CITY OF HAMILTON, OHIO – GAS 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-Gas System
345 High Street
Hamilton, Ohio 45011

We have reviewed the *Independent Auditor's Report* of the City of Hamilton-Gas 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-Gas System is responsible for compliance with these laws and regulations.

Dave Yost

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 - Gas System, an enterprise fund of the City of Hamilton, Ohio (the Gas 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 - Gas 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 Gas 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
Gas 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 Gas 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 Gas System exceeded its liabilities and deferred inflows of resources at the close of 2016 and 2015 by $35,958,005 and $36,834,437 (net position), respectively. Of these amounts, $2,343,610 and $2,542,617 (unrestricted net position) in those years can be used to meet the system's ongoing obligations to customers and creditors.
- The system's total net position decreased by $941,958 between 2016 and 2015, representing 2.6% decrease.
- In 2016, the Gas System's total long-term debt, net of discounts, decreased by $246,287.

Gas System Summary

The City has owned and operated a natural gas utility system since 1890. It is currently the largest municipal gas distribution operation in Ohio and serves approximately 23,300 customers located in the City and the immediate environs through approximately 275 miles of pipe. The City purchases natural gas from a supplier, then resells the gas to residential and general service (commercial and industrial) customers. The City also provides distribution delivery service to customers who have contracted with either the City or a natural gas supplier.

The Gas System provides full service (acquisition of gas supply, transportation of the gas supply to the City's interconnections and distribution of gas supply from the City's interconnections to the customer meter) and distribution delivery service (distribution delivery of the gas arranged for by, or on behalf of, the customer from the City's interconnections to the customer's meter.) Currently, the Gas System provides full service to residential and general service customers.

There are no franchise service territories for natural gas utilities in Ohio and the City is not prohibited from providing gas service in areas outside its corporate limits. Under the Ohio Constitution, however, the City's gas utility sales outside the corporate limits may not exceed 50% of the total service supplied within the City's corporate limits. Currently, less than 1% of the City's total gas sales are to customers located outside the City's corporate limits.

The City is a participant, with other AMP communities in the AMP Fremont Energy Center (AFEC). The City is entitled to 34.5 MW of capacity from AFEC. Additionally, the City began utilizing its buying power through the Muni-Gas Program, in 2013, to serve as a gas supply intermediary for the City's allocation of gas at AFEC. The City passes along 50% of the savings from the Muni-Gas Discount to AFEC and retains the other 50% for Hamilton Gas (94.4%) and Electric (5.6%) Systems, creating an additional income stream for the Gas System, while providing a cost savings for the Electric System. In 2016, the Gas System sold 1,112,953 Dths to AFEC, via The Energy Authority, totaling $2.564 million, or approximately $2.30/Dth. These sales to AFEC netted approximately $167,000 for the Gas System.

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 Gas System for the years ended December 31, 2016 and 2015.

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

The financial statements contained within this report include the City of Hamilton, Ohio's Gas System *only*. Readers desiring to view city-wide financial statements, as well as the impact that the Gas 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 Gas 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 Gas Fund are restricted to Gas System purposes by municipal ordinance, Ohio Revised Code and indentures issued pursuant to long-term financing.

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 Gas 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 the net positions. 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 Gas 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 Gas System charges fees to recoup the cost of the entire operation of the Gas 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 Gas Fund, assets and deferred outflow of resources exceeded liabilities and deferred inflows of resources by $35,958,005 as of December 31, 2016. By far the largest portion of the net position of the Gas System reflect its investment in capital assets (e.g. land, buildings, improvements, construction in progress, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The ratios of net investment in capital assets to total net position are as follows: 85% for 2016, 85% for 2015 and 84% for 2014. The System employs these assets in the delivery of natural gas 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 and 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.

