,792,286	158,788,518
Deferred outflows of resources	3,439,768	1,159,937	3,662,304
Long-term liabilities:			
Net pension liability	8,949,281	6,858,924	6,707,570
Other long-term amounts	29,738,098	30,524,106	129,371,661
Other liabilities	8,758,758	110,291,228	19,280,199
Total liabilities	47,446,137	147,674,258	155,359,430
Deferred inflows of resources	515,570	120,562	-
Net investment in capital assets	87,948,019	(12,824,779)	(12,924,317)
Restricted	7,353,153	7,451,473	10,536,719
Unrestricted	43,859,592	11,530,709	9,478,990
Total net position	$ 139,160,764	$ 6,157,403	$ 7,091,392

During 2015, the Electric System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment GASB Statement No. 27*, which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Electric System's actual financial condition by adding deferred inflows related to pension and net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under GASB Statement No. 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both the employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract, but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with the required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, the Electric System's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

A vast majority of the System's assets lie within the physical property, plant and equipment of the system having a historical cost less accumulated depreciation of $117,792,669, $121,109,806 and $123,012,685, respectively at December 31, 2016, 2015 and 2014. The System employs these assets in the generation, transmission, and distribution of electricity to customers; consequently, these assets are not readily available for future spending. The System's investment in its capital assets is reported net of related debt in the Net Position section of the Statement of Net Position and it should be noted that the resources needed to repay these debts must be provided from other sources, primarily the revenues of the system, since the capital assets themselves cannot be used to liquidate the liabilities.

As of December 31, 2016 and 2015, the Electric System was able to report positive balances in net position of $139,160,764 and $6,157,403, respectively. In 2015, the Electric System reported operating income of $9,411,310, whereas it reported an operating loss of $4,592,836 in 2016. An increase in operating revenue can be attributed to an increase in non-residential customer rates and a hot summer that increased usage. Net non-operating expenses of $1,403,803 decreased by $8,957,578, primarily due to paying off the $103,695,000 Series 2015 note payable during 2016.

During 2016, the Electric System sold 48.6% in an undivided ownership interest in the Greenup Hydroelectric Plant for $139,000,000. This amount was reported as a special item.

Statement of Revenues, Expenses and Changes in Net Position

	2016	2015	2014
Operating revenues	$ 66,319,492	$ 64,619,906	$ 61,577,164
Operating expenses:			
Purchased power and fuel	42,211,702	27,473,903	29,921,359
Depreciation	8,861,138	8,622,343	8,485,358
Other operating expenses	19,839,488	19,112,350	18,699,233
Total operating expenses	70,912,328	55,208,596	57,105,950
Operating income (loss)	(4,592,836)	9,411,310	4,471,214
Non-Operating revenues (expenses)			
Interest and fiscal charges	(1,849,977)	(9,879,374)	(7,008,240)
Loss on disposal of capital assets	-	(584,858)	(15,613)
Other non-operating revenues	446,174	102,851	496,113
Total non-operating revenues (expenses)	(1,403,803)	(10,361,381)	(6,527,740)
Transfers	-	16,082	-
Special item	139,000,000	-	-
Change in net position	133,003,361	(933,989)	(2,056,526)
Beginning net position, *restated*	6,157,403	7,091,392	N/A
Ending net position	$ 139,160,764	$ 6,157,403	$ 7,091,392

Capital Assets and Debt Administration

Capital Assets: The City's net investment in capital assets of the Electric System as of December 31, 2016, 2015 and 2014 amounted to $87.9 million, ($12.8 million) and ($12.9 million), respectively, (net of accumulated depreciation and related debt). The negative balances are a direct result of continued depreciation expense coupled with long-term debt balances. The positive balance in 2016 was due to paying off the $103.7 million general obligation note during the year. This investment in capital assets includes land, buildings, improvements, construction in progress, and machinery and equipment including the City's hydro-electric and thermal generation facilities. The plant and equipment of the Electric System are rigorously tested and maintenance schedules are adhered to in a strenuous fashion to insure safe, long-term, efficient operation.

Note 5 (Capital Assets) provides Electric System asset activity during 2016 and 2015.

Debt Administration: At the end of 2016, the City had one outstanding long-term revenue bond issue, the 2009 Electric System Revenue Bonds totaling $30,285,000.

In 2015, the Electric System issued $103,695,000 in Series 2015 Electric System Notes to current refund the 2005 Electric System Revenue Refunding Bonds and refinance the Electric System Notes. These Notes were paid off in 2016.

See Notes 6 and 7 for a discussion of outstanding Electric System bonds, notes and related activity.

