CITY OF HAMILTON, OHIO – GAS SYSTEM

Financial Statements

Years Ended December 31, 2017 and 2016

With Independent Auditors' Report

CLARK SCHAEFER HACKETT
CPAs & Advisors

Dave Yost · Auditor of State

Members of Council
City of Hamilton
345 High Street
Hamilton, Ohio 45011

We have reviewed the *Independent Auditor's Report* of the City of Hamilton - Gas System, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2017 through December 31, 2017. 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
Auditor of State

July 23, 2018

This page intentionally left blank.

TABLE OF CONTENTS

This page intentionally left blank.

CLARK SCHAEFER HACKETT
CPAS & ADVISORS

One East Fourth Street, Suite 1200, Cincinnati, Ohio 45202
P. 513.241.3111 | F. 513.241.1212 | cshco.com

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, 2017 and 2016 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, 2017 and 2016, 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, 2017 and 2016, 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 25, 2018

City of Hamilton, Ohio
Gas System

Management's Discussion and Analysis
For the Years Ended December 31, 2017 and 2016
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, 2017 and 2016. 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 2017 and 2016 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 2017 and 2016 by $34,319,913 and $35,958,005 (net position), respectively. Of these amounts, $1,909,776 and $2,343,610 (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 $1,638,092 between 2017 and 2016, representing 4.6% decrease.
- In 2017, the Gas System's total long-term debt, net of discounts, increased by $1,548,615, due to issuance of Series 2017 Gas Revenue Refunding and Improvement Bonds.

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 23,800 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 2017, the Gas System sold 1,284,657 Dths to AFEC, via The Energy Authority, totaling $3.593 million, or approximately $2.80/Dth. These sales to AFEC netted approximately $192,700 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, 2017 and 2016.

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 2017 and 2016. 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 2017 and 2016?" 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 $34,319,913 as of December 31, 2017. 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: 87% for 2017, 85% for 2016 and 85% for 2015. 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, 2017, 2016 and 2015:

	2017	2016	2015
Current and other assets	$ 10,096,441	$ 9,623,578	$ 9,445,223
Capital assets	34,287,960	34,784,099	35,736,615
Total assets	44,384,401	44,407,677	45,181,838
Deferred outflows of resources	1,167,523	659,485	205,257
Long-term liabilities:			
Net pension liability	2,230,562	1,715,789	1,224,067
Other long-term amounts	5,401,118	4,162,444	4,402,602
Other liabilities	3,551,341	3,132,077	2,838,913
Total liabilities	11,183,021	9,010,310	8,465,582
Deferred inflows of resources	48,990	98,847	21,550
Net investment in capital assets	29,910,088	30,562,714	31,268,943
Restricted	2,500,049	3,051,681	3,088,403
Unrestricted	1,909,776	2,343,610	2,542,617
Total net position	$ 34,319,913	$ 35,958,005	$ 36,899,963

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, 2017 and 2016, the Gas System was able to report positive balances in net position of $34,319,913 and $35,958,005, respectively. In 2017, 2016 and 2015, the Gas System reported decreases in net position of $1,638,092, $941,958 and $50,957, respectively. In 2017 and 2016, the Gas System reported operating losses of $1,360,369 and $771,000. Net operating loss of $1,360,369 increased $589,369 from 2017 to 2016. A decrease in operating revenues can be attributable to a milder winter resulting in less customer usage and less expensive unit cost. Net non-operating expenses of $277,723 increased by $106,765, primarily due to increased losses on disposals of capital assets.

Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	2015
Operating revenues	$ 18,482,683	$ 19,086,678	$ 21,979,425
Operating expenses:			
Purchased gas	10,138,730	10,078,713	13,658,085
Depreciation	2,370,065	2,385,378	2,241,237
Other operating expenses	7,334,257	7,393,587	5,788,825
Total operating expenses	19,843,052	19,857,678	21,688,147
Operating income (loss)	(1,360,369)	(771,000)	291,278
Non-Operating revenues (expenses)			
Interest and fiscal charges	(206,091)	(185,656)	(249,167)
Loss on disposal of capital assets	(119,996)	(16,361)	(133,976)
Other non-operating revenues	48,364	31,059	34,002
Total non-operating revenues (expenses)	(277,723)	(170,958)	(349,141)
Transfers	-	-	6,906
Change in net position	(1,638,092)	(941,958)	(50,957)
Beginning net position	35,958,005	36,899,963	36,950,920
Ending net position	$ 34,319,913	$ 35,958,005	$ 36,899,963

Capital Assets and Debt Administration

Capital Assets: The City's net investment in capital assets of the Gas System as of December 31, 2017, 2016 and 2015 amounted to $29.9 million, $30.6 million, and $31.3 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 2017 and 2016.