Table 1 provides a summary of the Gas 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	$ 9,623,578	$ 9,445,223	$ 10,587,656
Capital assets	34,784,099	35,736,615	36,778,289
Total assets	44,407,677	45,181,838	47,365,945
Deferred outflows of resources	659,485	205,257	171,024
Long-term liabilities:			
Net pension liability	1,715,789	1,224,067	1,198,966
Other long-term amounts	4,162,444	4,402,602	4,673,075
Other liabilities	3,132,077	2,838,913	4,714,008
Total liabilities	9,010,310	8,465,582	10,586,049
Deferred inflows of resources	98,847	21,550	-
Net investment in capital assets	30,562,714	31,268,943	30,903,835
Restricted	3,051,681	3,088,403	3,410,529
Unrestricted	2,343,610	2,542,617	2,636,556
Total net position	$ 35,958,005	$ 36,899,963	$ 36,950,920

During 2015, the Gas 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 Gas 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 Gas 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.

As of December 31, 2016 and 2015, the Gas System was able to report positive balances in net position of $35,958,005 and $36,899,963, respectively. In 2016, 2015 and 2014, the Gas System reported decreases in net position of $941,958, $50,957 and $979,845, respectively. In 2016, the Gas System reported an operating loss of $771,000, whereas it reported operating income of $291,278 in 2015. Net operating loss of $771,000 decreased $1,062,278 from 2016 to 2015. A decrease in operating revenues can be attributable to lower demand with mild temperatures. This also resulted in decreases in the costs for the purchase of gas. Net non-operating expenses of $170,958 decreased by $178,183, primarily due to a decrease in interest and fiscal charges, as the 2003 Revenue Bonds matured in 2015, and a decrease in the loss on disposal of capital assets associated with the City's change in capitalization threshold in 2015.

City of Hamilton, Ohio
Gas System

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

Statements of Revenues, Expenses and Changes in Net Position

	2016	2015	2014
Operating revenues	$ 19,086,678	$ 21,979,425	$ 29,369,479
Operating expenses:			
Purchased gas	10,078,713	13,658,085	22,756,500
Depreciation	2,385,378	2,241,237	1,915,763
Other operating expenses	7,393,587	5,788,825	6,144,007
Total operating expenses	19,857,678	21,688,147	30,816,270
Operating income (loss)	(771,000)	291,278	(1,446,791)
Non-Operating revenues (expenses)			
Interest and fiscal charges	(185,656)	(249,167)	(323,258)
Loss on disposal of capital assets	(16,361)	(133,976)	(36,027)
Other non-operating revenues	31,059	34,002	119,473
Total non-operating revenues (expenses)	(170,958)	(349,141)	(239,812)
Capital contributions	-	-	706,758
Transfers	-	6,906	-
Change in net position	(941,958)	(50,957)	(979,845)
Beginning net position, *restated*	36,899,963	36,950,920	N/A
Ending net position	$ 35,958,005	$ 36,899,963	$ 36,950,920

Capital Assets and Debt Administration

Capital Assets: The City's net investment in capital assets of the Gas System as of December 31, 2016, 2015 and 2014 amounted to $30.6 million, $31.2 million, and $30.9 million, respectively, (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements, construction in progress, and machinery and equipment.

Note 5 (Capital Assets) provide Gas System capital 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 Gas System Revenue Bonds totaling $4,250,000, with the first principal payment made in 2016. The 2003 Gas System Refunding Bonds matured during 2015.

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

Economic Factors and Future Trends

The City's Gas System is continually monitoring the cost of natural gas and employs a structured hedging plan to mitigate price fluctuations to its customers. The cost of natural gas is highly volatile and the City is required by both ordinance and indentures to pass through these gas costs to its customers via the gas cost recovery charge (GCR). The GCR was $0.05/Ccf for January through November 2016 and decreased to $0.04/Ccf for December 2016. The overall number of customers has remained relatively steady while, like most gas systems, the usage per residential customer has continued to slowly decline as a result of improved efficiency of appliances.