Economic Factors and Future Trends

The City's 2016 rate base consisted of approximately 26,400 residential customers and 2,900 commercial and industrial customers. The residential customers account for 48% of the revenue, the commercial and industrial customers account for the remaining 52%. No one customer of the Electric System accounted for more than 2.3% of total revenues and the ten largest customers, accounted for approximately 12% of the Electric System's revenues in 2016. The Electric System customer base is comprised of approximately 90% residential and 10% commercial and industrial customers.

The City has a rate ordinance, which sets forth rates and charges for Residential, Commercial Non-Demand, Commercial Demand, Large Power and Industrial Service. All rates include:

- A power cost adjustment (PCA) charge (Rider A) that allows for increases or decreases in the fuel and purchased power costs to be passed directly through to the Electric System's customers in comparison with the level of power costs embedded in the base rates. The PCA was a credit of ($0.00042/kWh) for January 2016 and a charge of $0.00051/kWh for February through December 2016.

- An electric rate stabilization adjustment rider (Rider B) that allows for a percentage adder to be applied to all charges under each rate schedule to replenish revenues previously withdrawn from the Electric Rate Stabilization Fund. Rider B was at 0% for 2016.

- A suburban surcharge (Rider C) of 5% for all Electric System customers outside the corporate limits of the City.

- An unfunded environmental mandates adjustment rider (UEMA – Rider D) that allows for expenses associated with the Electric System's compliance with environmental mandates, not included in the base rates or PCA. Rider D wasn't assessed for 2016.

- An unfunded governmental and regulatory, excluding environmental (Rider D), mandates adjustment rider (UGRMA – Rider E) that allows for expenses associated with the Electric System's compliance with governmental and regulatory mandates not included in the base rates, PCA or Rider D. Rider E wasn't assessed for 2016.

- The Economic Development Cost Adjustment (Rider F) for Electric wasn’t assessed in 2016.

The annual budget of the City Electric System is adopted in accordance with ten-year projections developed by a rate consultant, and these projections are reviewed and updated in the spring and fall of each year, or more often as deemed necessary by City Management.

The Electric System is completing the largest transmission and distribution project in its history. The $25 million project includes three new substations, adding 75 MW of new capacity to the Electric System, retrofitting its twelve existing substations with next-generation SCADA (supervisory control and data acquisition) and intelligent relays.

Future City power supply resources are identified in the City's 20-year Power Supply Plan. The Power Supply Plan was designed to diversify the mix of resources, in an effort to mitigate exposure to generating unit outages, fuel costs, environmental regulations and market prices. Planned and on-going transmission system improvements complement future power supply resources and provide reliable operation.

The Prairie State Energy Campus is a 2-unit, 1,600 MW coal-fired generating project that is located in Central Illinois. Prairie State is projected to be the cleanest coal-fired generating facility in the United States. The first unit came on-line in December 2011 and the second unit in June 2012. The City and American Municipal Power ("AMP") executed a purchase power agreement, wherein the City will purchase 17.5 MW from each unit, resulting in a total of 35 MW of capacity. Prairie State provided approximately 281,500 MWh, 33% of the City's power supply resources, in 2016. The project was financed by AMP. AMP is participating in 368 MW of the Prairie State Energy Campus, on behalf of its members.

The Fremont Energy Center (AFEC) is a natural gas combined cycle (NGCC) facility, purchased by AMP in July 2011, from Akron-based FirstEnergy Corp. AFEC will supply intermediate power to participating AMP member communities. Intermediate power is energy needed Monday-Friday, during the 16 highest demand hours. The city of Hamilton is one of 87 AMP member communities participating in the AFEC project and is receiving power from the facility. AFEC is a 707 MW (fired) facility, with a capacity of 544 MW as an intermediate power source. AFEC also includes duct-firing, which allows an additional 163 MW of generation during peak demand periods. AFEC is projected to provide approximately $500 million savings to participating AMP member communities, over 30 years, as compared to the market. The City is entitled to a 34.5 MW share of the Fremont plant's capacity, which came on-line in January 2012.

On March 1, 2009, the City and AMP completed an agreement, effective March 31, 2009, pursuant to which the City will retain approximately 54 MW of the 105 MW Meldahl project. Additionally, the City will sell approximately 34.1 MW of the 70.2 MW Greenup Project to AMP. The agreement features a sale price of the Greenup power of $139 million, which was paid by AMP to the City at the commencement of operations of the Meldahl Project in 2016. The City used the sale proceeds to retire outstanding debt and fund necessary capital improvements to the Electric System. Pursuant to the agreement, the City's share of the combined Meldahl/Greenup annual power generation is expected to be approximately 412,165 MWh, thereby diversifying the

City's power resources and moving further away from the production of power via fossil fuels. The energy generation from Meldahl, Greenup, New York Power Authority and the Hamilton Small Hydroelectric units was approximately 46% of the City's power supply resources in 2016.

