CITY OF HAMILTON ELECTRIC SYSTEM
BUTLER COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2012 - 2011

Dave Yost • Auditor of State

CITY OF HAMILTON ELECTRIC SYSTEM
BUTLER COUNTY

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INDEPENDENT AUDITOR'S REPORT

City of Hamilton
Butler County
345 High Street
Hamilton, Ohio 45011

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the Electric System, an enterprise fund of City of Hamilton, Butler County, Ohio (the System), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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, 2012 and 2011 and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric System of the City of Hamilton, Butler County, Ohio, as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 15 to the financial statements, during the year ended December 31, 2012, the System adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

June 25, 2013

City of Hamilton, Ohio
Electric System

Management's Discussion and Analysis
For the Years Ended December 31, 2012 and 2011
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 year ended December 31, 2012 and 2011. 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 2012 and 2011 are as follows:

- The assets and deferred outflow of resources of the Hamilton Electric System exceeded its liabilities at the close of 2012 by $12,903,728 and $10,784,950 at the close of 2011 (net position). At December 31, 2012 and 2011, $27,970,368 and $24,185,633, 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 $2,118,778 between 2012 and 2011, representing a 19.6% increase.
- In 2012, the Electric System's long-term debt, net of discounts, decreased $7,392,421.

Electric System Summary and Using this Annual Report

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 29,000 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 Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement 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, 2012 and 2011.

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 2012 and 2011. 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, 2012 and 2011
Unaudited

In the Statement of Net Position and the Statement 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 2012 and 2011?" These statements provide answers to that question. The statements include all assets, deferred outflow of resources and liabilities 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 by $12,903,728 and $10,784,950 as of December 31, 2012 and 2011, respectively. Unrestricted net position of $27,970,368, $24,185,633 and $19,727,028 for 2012, 2011 and 2010, respectively encompass the largest portion of the net position of the System.

Table 1 provides a summary of the Electric System's Statement of Net Position for the Years Ended December 31, 2012, 2011 and 2010.

	2012	*Restated* 2011	*Restated* 2010
Current and Other Assets	$45,510,204	$44,101,930	$50,021,419
Capital Assets	128,567,414	131,483,201	130,839,995
Total Assets	174,077,618	175,585,131	180,861,414
Deferred Outflow of Resources	3,797,102	4,331,524	4,893,600
Long-term Liabilities	146,861,381	154,735,826	162,216,899
Other Liabilities	18,109,611	14,395,879	15,076,698
Total Liabilities	164,970,992	169,131,705	177,293,597
Net investment in capital assets	(25,228,826)	(23,739,636)	(21,555,608)
Restricted	10,162,186	10,338,953	10,289,997
Unrestricted	27,970,368	24,185,633	19,727,028
Total Net Position	$12,903,728	$10,784,950	$8,461,417

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 $128,567,414, $131,483,201and $130,839,995, respectively at December 31, 2012, 2011 and 2010. 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, 2012 and 2011, the Electric System was able to report positive balances in net position of $12,903,728 and $10,784,950, respectively. Operating income of $9,451,659 for 2012, $10,170,116 for 2011 and $7,997,011 for 2010 were positive, even with depreciation and amortization expense exceeding $10.5 million in all three years. Net operating income of $9,451,659, which is a decrease from 2011 of $718,457, was primarily due to a reduction in system sales in 2012 compared to 2011 resulting from the closing of the Mohawk paper mills in March 2012. Net non-operating expenses of $7.5 million decreased by $314,000, primarily due to paying less interest as the City continued to make its scheduled annual debt service payments.