In September 2011, City Council adopted an ordinance, creating the Natural Gas Residential Service Line Maintenance (RSLM) Program and Rider C for the Gas System. The RSLM and Rider C charges apply only to the City's residential gas accounts. The RSLM and funds collected through Rider C are earmarked for two separate and distinct activities: the replacement of Design A (field-assembled risers), in compliance with a Public Utilities Commission of Ohio (PUCO) Statewide order, and the assumption of the maintenance responsibility of gas service lines to residential customers by the City. The riser replacement portion of the RSLM is scheduled to be a five-year program, with a corresponding five-year collection period through Rider C. For 2016, the riser replacement portion of the RSLM resulted in a monthly charge to the City's residential customers of $1.02 per month. The charge, through Rider C, for the residential gas service line normal maintenance and replacement portion of the RSLM, resulted in a monthly service charge of $0.93 per residential customer. The total impact of the RSLM in 2016 was $1.95 per month for all residential gas customers of the City.

Natural gas prices have stabilized recently due to extraction of shale gas and reduced demand from recessionary pressures. The City continues to monitor potential threats to supply and maintains its disciplined hedging program. The City's Gas System has continued its strong financial performance into 2016. The City maintains an A1 bond rating with a stable outlook for its Gas System and its 2009 Gas 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 – GAS SYSTEM
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

	2016	*Restated* 2015
ASSETS		
Current assets:		
Cash and investments	$ 2,963,958	3,495,490
Accounts receivable (less allowance for uncollectible accounts of $2,583,267 and $2,560,903)	3,311,947	2,578,965
Interest receivable	8,907	1,620
Inventory of supplies at cost	148,083	145,439
Prepaid expenses	139,002	135,306
Total current assets	6,571,897	6,356,820
Restricted assets:		
Cash and investments	3,051,681	3,088,403
Noncurrent assets:		
Nondepreciable capital assets	2,656,779	1,861,477
Depreciable capital assets, net	32,127,320	33,875,138
Total noncurrent assets	34,784,099	35,736,615
Total assets	44,407,677	45,181,838
DEFERRED OUTFLOWS OF RESOURCES		
Pension	659,485	205,257
LIABILITIES		
Current liabilities:		
Accounts payable	1,813,050	1,558,956
Accrued wages and benefits	105,527	74,084
Intergovernmental payable	4,110	14,771
Accrued interest payable	38,144	39,126
Customer deposits payable	749,726	750,746
Compensated absences payable-current	161,520	151,230
Revenue bonds payable-current	260,000	250,000
Total current liabilities	3,132,077	2,838,913
Noncurrent liabilities:		
Compensated absences payable	201,059	184,930
Revenue bonds payable	3,961,385	4,217,672
Net pension liability	1,715,789	1,224,067
Total noncurrent liabilities	5,878,233	5,626,669
Total liabilities	9,010,310	8,465,582
DEFERRED INFLOWS OF RESOURCES		
Pension	98,847	21,550
NET POSITION		
Net investment in capital assets	30,562,714	31,268,943
Restricted for debt service	551,681	588,403
Restricted for rate stabilization	2,500,000	2,500,000
Unrestricted	2,343,610	2,542,617
Total net position	$ 35,958,005	36,899,963

See notes to financial statements.

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

	2016	2015
Operating revenues:		
Charges for services	$ 19,049,203	21,973,468
Other operating revenues	37,475	5,957
Total operating revenues	19,086,678	21,979,425
Operating expenses:		
Personal services	2,168,018	1,725,152
Materials and supplies	444,883	287,086
Contractual services	1,553,754	1,159,406
Purchased gas	10,078,713	13,658,085
Depreciation	2,385,378	2,241,237
Other operating expenses	3,226,932	2,617,181
Total operating expenses	19,857,678	21,688,147
Operating income (loss)	(771,000)	291,278
Non-operating revenues (expenses):		
Investment earnings	31,059	34,002
Loss on disposal of capital assets	(16,361)	(133,976)
Interest and fiscal charges	(185,656)	(249,167)
Total non-operating revenues (expenses)	(170,958)	(349,141)
Loss before transfers	(941,958)	(57,863)
Transfers in	-	6,906
Change in net position	(941,958)	(50,957)
Net position - beginning of year, *restated*	36,899,963	36,950,920
Net position - end of year	$ 35,958,005	36,899,963

See notes to financial statements.