As an electric utility that operates a thermal energy power plant, the City is subject to complying with the Federal Clean Air Act and regulation by the U.S. EPA. The Electric System has made a number of improvements over the years to bring the coal-fired, Third Street Power Plant into compliance with the numerous changes in regulations that have taken place. In 2012, the City determined that the most cost effective, long-term solution for meeting the demands of the U.S. EPA was to utilize natural gas as the primary fuel for Units 8 & 9 at the power plant. The conversion of Units 8 & 9 was completed in the Spring of 2013, and the Plant operated the entire 2013 summer cooling season using natural gas. On March 27, 2012, the USEPA proposed greenhouse gas emission limits for newly constructed power plants. These proposed limitations are not likely to impact any of Hamilton's existing power generation resources.

In 2012, the Electric System joined the PJM RTO (Regional Transmission Organization). This transition meant that the Electric System would receive its power from the "grid" through PJM as opposed to through the MISO (Midwest Independent System Operators) RTO, its previous RTO affiliate. This transition was brought about, in large part, due to the fact that Duke Energy Ohio and Duke Energy Kentucky announced that they would be switching from MISO to PJM. Since the City of Hamilton is essentially surrounded by the territory of Duke Energy Ohio and receives its outside power through the Duke Energy Interconnect, the decision to switch to PJM made operational and economic sense. Additionally, most of Ohio is already located in PJM.

The Power Supply Plan spreads the City's needs between multiple resources and thus would not be significantly affected by the price or performance of a single project. The benefits of this plan include reduced exposure to fuel costs, environmental regulations and market prices, as well as solidifying approximately 96% of the City's energy requirement in 2016.

On May 16, 2017, Moody's Investor Service affirmed the City's A3 rating with a stable outlook for its Electric System and for its 2009 Electric System Revenue Bonds.

Requests for Information

This financial report is designed to provide our citizens, customers, taxpayers, creditors, investors and elected officials with an overview of the City of Hamilton, Ohio's Electric System's finances and to show accountability for the money the system receives. If you have any questions about this report or need additional information, contact the City of Hamilton Finance Department, 345 High Street, Hamilton, Ohio 45011, (513) 785-7170, or visit the City website at www.hamilton-city.org.

CITY OF HAMILTON, OHIO – ELECTRIC SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

	2016	*Restated* 2015
ASSETS		
Current assets:		
Cash and investments	$ 41,584,417	14,947,922
Accounts receivable (less allowance for uncollectible accounts of $4,678,297 and $4,418,470)	7,820,844	6,471,998
Interest receivable	58,900	7,229
Interfund receivable	6,645,150	275,300
Inventory of supplies at cost	1,813,795	1,895,630
Prepaid expenses	613,775	632,928
Total current assets	58,536,881	24,231,007
Restricted cash and investments	7,353,153	7,451,473
Noncurrent assets:		
Nondepreciable capital assets	17,781,506	19,890,428
Depreciable capital assets, net	100,011,163	101,219,378
Total noncurrent assets	117,792,669	121,109,806
Total assets	183,682,703	152,792,286
DEFERRED OUTFLOWS OF RESOURCES		
Pension	3,439,768	1,159,937
LIABILITIES		
Current liabilities:		
Accounts payable	5,225,566	3,308,410
Accrued wages and benefits	398,645	158,685
Accrued liabilities	802	767
Intergovernmental payable	33,636	84,471
Accrued interest payable	413,427	536,598
Customer deposits payable	1,338,112	1,215,494
Compensated absences payable-current	483,570	461,803
General obligation notes payable	-	103,695,000
Revenue bonds payable-current portion	865,000	830,000
Total current liabilities	8,758,758	110,291,228
Noncurrent Liabilities:		
Compensated absences payable	491,552	429,286
Revenue bonds payable	29,246,546	30,094,820
Net pension liability	8,949,281	6,858,924
Total noncurrent liabilities	38,687,379	37,383,030
Total liabilities	47,446,137	147,674,258
DEFERRED INFLOWS OF RESOURCES		
Pension	515,570	120,562
NET POSITION		
Net investment in capital assets	87,948,019	(12,824,779)
Restricted for debt service	3,353,153	3,451,473
Restricted for rate stabilization	4,000,000	4,000,000
Unrestricted	43,859,592	11,530,709
Total net position	$ 139,160,764	6,157,403

See notes to financial statements.