Statement of Revenues, Expenses and Changes in Net Position

	2012	*Restated* 2011	*Restated* 2010
Operating Revenues	$62,172,965	$63,327,834	$64,552,173
Operating Expenses:			
Purchased power and fuel	21,836,976	21,810,942	21,607,711
Depreciation	11,252,662	10,751,205	10,578,195
Other Operating Expenses	19,631,668	20,595,571	24,369,256
Total Operating Expenses	52,721,306	53,157,718	56,555,162
Operating income	9,451,659	10,170,116	7,997,011
Non-Operating revenues (expenses)			
Interest and fiscal charges	(7,616,356)	(7,920,063)	(8,257,581)
Other non-operating revenues (expenses)	83,475	73,480	(153,646)
Total non-operating revenues (expenses)	(7,532,881)	(7,846,583)	(8,411,227)
Special Item-Meldahl license sharing	-	-	3,888,044
Contributions	200,000	-	-
Change in Net Position	2,118,778	2,323,533	3,473,828
Beginning Net Position	10,784,950	8,461,417	4,987,589
Ending Net Position	$12,903,728	$10,784,950	$8,461,417

Capital Assets and Debt Administration

Capital Assets: The City's net investment in capital assets of the Electric System as of December 31, 2012, 2011 and 2010 amounted to ($25.23 Million), ($23.74 Million) and ($21.56 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. 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.

The City implemented Governmental Accounting Standard Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, during 2010. Consequently, the financial statements were restated to report the capitalization of a hydroelectric dam operating license obtained in 2008. In September 2010, 48.6% ownership in this license was sold to AMP, Inc., resulting in a gain of $3,888,044 reported as a special item; see Note 1.

Note 5 (Capital Assets) provides Electric System asset activity during 2012 and 2011.

Debt Administration: At the end of 2012, the City had two outstanding long-term revenue bond issues, the 2005 Electric System Revenue Refunding Bonds totaling $121,355,000 and 2009 Electric System Revenue Bonds totaling $32,945,000.

A portion of the 2009 Revenue Bonds was used to retire the outstanding bond anticipation notes.

See Note 6 for a discussion of outstanding Electric System bonds and related activity.

Economic Factors and Future Trends

The City's Electric System is continually monitoring the cost of purchased power, coal and natural gas. Purchased power, coal and natural gas prices have been highly volatile over the last several years and the City is required by both ordinance and indentures to pass along these cost increases, or decreases, to its customers. Debt service coverage has been maintained well above the indenture required minimums. The City has a significant portion of its purchased power and coal requirements purchased through 2014. These fixed cost purchases should help stabilize City electric rates through 2013.

The City has a rate ordinance, which sets forth rates and charges for residential service and non-residential 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. This charge was $0.018970/kWh throughout 2012.

- 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 2012, and is expected to remain there throughout 2013.

- 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. In 2012, Rider D was assessed at 0.5% of the base rate and PCA revenues.

- 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. In 2012, Rider E was 1.0% of the base rate and PCA revenues

- The Economic Development Cost Adjustment (Rider F) for Electric was set at $0.91 per month for in-City, residential customers, for 2012. The non-residential customer rate, depending upon the customer category and rate schedule, ranged from $2.74 to $9.57 per month, per meter, in 2012.

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.

On March 31, 2012, Mohawk Fine Papers/Beckett Mill, formerly the City's largest electric customer, by kWh usage and revenue, ceased operations in Hamilton. As a measure of the direct impact of their operations, in 2011, Mohawk used over 36.7 million kWh and was billed over $2.8 million for electric service to the Beckett Mill. Mohawk accounted for approximately 5.94% of the total electric usage and approximately 4.64% of the revenues of the Electric System. The direct Total Net Revenue Loss to the City's Electric System from the loss of Mohawk was minimal. Any electricity that the City would have generated and sold to Mohawk would have been sold into the wholesale market. Additionally, since Mohawk was being provided with a below-market rate for electricity at their Hamilton mill, any sales of electricity into the market by the City would have brought a higher return than would have been received from Mohawk in 2012.

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. The transmission system improvements enable the City to import energy from Prairie State Energy Campus, Fremont Energy Center and Meldahl Hydroelectric Plant, as well as the Greenup Hydroelectric Plant. When these improvements are completed, the Electric System will be capable of reliable operation without the Hamilton Power Plant being in 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 will provide approximately 268,700 MWh, 36% of the City's energy requirement, in 2015. 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 will be paid by AMP to the City at the commencement of operations of the Meldahl Project in 2014. The City anticipates using the sale proceeds to retire outstanding debt and/or 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 combination of Meldahl and Greenup generation will provide approximately 56% of the City's energy requirement in 2015.