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

		2016	2015
Cash flows from operating activities:			
Cash received from customers	$	18,353,696	23,554,847
Cash paid for employee services and benefits		(2,009,656)	(1,762,348)
Cash paid to suppliers for goods and services		(15,161,542)	(18,241,660)
Net cash from operating activities		1,182,498	3,550,839
Cash flows from noncapital financing activities:			
Transfers from other funds		-	6,906
Net cash from noncapital financing activities		-	6,906
Cash flows from capital and related financing activities:			
Payments for capital acquisition		(1,341,599)	(1,472,440)
Debt principal payments		(250,000)	(1,420,000)
Debt interest payments		(182,925)	(250,375)
Net cash from capital and related financing activities		(1,774,524)	(3,142,815)
Cash flows from investing activities:			
Interest from investments and change in fair value of investments		23,772	36,342
Net cash flow from investing activities		23,772	36,342
Net change in cash and investments		(568,254)	451,272
Cash and investments at beginning of year		6,583,893	6,132,621
Cash and investments at end of year	$	6,015,639	6,583,893
Reconciliation of operating income to net cash from operating activities			
Operating income (loss)	$	(771,000)	291,278
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation		2,385,378	2,241,237
Change in deferred outflows-pension		(454,228)	(55,116)
Change in deferred inflows-pension		77,297	21,550
Changes in Assets and Liabilities:			
(Increase) decrease in receivables		(732,982)	1,575,422
(Increase) decrease in inventory		(2,644)	20,400
(Increase) decrease in prepaid items		(3,696)	(4,457)
Increase (decrease) in customer deposits payable		(1,020)	35,225
Increase (decrease) in payables		146,470	(566,804)
Increase (decrease) in accrued liabilities		57,862	(28,007)
Increase (decrease) in intergovernmental payables		(10,661)	(4,990)
Increase (decrease) in net pension liability		491,722	25,101
Net cash from operating activities	$	1,182,498	3,550,839
Schedule of noncash activities:			
Outstanding liabilities for purchase of certain capital assets	$	139,074	31,450

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity – The City of Hamilton, Ohio – Gas System (Gas System) is a utility operating as a separate enterprise fund of the City of Hamilton, Ohio (City). The Gas 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 Gas 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 Gas 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 Gas 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 Gas System is reported as cash and investments. The Gas 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 Gas 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 Premiums and Discounts – Unamortized bond premiums and discounts are amortized on the interest method over the term of the related bonds. Amortization of bond premiums was $13,768 in 2015. Amortization of bond discounts was $3,713 and $6,103 in 2016 and 2015, respectively.

Compensated Absences – The Gas 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 Gas 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 Gas 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 7.

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 Gas System, deferred inflows of resources include pension (see Note 7).

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 Gas 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 Gas 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 Gas System totaled $5,463,958 and $5,995,490 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 $551,681 and $588,403 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 and 2015, approximately 95% of the City's deposits with financial institutions, including the amount of pooled deposits related to the Gas 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 Gas System's uninsured and uncollateralized deposits.

Investments – The State of Ohio statutes, Gas 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. 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.

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 Gas System, are invested primarily in U.S. governmental agency securities with an AA+ credit rating and an average maximum maturity of 2.19 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	$	1,944,455	1,548,461
Earned and billed consumer accounts		3,950,681	3,591,407
Other		78	-
Less allowance for uncollectible accounts		(2,583,267)	(2,560,903)
Total	$	3,311,947	2,578,965

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 $3,051,681 and $3,088,403 at December 31, 2016 and 2015.