CITY OF HAMILTON, OHIO - ELECTRIC SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating revenues:		
Charges for services	$ 66,152,902	64,506,266
Other operating revenues	166,590	113,640
Total operating revenues	66,319,492	64,619,906
Operating expenses:		
Personal services	8,374,150	7,840,312
Materials and supplies	901,891	756,952
Contractual services	6,777,634	7,254,677
Purchased power and fuel	42,211,702	27,473,903
Depreciation	8,861,138	8,622,343
Other operating expenses	3,785,813	3,260,409
Total operating expenses	70,912,328	55,208,596
Operating income (loss)	(4,592,836)	9,411,310
Non-operating revenues (expenses):		
Investment earnings	132,503	102,851
Loss on disposal of capital assets	-	(584,858)
Grants	310,719	-
Interest and fiscal charges	(1,849,977)	(9,879,374)
Other local taxes (kWh taxes)	2,952	-
Total non-operating revenues (expenses)	(1,403,803)	(10,361,381)
Loss before transfers and special item	(5,996,639)	(950,071)
Transfers in	-	16,082
Special item - Sale of ownership interest in electric plant	139,000,000	-
Total transfers and special items	139,000,000	16,082
Change in net position	133,003,361	(933,989)
Net position - beginning of year, *restated*	6,157,403	7,091,392
Net position - end of year	$ 139,160,764	6,157,403

See notes to financial statements.

CITY OF HAMILTON, OHIO - ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

		2016	2015
Cash flows from operating activities:			
Cash received from customers	$	65,810,471	65,075,852
Cash paid for employee services and benefits		(9,428,002)	(9,903,033)
Cash paid to suppliers for goods and services		(50,606,203)	(36,802,879)
Net cash from operating activities		5,776,266	18,369,940
Cash flows from noncapital financing activities:			
Intergovernmental grants		310,719	-
Kilowatt hour taxes received		2,403,875	-
Kilowatt hour taxes paid to State		(2,400,923)	-
Advances in from other funds		180,150	180,150
Advances out to other funds		(6,550,000)	-
Transfers in from other funds		-	16,082
Net cash from noncapital financing activities		(6,056,179)	196,232
Cash flows from capital and related financing activities:			
Payments for capital acquisition		(5,781,322)	(7,144,706)
Proceeds from sale of undivided interest		139,000,000	-
Debt proceeds		-	103,695,000
Debt principal payments		(104,525,000)	(112,114,054)
Debt interest payments		(1,956,422)	(6,587,206)
Net cash from capital and related financing activities		26,737,256	(22,150,966)
Cash flows from investing activities:			
Interest from investments and change in fair value of investments		80,832	110,529
Net change in cash and investments		26,538,175	(3,474,265)
Cash and investments at beginning of year		22,399,395	25,873,660
Cash and investments at end of year	$	48,937,570	22,399,395
Reconciliation of operating income (loss) to net cash from operating activities			
Operating income (loss)	$	(4,592,836)	9,411,310
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation		8,861,138	8,622,343
Change in deferred outflows-pension		(2,279,831)	(319,978)
Change in deferred inflows-pension		395,008	120,562
Change in Assets and Liabilities:			
(Increase) decrease in receivables		(1,348,846)	455,788
(Increase) decrease in inventory		81,835	(15,818)
(Increase) decrease in prepaid items		19,153	(8,710)
Increase (decrease) in customer deposits payable		122,618	87,912
Increase (decrease) in payables		2,154,477	269,533
Increase (decrease) in accrued liabilities		324,028	(375,508)
Increase (decrease) in intergovernmental payables		(50,835)	(28,848)
Increase (decrease) in net pension liability		2,090,357	151,354
Net cash from operating activities	$	5,776,266	18,369,940
Schedule of noncash activities:			
Outstanding liabilities for purchase of certain capital assets	$	401,179	638,500

See notes to financial statements.

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.

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 cash and investments. The Electric System's investments are stated at fair value, in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, except for nonparticipating investment contracts which are reported at amortized cost, which approximates 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.

Inventories – Inventories are stated at cost based on a moving-average cost method.

Capital Assets – Expenses 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 5 to 75 years.

Bond Discounts – Unamortized bond discounts are amortized on the interest method over the term of the related bonds. Amortization of bond discounts was $16,726 and $227,818 in 2016 and 2015, respectively.

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.

Pension – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension system reports investments at fair value.

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement reporting element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. For the Electric System, deferred outflows of resources are reported on the statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 8.

Deferred Inflows of Resources – In addition to liabilities, the statement of financial position will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Electric System, deferred inflows of resources include pension (see Note 8).

Net Position – Net position represents the difference between assets and deferred outflows of resources, reduced by liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Electric System applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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 $45,584,417 and $18,947,922 at December 31, 2016 and 2015, respectively, and consisted of demand deposits, money market funds, U.S. government securities and State Treasury Asset Reserve of Ohio (STAR Ohio). Cash and investments held by trustees were $3,353,153 and $3,451,473 at December 31, 2016 and 2015, respectively.