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. For example, scrubbers have been installed and the plant produces power using a blend of compliance and non-compliance coal. In 2011, the City received a Section 114(a) letter from the U.S. EPA, which requires the City to provide a detailed accounting of its operations over the years, to verify that any changes the Electric System made to its power generating facilities are in compliance with the Clean Air Act. The U.S. EPA has systematically been pursuing coal-fired, power plants, similar to the one in Hamilton, over the last several years, for compliance documentation. In order to remain in compliance, the City presented several options to the U.S. EPA, for continued operations of the power plant. Subsequently, 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. Unit 9 would retain the capability of handling coal in the future, as a secondary fuel source. The conversion of Units 8 & 9 is expected to be completed before the summer of 2013. 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.

City of Hamilton, Ohio
Electric System

Management's Discussion and Analysis
For the Years Ended December 31, 2012 and 2011
Unaudited

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 92% of the City's energy requirement in 2015.

The City maintains an A3 rating with a stable outlook for its Electric System and for both its 2002 Electric System Revenue Refunding Bonds and 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 Gas 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, 2012 AND 2011

	2012	*Restated* 2011
ASSETS		
Current assets:		
Cash and investments	$ 26,075,615	22,079,658
Accounts receivable (less allowance for uncollectible accounts of $4,171,571 and $4,378,384, respectively)	6,449,254	6,647,105
Interest receivable	3,002	7,637
Interfund receivable	340,000	425,000
Inventory of supplies at cost	1,837,274	3,937,543
Prepaid expenses	642,873	666,034
Total current assets	35,348,018	33,762,977
Restricted cash and investments	10,162,186	10,338,953
Capital assets:		
Property, plant and equipment	384,093,069	380,088,647
Construction in progress	28,308,823	24,167,902
Accumulated depreciation	(283,834,478)	(272,773,348)
Total capital assets	128,567,414	131,483,201
Total assets	174,077,618	175,585,131
DEFERRED OUTFLOW OF RESOURCES		
Deferred charge on debt refunding	3,797,102	4,331,524
LIABILITIES		
Current liabilities:		
Accounts payable	2,918,513	3,338,518
Accrued wages and benefits	352,682	336,653
Accrued liabilities	-	605
Intergovernmental payable	135,551	137,300
Accrued interest payable	1,612,355	1,658,453
Customer deposits payable	818,928	789,806
Compensated absences payable-current	571,582	684,544
General obligation notes payable	4,000,000	-
Revenue bonds payable-current portion	7,700,000	7,450,000
Total current liabilities	18,109,611	14,395,879
Noncurrent Liabilities:		
Compensated absences payable	787,271	1,019,296
Revenue bonds payable	146,074,110	153,716,530
Total noncurrent liabilities	146,861,381	154,735,826
Total liabilities	164,970,992	169,131,705
NET POSITION		
Net investment in capital assets	(25,228,826)	(23,739,636)
Restricted for debt service	6,162,186	6,338,953
Restricted for rate stabilization	4,000,000	4,000,000
Unrestricted	27,970,368	24,185,633
Total net position	$ 12,903,728	10,784,950

See notes to financial statements.