5. CAPITAL ASSETS

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

	Balance 1/1/16	Increases	Decreases	Balance 12/31/16
Capital assets not being depreciated:				
Land	$ 710,882	-	-	710,882
Construction in progress	1,150,595	795,302	-	1,945,897
Subtotal	1,861,477	795,302	-	2,656,779
Capital assets being depreciated:				
Buildings and improvements	1,242,405	-	-	1,242,405
Machinery and equipment	75,007,418	653,921	(35,233)	75,626,106
Subtotal	76,249,823	653,921	(35,233)	76,868,511
Totals at historical cost	78,111,300	1,449,223	(35,233)	79,525,290
Less accumulated depreciation:				
Buildings and improvements	636,229	74,716	-	710,945
Machinery and equipment	41,738,456	2,310,662	(18,872)	44,030,246
Total accumulated depreciation	42,374,685	2,385,378	(18,872)	44,741,191
Capital assets, net	$ 35,736,615	(936,155)	(16,361)	34,784,099

	Restated Balance 1/1/15	Increases	Decreases	Balance 12/31/15
Capital assets not being depreciated:				
Land	$ 454,216	264,946	(8,280)	710,882
Construction in progress	5,232,627	-	(4,082,032)	1,150,595
Subtotal	5,686,843	264,946	(4,090,312)	1,861,477
Capital assets being depreciated:				
Buildings and improvements	1,276,424	-	(34,019)	1,242,405
Machinery and equipment	70,421,002	5,150,625	(564,209)	75,007,418
Subtotal	71,697,426	5,150,625	(598,228)	76,249,823
Totals at historical cost	77,384,269	5,415,571	(4,688,540)	78,111,300
Less accumulated depreciation:				
Buildings and improvements	587,727	75,842	(27,340)	636,229
Machinery and equipment	40,018,253	2,165,395	(445,192)	41,738,456
Total accumulated depreciation	40,605,980	2,241,237	(472,532)	42,374,685
Capital assets, net	$ 36,778,289	3,174,334	(4,216,008)	35,736,615

6. LONG TERM DEBT

Dated May 1, 2003, the City issued $14,540,000 in Gas System Revenue Refunding Bonds to refund the 1993 Gas System Revenue Bonds. The Gas System Revenue Refunding Bonds matured during 2015.

On September 9, 2009, the City issued $4,500,000 in Gas System Revenue Bonds to currently refund bond anticipation notes and provide funding for various Gas System distribution improvements. These bonds are due serially through 2029 with interest from 2.75% to 5.0% per annum, with the first payment made in 2016.

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
2009 Revenue Bonds	$	4,500,000	-	(250,000)	4,250,000	260,000
Less deferred amount						
for issuance discounts		(32,328)	-	3,713	(28,615)	-
Net pension liability		1,224,097	491,692	-	1,715,789	-
Compensated absences		336,160	177,649	(151,230)	362,579	161,520
	$	6,027,929	669,341	(397,517)	6,299,753	421,520

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
2003 Refunding Bonds	$	1,420,000	-	(1,420,000)	-	-
2009 Revenue Bonds		4,500,000	-	-	4,500,000	250,000
Less deferred amount						
for issuance premium		13,768	-	(13,768)	-	-
for issuance discounts		(38,431)	-	6,103	(32,328)	-
Net pension liability		1,198,966	25,131		1,224,097	-
Compensated absences		339,086	138,422	(141,348)	336,160	151,230
	$	7,433,389	163,553	(1,569,013)	6,027,929	401,230

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.