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 the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value. For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $50 million, requiring the excess amount to be transacted the following business day(s), but only to the $50 million limit. All accounts of the participant will be combined for these purposes.

Deposits – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a custodial risk policy. As of December 31, 2016 approximately 95% of the City's deposits with financial institutions, including the amount of pooled deposits related to the Electric System, were exposed to custodial credit risk because they are considered uninsured and uncollateralized. 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. Custodial credit risk in regards to investments is the risk that, in the event of a failure of a counter party, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The City employs the use of "safekeeping" accounts to hold and maintain custody of its investments as identified within this policy and as means of mitigating this risk.

Interest rate risk is the risk that the City will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy by limiting investments to certain maximum maturities. As a rule, unless specified otherwise within the policy, investments are to have a maximum maturity of five years unless the investment is matched to a specific expenditure. The context of a specific investment purchase must be weighed in proportion to the remainder of the existing investment portfolio and the "prudent investor" rule to attempt to limit such risk. Fair value in U.S. Treasury securities are measured using level 1 inputs, using quoted prices in active markets for identical assets. Fair value in U.S agency securities and commercial paper are measured using level 2 inputs, using significant other observable inputs.

The City’s pooled investments, as well as the investments held by trustees specifically for the Electric System, are invested primarily in U.S. governmental agency securities with a credit rating of AA+ and an average maximum maturity of years and STAR Ohio which has a credit rating of AAAm.

3. ACCOUNTS RECEIVABLE

Receivables at December 31, 2016 and 2015 consist of the following:

		2016	2015
Earned and unbilled consumer accounts	$	3,976,866	3,910,280
Earned and billed consumer accounts		7,611,260	6,958,737
Due from AMP, Inc.		882,214	-
Other		28,801	21,451
Less allowance for uncollectible accounts		(4,678,297)	(4,418,470)
Total	$	7,820,844	6,471,998

4. RESTRICTED ASSETS

Restricted assets consist of assets whose use has been restricted by bond indenture for debt service and rate stabilization. Restricted assets were $7,353,153 and $7,451,473 at December 31, 2016 and 2015, respectively.

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 and 2015 was as follows:

		Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Nondepreciable capital assets:					
Land	$	1,743,589	-	-	1,743,589
Construction in progress		18,146,839	926,534	(3,035,456)	16,037,917
Subtotal		19,890,428	926,534	(3,035,456)	17,781,506
Capital assets being depreciated:					
Intangibles		1,070,786	-	-	1,070,786
Buildings and improvements		19,821,136	1,358,749	-	21,179,885
Machinery and equipment		387,849,440	6,294,174	(645,094)	393,498,520
Subtotal		408,741,362	7,652,923	(645,094)	415,749,191
Totals at historical cost		428,631,790	8,579,457	(3,680,550)	433,530,697
Less accumulated depreciation:					
Intangibles		171,328	21,416	-	192,744
Buildings and improvements		8,827,949	318,315	-	9,146,264
Machinery and equipment		298,522,707	8,521,407	(645,094)	306,399,020
Total accumulated depreciation		307,521,984	8,861,138	(645,094)	315,738,028
Capital assets, net	$	121,109,806	(281,681)	(3,035,456)	117,792,669

		Restated Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Nondepreciable capital assets:					
Land	$	2,070,732	15,334	(342,477)	1,743,589
Construction in progress		16,411,719	4,170,755	(2,435,635)	18,146,839
Subtotal		18,482,451	4,186,089	(2,778,112)	19,890,428
Capital assets being depreciated:					
Intangibles		1,070,786	-	-	1,070,786
Buildings and improvements		19,944,628	25,338	(148,830)	19,821,136
Machinery and equipment		383,930,477	5,528,530	(1,609,567)	387,849,440
Subtotal		404,945,891	5,553,868	(1,758,397)	408,741,362
Totals at historical cost		423,428,342	9,739,957	(4,536,509)	428,631,790
Less accumulated depreciation:					
Intangibles		149,912	21,416	-	171,328
Buildings and improvements		8,628,106	274,847	(75,004)	8,827,949
Machinery and equipment		291,637,639	8,326,080	(1,441,012)	298,522,707
Total accumulated depreciation		300,415,657	8,622,343	(1,516,016)	307,521,984
Capital assets, net	$	123,012,685	1,117,614	(3,020,493)	121,109,806