CITY OF HAMILTON, OHIO - ELECTRIC SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	*Restated* 2011
Operating revenues:		
Charges for services	$ 61,482,228	62,749,229
Other operating revenues	690,737	578,605
Total operating revenues	62,172,965	63,327,834
Operating expenses:		
Personal services	9,875,893	10,018,108
Materials and supplies	1,188,268	1,181,048
Contractual services	5,652,000	6,306,254
Purchased power and fuel	21,836,976	21,810,942
Depreciation	11,252,662	10,751,205
Other operating expenses	2,915,507	3,090,161
Total operating expenses	52,721,306	53,157,718
Operating income	9,451,659	10,170,116
Non-operating revenues (expenses):		
Investment earnings	83,572	112,025
Loss on disposal of capital assets	(97)	(40,631)
Interest and fiscal charges	(7,616,356)	(7,920,063)
Other local taxes (kWh taxes)	-	2,086
Total non-operating revenues (expenses)	(7,532,881)	(7,846,583)
Income (loss) before contributions	1,918,778	2,323,533
Contributions	200,000	-
Change in net position	2,118,778	2,323,533
Net position - beginning of year	10,784,950	8,461,417
Net position - end of year	$ 12,903,728	10,784,950

See notes to financial statements.

CITY OF HAMILTON, OHIO - ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Cash received from customers	$ 62,399,333	63,327,595
Cash paid for employee services and benefits	(10,952,996)	(10,566,699)
Cash paid to suppliers for goods and services	(29,021,254)	(32,758,568)
Net cash provided by operating activities	22,425,083	20,002,328
Cash flows from noncapital financing activities:		
Kilowatt hour taxes received	-	2,086
Advances in from other funds	85,000	-
Advances out to other funds	-	(425,000)
Net cash provided (used) by noncapital financing activities	85,000	(422,914)
Cash flows from capital and related financing activities:		
Payments for capital acquisition	(8,458,648)	(12,078,244)
Debt proceeds	4,000,000	-
Premium on issuance of debt	20,800	-
Debt principal payments	(7,450,000)	(7,025,000)
Debt interest payments	(7,091,252)	(7,354,690)
Capital grants	200,000	-
Net cash used by capital and related financing activities	(18,779,100)	(26,457,934)
Cash flows from investing activities:		
Interest from investments	88,207	120,595
Net change in cash and investments	3,819,190	(6,757,925)
Cash and investments at beginning of year	32,418,611	39,176,536
Cash and investments at end of year	$ 36,237,801	32,418,611
Reconciliation of operating income to net cash providing by operating activities:		
Operating income	$ 9,451,659	10,170,116
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	11,252,662	10,751,205
Change in Assets and Liabilities:		
(Increase) decrease in receivables	197,851	(11,186)
(Increase) decrease in inventory	2,100,269	(1,110,551)
(Increase) decrease in prepaid items	23,161	699,731
Increase (decrease) in customer deposits payable	29,122	10,697
Increase (decrease) in payables	(298,329)	(304,251)
Increase (decrease) in accrued liabilities	(329,563)	(74,808)
Increase (decrease) in intergovernmental payables	(1,749)	(128,625)
Net cash provided by operating activities	$ 22,425,083	20,002,328
Schedule of noncash activities:		
Outstanding liabilities for purchase of certain capital assets	$ 691,096	812,772
Change in fair value of investments	1,683	8,171

See notes to financial statements.

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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. 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 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 – Unamortized bond discounts are amortized on the interest method over the term of the related bonds. Amortization of bond discounts was $57,579 and $59,644 in 2012 and 2011, 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.

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. The Electric System only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Net Position – Net position represents the difference between assets, liabilities, and deferred outflows 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 $30,075,615 and $26,079,658 at December 31, 2012 and 2011, respectively, and consisted of demand deposits, money market funds, U.S. government securities and STAR Ohio. Cash and investments held by trustees were $6,162,186 and $6,338,953 as of December 31, 2012 and 2011, 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 STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2012.

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, 2012, nearly 99% 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.

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 4.92 years and STAR Ohio which has a credit rating of AAAm.

3. ACCOUNTS RECEIVABLE

Receivables at December 31, 2012 and 2011 consist of the following:

		2012	2011
Earned and unbilled consumer accounts	$	3,748,866	3,972,593
Earned and billed consumer accounts		6,721,808	6,918,921
Other		150,151	133,975
Less allowance for uncollectible accounts		(4,171,571)	(4,378,384)
Total	$	6,449,254	6,647,105

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 $10,162,186 and $10,338,953 at December 31, 2012 and 2011, respectively.