Annual debt service requirements to maturity for the refunding bonds are as follows:

		Principal	Interest	Total
2017	$	260,000	176,050	436,050
2018		270,000	168,250	438,250
2019		275,000	159,475	434,475
2020		285,000	149,850	434,850
2021		295,000	138,450	433,450
2022-2026		1,670,000	505,050	2,175,050
2027-2029		1,195,000	112,825	1,307,825
Total	$	4,250,000	1,409,950	5,659,950

7. DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

The Gas 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 Gas 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 Gas System’s obligation for this liability to annually required payments. The Gas System cannot control benefit terms or the manner in which pensions are financed; however, the Gas 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)

Gas 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. Gas 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 Gas System's contractually required contributions were $155,150 and $139,805 for 2016 and 2015, respectively. Of these amounts, $4,110 and $2,864 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 those dates. The Gas System's proportion of the net pension liability was based on the Gas 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	$1,715,789	$1,224,067
Proportion of the Net Pension Liability	0.0099057%	0.0101489%
Change in Proportion	-0.0002432%	
Pension Expense	$212,758	$131,340

At December 31, 2016 and 2015, the Gas 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	$ 504,335	$ 65,452
Gas System contributions subsequent to the measurement date	155,150	139,805
Total Deferred Outflows of Resources	659,485	205,257
Deferred Inflows of Resources		
Differences between expected and actual experience	33,713	21,550
Gas System change in proportionate share	65,134	-
Total Deferred Inflows of Resources	$ 98,847	$ 21,550

$155,150 reported as deferred outflows of resources related to pension resulting from the Gas 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	$ 79,991
2018	88,056
2019	123,310
2020	114,131
Total	$ 405,488

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 simple
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, OPERS consolidated investment portfolios (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 Gas System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Gas 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 Gas 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%)
Gas System's proportionate share of the net pension liablity	$ 2,733,712	$ 1,715,789	$ 857,251

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 Gas System's contributions for health care to the OPERS for the years ending December 31, 2016, 2015, and 2014 were $22,000, $25,000 and $26,000, 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 Gas System's annual pension cost (APC) and net pension obligation (NPO) for the Metropolitan Pension Plan 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 Gas System's APC, percentage of APC contributed, NPO, and unfunded actuarial accrued liabilities for 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 Gas 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 Gas System's annual OPEB cost, percentage of OPEB contributed, net OPEB, and unfunded actuarial accrued liabilities for 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.

8. CONTINGENT LIABILITIES

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

9. RELATED PARTY TRANSACTIONS

The Gas System sells gas to the City's Electric System for use in the generation of electricity. Revenues of approximately $137,000 and $119,000 from the Electric System to the Gas System are included in operating revenues in 2016 and 2015, respectively.

The City allocates the cost of certain administrative services. In addition, the City established internal service funds that provide services to various City departments. Charges to the Gas System for these services were approximately $3,323,000 and $3,097,000 in 2016 and 2015, respectively, and are included in other operating expenses.

10. RISK MANAGEMENT

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

11. CONTRACTUAL COMMITMENTS

At December 31, 2016, the Gas System had a contractual commitments 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 operations of approximately $232,000.

12. 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 Gas System net position:

Net Position, January 1, 2015	$	37,016,446
Adjustments:		
Capital asset corrections		(65,526)
Restated Net Position, January 1, 2015	$	36,950,920

CITY OF HAMILTON, OHIO – GAS 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
Gas System's proportion of the Net Pension Liability	0.0099057%	0.0101489%	0.0101489%
Gas System's proportionate share of the Net Pension Liability	$ 1,715,789	$ 1,224,067	$ 1,198,966
Gas System's Covered-Employee Payroll	$ 1,165,042	$ 1,251,175	$ 1,116,600
Gas System's Proportionate Share of the Net Pension Liability as a Percentage of it Covered-Employee Payroll	147.27%	97.83%	107.38%
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	$ 155,150	$ 139,805	$ 150,141	$ 145,158
Contributions in Relation to the Contractually Required Contribution	(155,150)	(139,805)	(150,141)	(145,158)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -
Gas System's Covered-Employee Payroll	$ 1,292,917	$ 1,165,042	$ 1,251,175	$ 1,116,600
Contributions as a Percentage of Covered-Employee Payroll	12.00%	12.00%	12.00%	13.00%

Note: Information prior to 2013 was not available.

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CITY OF HAMILTON – GAS

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