6. LONG-TERM DEBT

In May 2005, the City converted its 2002 Series A and B Variable Rate Revenue Refunding Bonds from a seven-day floating variable interest rate to a term fixed rate for the remaining term of the bonds. In September 2015, the City refunded $98,140,000 of the Series 2005 Electric Revenue Refunding Bonds through the issuance of $99,680,000 of Electric Revenue Refunding Notes. The net proceeds of the 2015 Notes were used to current refund the 2005 Revenue Refunding Bonds. The City reduced its aggregate debt service payments over the life of the refunded bonds by $24,732,929 and obtained an economic gain (difference between the present values of the old and new debt service payments) of $20,193,914

On September 9, 2009, the City issued $18,620,000 in Series 2009A Electric System Revenue Bonds and $14,520,000 in Series 2009B Taxable Electric System Build America Revenue Bonds to currently refund bond anticipation notes and provide funding for Electric System transmission and distribution improvements. With the issuance of the Build America Bonds, the City will be entitled to receive an interest subsidy payment of 35% from the U.S. Treasury on any interest payment date. The Series 2009A revenue bonds fully mature in 2030 with interest from 2.25% to 4.625% per annum. The Series 2009B Build America Bonds fully mature in 2039 with interest from 6.5% to 6.6% per annum.

Debt activity for the year ended December 31, 2016 was as follows:

		Balance 1/1/16	Additions	Reductions	Balance 12/31/16	Due Within One Year
Series 2009A Revenue Bonds	$	16,595,000	-	(830,000)	15,765,000	865,000
Series 2009B Revenue BABs		14,520,000	-	-	14,520,000	-
Less deferred amount:						
for issuance discounts		(190,180)	-	16,726	(173,454)	-
Net pension liability		6,858,924	2,090,357	-	8,949,281	-
Compensated absences		891,089	545,806	(461,803)	975,092	483,570
	$	38,674,833	2,636,163	(1,275,077)	40,035,919	1,348,570

Debt activity for the year ended December 31, 2015 was as follows:

		Balance 1/1/15	Additions	Reductions	Balance 12/31/15	Due Within One Year
Series 2005 Refunding	$	106,130,000	-	(106,130,000)	-	-
Series 2009A Revenue Bonds		17,410,000	-	(815,000)	16,595,000	830,000
Series 2009B Revenue BABs		14,520,000	-	-	14,520,000	-
Less deferred amount:						
for issuance discounts		(417,998)	-	227,818	(190,180)	-
Net pension liability		6,707,570	151,354	-	6,858,924	-
Compensated absences		1,037,756	356,430	(503,097)	891,089	461,803
	$	145,387,328	507,784	(107,220,279)	38,674,833	1,291,803

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, 2016 follows:

		Principal	Interest	Total
2017	$	865,000	1,617,759	2,482,759
2018		890,000	1,591,809	2,481,809
2019		920,000	1,562,884	2,482,884
2020		950,000	1,530,684	2,480,684
2021		1,000,000	1,483,184	2,483,184
2022-2026		5,660,000	6,725,745	12,385,745
2027-2031		6,835,000	5,398,400	12,233,400
2032-2036		7,700,000	3,361,320	11,061,320
2037-2039		5,465,000	731,610	6,196,610
Total	$	30,285,000	24,003,395	54,288,395

7. NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is 5 years. Any period in excess of 5 years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities that would have been required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the Electric System or a combination of these sources.

			Balance 1/1/16	Additions	Reductions	Balance 12/31/16
2015 Electric System Imp.	0.43%	$	103,695,000	-	(103,695,000)	-

In September 2015, the City issued $103,695,000 in Electric System Revenue Refunding Notes to current refund $98,140,000 of the 2005 Electric Revenue Refunding Bonds and pay off the Series 2014 General Obligation Notes of $4,000,000. The Series 2015 Notes matured on September 27, 2016.

8. DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

The Electric System contributes to the Ohio Public Employees Retirement System, the City of Hamilton Metropolitan Pension Plan, and post-employment life insurance.

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pension is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Electric System's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Electric System's obligation for this liability to annually required payments. The Electric System cannot control benefit terms or the manner in which pensions are financed; however, the Electric System does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Electric System employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Electric System employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by year of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by year of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by year of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2016 and 2015 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 and 2015 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0 %
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Electric System’s contractually required contributions were $809,238 and $793,771 for 2016 and 2015, respectively. Of these amounts, $33,636 and $14,367 were reported as intergovernmental payables in 2016 and 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liabilities for OPERS were measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Electric System's proportion of the net pension liability was based on the Electric System's share of contributions to the pension plan relative to the contributions of all participating entities in those measurement periods. The following is information related to the proportionate share and pension expense:

	2016	2015
Proportionate Share of the Net Pension Liability	$8,949,281	$6,858,924
Proportion of the Net Pension Liability	0.0516665%	0.0568681%
Change in Proportion	-0.0052016%	
Pension Expense	$1,109,710	$745,709