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2012 and 2011 was as follows:

		Balance 1/1/12	Increases	Decreases	Balance 12/31/12
Nondepreciable capital assets:					
Land	$	1,974,917	71,953	-	2,046,870
Construction in progress		24,167,902	5,521,510	(1,380,589)	28,308,823
Subtotal		26,142,819	5,593,463	(1,380,589)	30,355,693
Capital assets being depreciated:					
Intangibles		1,070,786	-	-	1,070,786
Buildings and improvements		16,488,522	-	-	16,488,522
Machinery and equipment		360,554,422	4,124,098	(191,629)	364,486,891
Subtotal		378,113,730	4,124,098	(191,629)	382,046,199
Totals at historical cost		404,256,549	9,717,561	(1,572,218)	412,401,892
Less accumulated depreciation:					
Intangibles		85,664	21,416	-	107,080
Buildings and improvements		7,192,049	217,812	-	7,409,861
Machinery and equipment		265,495,635	11,013,434	(191,532)	276,317,537
Total accumulated depreciation		272,773,348	11,252,662	(191,532)	283,834,478
Capital assets, net	$	131,483,201	(1,535,101)	(1,380,686)	128,567,414

		Balance 1/1/11	Increases	Decreases	Balance 12/31/11
Nondepreciable capital assets:					
Land	$	1,974,917	-	-	1,974,917
Construction in progress		26,749,720	7,476,875	(10,058,693)	24,167,902
Subtotal		28,724,637	7,476,875	(10,058,693)	26,142,819
Capital assets being depreciated:					
Intangibles		1,070,786	-	-	1,070,786
Buildings and improvements		16,373,310	115,212	-	16,488,522
Machinery and equipment		346,847,698	13,901,648	(194,924)	360,554,422
Subtotal		364,291,794	14,016,860	(194,924)	378,113,730
Totals at historical cost		393,016,431	21,493,735	(10,253,617)	404,256,549
Less accumulated depreciation:					
Intangibles		64,248	21,416	-	85,664
Buildings and improvements		6,974,180	217,869	-	7,192,049
Machinery and equipment		255,138,008	10,511,920	(154,293)	265,495,635
Total accumulated depreciation		262,176,436	10,751,205	(154,293)	272,773,348
Capital assets, net	$	130,839,995	10,742,530	(10,099,324)	131,483,201

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. The revenue bonds fully mature in 2025.

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, 2012 was as follows:

	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Series 2005 Refunding	$ 128,610,000	-	(7,255,000)	121,355,000	7,490,000
Series 2009A Revenue Bonds	18,620,000	-	(195,000)	18,425,000	210,000
Series 2009B Revenue BABs	14,520,000	-	-	14,520,000	-
Less deferred amount:					
for issuance discounts	(583,469)	-	57,579	(525,890)	-
	$ 161,166,531	-	(7,392,421)	153,774,110	7,700,000

Debt activity for the year ended December 31, 2011 was as follows:

	Balance 1/1/11	Additions	Reductions	Balance 12/31/11	Within One Year
Series 2005 Refunding	$ 135,635,000	-	(7,025,000)	128,610,000	7,255,000
Series 2009A Revenue Bonds	18,620,000	-	-	18,620,000	195,000
Series 2009B Revenue BABs	14,520,000	-	-	14,520,000	-
Less deferred amount:					
for issuance discounts	(643,113)	-	59,644	(583,469)	-
	$ 168,131,887	-	(6,965,356)	161,166,531	7,450,000

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, 2012 follows:

	Principal	Interest	Total
2013	$ 7,700,000	7,137,796	14,837,796
2014	8,540,000	6,833,471	15,373,471
2015	8,805,000	6,496,211	15,301,211
2016	9,080,000	6,144,251	15,224,251
2017	9,390,000	5,766,676	15,156,676
2018-2022	51,795,000	22,335,080	74,130,080
2023-2027	40,270,000	9,806,366	50,076,366
2028-2032	6,970,000	5,063,500	12,033,500
2033-2037	8,030,000	2,857,545	10,887,545
2038-2039	3,720,000	370,920	4,090,920
Total	$ 154,300,000	72,811,816	227,111,816

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 1/1/12	Additions	Reductions	Balance 12/31/12
2012 Electric System Imp.	1.25%	$	-	4,000,000	-	4,000,000

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.