At December 31, 2016 and 2015, the Electric System reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	2016	2015
Deferred Outflows of Resources		
Net difference between projected and actual earnings on pension plan investments	$ 2,630,530	$ 366,166
Electric System contributions subsequent to the measurement date	809,238	793,771
Total Deferred Outflows of Resources	3,439,768	1,159,937
Deferred Inflows of Resources		
Differences between expected and actual experience	$ 184,004	$ 120,562
Electric System change in proportionate share	331,566	-
Total Deferred Inflows of Resources	$ 515,570	$ 120,562

$809,238 reported as deferred outflows of resources related to pension resulting from the Electric System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	
2017	$ 417,222
2018	459,284
2019	643,164
2020	595,290
Total	$ 2,114,960

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	Pre 1/7/2013 Retirees: 3 percent, simple; Post 1/7/2013 Retirees: 3 percent simple through 2018, then 2.80 percent
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2015, OPERS managed investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. In 2016, the investment portfolios were consolidated (see Other Postemployment Benefits section below). The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Electric System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Electric System's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the Electric System's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Electric System's proportionate share of the net pension liablity	$ 14,258,606	8,949,281	$ 4,471,282

OPERS Other Postemployment Benefits

Plan Description – OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-retirement health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage, and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml#CAFR, by making a written request to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy – The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2016, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.00% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension and Combined Plans was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The Electric System's contributions for health care to the OPERS for the years ending December 31, 2016, 2015, and 2014 $116,000, $131,000, $140,000, respectively, which were equal to the required contributions for each year.

Metropolitan Pension Plan

Employees of the City who were not included under the Ohio Public Employees Retirement System (OPERS) prior to May 15, 1962 and who were included under a Group Annuity Contract of the Metropolitan Life Insurance Company participate in the City of Hamilton Metropolitan Pension Plan, a single-employer defined benefit pension plan.

Upon retirement, plan participants are entitled to a supplemental retirement benefit paid by the City, equal to the difference between OPERS benefits that would have been payable to such employee had the employee been covered by OPERS during the full period of employment and actual OPERS benefits received. Benefit provisions of the plan are established and may be amended by the City Council through ordinance. All current participants in the Metropolitan Pension Plan are retired from service with the City.

The Electric System's annual pension cost (APC) and net pension obligation (NPO) for the Metropolitan Pension Plan for the years ended December 31, 2016, 2015, and 2014 are as follows:

	2016	2015	2014
Annual required contribution (ARC)	$ 60,652	$ 54,684	$ 49,498
Interest on NPO	2,042	1,209	795
Adjustments to ARC	(13,039)	(6,658)	(3,719)
Annual pension cost (APC)	49,655	49,235	46,574
Contributions made	30,930	31,421	36,227
Increase in net pension obligation	18,725	17,814	10,347
Net pension obligation, beginning of year	48,041	30,227	19,880
Net pension obligation, end of year	$ 66,766	$ 48,041	$ 30,227

The Electric System's APC, percentage of APC contributed, NPO, and unfunded actuarial accrued liabilities for the years ended December 31, 2016, 2015, and 2014 are as follows:

Years Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Unfunded Actuarial Accrued Liability
2016	$ 49,655	62.3%	$ 66,766	$ 204,698
2015	49,235	63.8%	48,041	223,469
2014	46,574	77.8%	30,227	248,264

The actuarial valuation date was December 31, 2016 and the accrued liability was calculated using the entry age normal cost method. The Metropolitan Pension Plan currently has no assets. The amortization method used was level dollar and the amortization period was 5 years.

Retiree Life Insurance

The City provides post-employment life insurance coverage through the Hartford Insurance Company. The insurance coverage provided is considered an other post-employment benefit (OPEB) as described in GASB Statement No. 45.

Eligible employees are grouped into two classes. Employees who retired prior to March 1, 1977 are eligible to receive $2,000 in life insurance benefits. Employees who retired after March 1, 1977 are eligible to receive $4,000 in life insurance benefits. Benefit provisions of the plan are established and may be amended by City Council through ordinance.

The Electric System's annual OPEB cost and net OPEB for the Retiree Life Insurance Plan for the years ended December 31, 2016, 2015, and 2014 are as follows:

	2016	2015	2014
Annual required contribution (ARC)	$ 19,363	$ 18,099	$ 11,711
Interest on Net OPEB	282	183	125
Adjustments to ARC	(417)	(274)	(182)
Annual OPEB cost	19,228	18,008	11,654
Contributions made	16,634	15,947	10,195
Increase in Net OPEB	2,594	2,061	1,459
Net OPEB, beginning of year	6,636	4,575	3,116
Net OPEB, end of year	$ 9,230	$ 6,636	$ 4,575

The Electric System's annual OPEB cost, percentage of OPEB contributed, net OPEB, and unfunded actuarial accrued liabilities for the years ended December 31, 2016, 2015, and 2014 are as follows:

Years Ended	Annual OPEB Cost	Percentage of OPEB Contributed	Net OPEB Obligation	Unfunded Actuarial Accrued Liability
2016	$ 19,228	86.5%	$ 9,230	$ 254,226
2015	18,008	88.6%	6,636	266,328
2014	11,654	87.5%	4,575	250,418

The actuarial valuation date was December 31, 2016 and the accrued liability was calculated using the entry age normal cost method. The City's post-employment life-insurance plan currently has no assets.

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 and the estimated operating cost of supplying these free services was $288,000 and $350,000 in 2016 and 2015, respectively.

The City's Gas System provides gas to the Electric System for use in the generation of electricity. Gas costs of $137,000 and $119,000 in 2016 and 2015, respectively, 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 in 2016 and 2015 of $1,805,755 ($1,217,154 and $588,601) and $1,401,846 ($803,442 and $598,404), 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 $3,565,000 and $3,317,000 in 2016 and 2015, respectively, and are included in other operating expenses.

10. 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.

11. 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.

12. 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. 61, 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, Inc. – The City is a founding member of American Municipal Power, Inc. (AMP). AMP 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, 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, Inc., 1111 Schrock Road, Columbus, Ohio 43219.

(b) American Municipal Power (AMP) – 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, 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.

The following amounts were expended by the Electric Fund and recorded within the Purchase of Electric expense account to the OMEGA JV2 in 2016 and 2015:

	2016	2015
Payments - OMEGA JV2	$ 2,430,247	1,890,680

The continued existence of OMEGA JV2 is dependent upon the City's continued participation but the City, as a financing purchasing participant, does not have an equity interest in OMEGA JV2. Complete financial statements may be obtained from AMP, Inc., 1111 Schrock Road, Columbus, Ohio 43219.

(c) Meldahl Hydroelectric Project – AMP constructed a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the "Meldahl Project"). Now that the Meldahl Project has entered commercial operation, it has a generating capacity of approximately 105 MW. The City of Hamilton and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license to operate the Meldahl Project.

The City of Hamilton has executed a take-or-pay power sales contract with AMP for a Project Share of 54 MW, or 51.4%, of capacity and associated energy from the Meldahl Project.

Pursuant to the various agreements between the City of Hamilton and AMP, the Meldahl Project is owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company ("Meldahl LLC"). AMP is the sole member of Meldahl, LLC and appoints three members of its Board of Directors (the Meldahl Board). AMP acting as agent of Meldahl LLC, has financed the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of $685,100,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members. The Meldahl Project entered commercial operation on April 12, 2016.

13. CONTRACTUAL COMMITMENTS

At December 31, 2016, the Electric System had contractual commitments of approximately $2,425,000 related to property, plant and equipment improvements and additions, as well as various other contract and agreements to provide or receive services related to the Electric System operations.

14. 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.

15. RESTATEMENT OF NET POSITION

Adjustments were necessary to account for corrections to beginning of year capital asset balances. The capital asset corrections had the following effect on the Electric System net position:

Net Position, January 1, 2015	$	7,581,252
Adjustments:		
Capital asset corrections		(489,860)
Restated Net Position, January 1, 2015	$	7,091,392

CITY OF HAMILTON, OHIO – ELECTRIC SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST THREE MEASUREMENT PERIODS

	2015	2014	2013
Electric System's proportion of the Net Pension Liability	0.0516665%	0.0568681%	0.0568681%
Electric System's proportionate share of the Net Pension Liability	$ 8,949,281	$ 6,858,924	$ 6,707,570
Electric System's Covered-Employee Payroll	$ 6,614,758	$ 6,999,658	$ 6,440,385
Electric System's Proportionate Share of the Net Pension Liability as a Percentage of it Covered-Employee Payroll	135.29%	97.99%	104.15%
Plan Fiduciary Net Position as a Percentage as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

Note: Information prior to 2013 was not available.

SCHEDULE OF CONTRIBUTIONS
LAST FOUR YEARS

	2016	2015	2014	2013
Contractually Required Contributions	$ 809,238	$ 793,771	$ 839,959	$ 837,250
Contributions in Relation to the Contractually Required Contribution	(809,238)	(793,771)	(839,959)	(837,250)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Electric System's Covered-Employee Payroll	$ 6,743,650	$ 6,614,758	$ 6,999,658	$ 6,440,385
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%

Note: Information prior to 2013 was not available.

CITY OF HAMILTON - ELECTRIC

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 24, 2017

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