Ohio Public Employees Retirement System (OPERS)

The 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 in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.

- The Combined Plan – a cost sharing multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members and of the Traditional Plan and Combined Plan. Members of the Member-Directed Plan do not qualify for ancillary benefits. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the OPERS, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 10.0% of their annual covered salary. The City was required to contribute 14.0% of covered payroll for employees. The Electric System's required contributions to OPERS for the years ended December 31, 2012, 2011, and 2010 were approximately $1,105,000, $1,097,000, and $1,055,000, respectively, equal to the required contributions for each year.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 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 meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code 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 Ohio Revised Code.

The Ohio Revised Code 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 2012, the City contributed 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

The OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated for health care for members in the Combined Plan was 6.05% during calendar year 2012. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Retirement Board is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payments amounts vary depending on the number of covered dependents and the coverage selected. The portion of the Electric System's contributions that were used to fund post employment benefits was approximately $316,000, $313,000, and $383,000 for 2012, 2011, and 2010, respectively.

Changes to the health care plan were adopted by the OPERS Retirement Board on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4% of the employer contributions toward the health care fund after the end of the transition period.

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.

For fiscal year 2012, the portion of the Electric System's annual pension cost was $55,782. The Electric System contributed 83.5%, or $46,568, resulting in a net pension obligation of $9,213. The net pension obligation for the prior year was $5,665. The Electric System's portion of the total unfunded accrued liability at year end was $313,174.

The actuarial valuation date was December 31, 2012 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 7 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.

For fiscal year 2012, the portion of the Electric System's annual OPEB cost was $11,346. The Electric System contributed 85.8%, or $9,736, resulting in a net OPEB obligation of $1,610. The net OPEB obligation for the prior year was $1,617. The Electric System's portion of the total unfunded accrued liability at year end was $164,697.

The actuarial valuation date was December 31, 2012 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. Street and traffic light facilities used approximately 5,714,622 kilowatt-hours and 5,717,396 kilowatt-hours of electrical energy in both 2012 and 2011, respectively, and the estimated operating cost of supplying these free services was $343,000 and $343,000 in 2012 and 2011, respectively.

The City's Gas System provides gas to the Electric System for use in the generation of electricity. Gas costs of $548,000 and $676,000 in 2012 and 2011, 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 2012 and 2011 of $1,269,238 ($788,510 and $480,728) and $1,464,232 ($856,636 and $607,596), 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 $2,746,000 and $2,741,000 in 2012 and 2011, 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. 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, Inc. – The City is a member of American Municipal Power Ohio, 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 2012 and 2011:

		2012	2011
Payments - OMEGA JV2	$	559,227	507,748

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.

13. CONTRACTUAL COMMITMENTS

At December 31, 2012, the Electric System had contractual commitments of approximately $2,720,000 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. CHANGE IN ACCOUNTING PRINCIPLE – RESTATEMENT OF NET POSITION

For 2012, the Electric System implemented GASB Statement No. 62, *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,"* GASB Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* and GASB Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*.

Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements.

Statement No. 63 provides guidance for reporting deferred outflow of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. GASB 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

Statement No. 65 provides guidance on how to properly classify items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources. In addition, guidance is provided on recognizing certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

The implementation of GASB Statement Nos. 62 and 63 had no impact on beginning of year net position. The implementation of GASB Statement No. 65 resulted in the following restatement of the Electric System's net position:

Net Position, January 1, 2011	$	11,646,094
Deferred bond issuance costs		(3,184,677)
Restated Net Position, January 1, 2011	$	8,461,417

Dave Yost • Auditor of State

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 15, 2013

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