Debt Administration: At the end of 2017, the City had one outstanding long-term revenue bond issue, the 2017 Gas System Revenue Refunding and Improvement Bonds which had an outstanding balance of $5,770,000 as of December 31, 2017. These bonds refunded the Series 2009 Revenue bonds and provided $1,960,000 in new financing for Gas System improvements.

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 averaged a credit of $0.02685/Ccf for 2017. 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 2017, 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 2017 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 2017. 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, 2017 AND 2016

		2017	2016
ASSETS			
Current assets:			
Cash and investments	$	3,530,594	2,963,958
Accounts receivable (less allowance for uncollectible accounts of $2,308,515 and $2,583,267)		3,757,035	3,311,947
Interest receivable		10,729	8,907
Inventory of supplies at cost		177,634	148,083
Prepaid expenses		120,400	139,002
Total current assets		7,596,392	6,571,897
Restricted assets:			
Cash and investments		2,500,049	3,051,681
Noncurrent assets:			
Nondepreciable capital assets		2,989,155	2,656,779
Depreciable capital assets, net		31,298,805	32,127,320
Total noncurrent assets		34,287,960	34,784,099
Total assets		44,384,401	44,407,677
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on debt refunding		297,605	-
Pension		869,918	659,485
Total deferred outflows of resources		1,167,523	659,485
LIABILITIES			
Current liabilities:			
Accounts payable		2,044,512	1,813,050
Accrued wages and benefits		40,759	105,527
Intergovernmental payable		4,908	4,110
Accrued interest payable		27,879	38,144
Customer deposits payable		757,661	749,726
Compensated absences payable-current		150,622	161,520
Revenue bonds payable-current		525,000	260,000
Total current liabilities		3,551,341	3,132,077
Noncurrent liabilities:			
Compensated absences payable		156,118	201,059
Revenue bonds payable		5,245,000	3,961,385
Net pension liability		2,230,562	1,715,789
Total noncurrent liabilities		7,631,680	5,878,233
Total liabilities		11,183,021	9,010,310
DEFERRED INFLOWS OF RESOURCES			
Pension		48,990	98,847
NET POSITION			
Net investment in capital assets		29,910,088	30,562,714
Restricted for debt service		49	551,681
Restricted for rate stabilization		2,500,000	2,500,000
Unrestricted		1,909,776	2,343,610
Total net position	$	34,319,913	35,958,005

See notes to financial statements.

CITY OF HAMILTON, OHIO - GAS SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating revenues:		
Charges for services	$ 18,462,289	19,049,203
Other operating revenues	20,394	37,475
Total operating revenues	18,482,683	19,086,678
Operating expenses:		
Personal services	2,231,431	2,168,018
Materials and supplies	268,961	444,883
Contractual services	1,143,008	1,553,754
Purchased gas	10,138,730	10,078,713
Depreciation	2,370,065	2,385,378
Other operating expenses	3,690,857	3,226,932
Total operating expenses	19,843,052	19,857,678
Operating loss	(1,360,369)	(771,000)
Non-operating revenues (expenses):		
Investment earnings	48,364	31,059
Loss on disposal of capital assets	(119,996)	(16,361)
Interest and fiscal charges	(206,091)	(185,656)
Total non-operating revenues (expenses)	(277,723)	(170,958)
Change in net position	(1,638,092)	(941,958)
Net position - beginning of year	35,958,005	36,899,963
Net position - end of year	$ 34,319,913	35,958,005

See notes to financial statements.

CITY OF HAMILTON, OHIO - GAS SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017	2016
Cash flows from operating activities:			
Cash received from customers	$	18,037,595	18,353,696
Cash paid for employee services and benefits		(2,097,025)	(2,009,656)
Cash paid to suppliers for goods and services		(15,029,341)	(15,161,542)
Net cash from operating activities		911,229	1,182,498
Cash flows from capital and related financing activities:			
Payments for capital acquisition		(1,977,421)	(1,341,599)
Debt proceeds		5,840,000	-
Debt principal payments		(4,320,000)	(250,000)
Debt interest payments		(485,346)	(182,925)
Net cash from capital and related financing activities		(942,767)	(1,774,524)
Cash flows from investing activities:			
Interest from investments and change in fair value of investments		46,542	23,772
Net cash flow from investing activities		46,542	23,772
Net change in cash and investments		15,004	(568,254)
Cash and investments at beginning of year		6,015,639	6,583,893
Cash and investments at end of year	$	6,030,643	6,015,639
Reconciliation of operating loss to net cash from operating activities			
Operating loss	$	(1,360,369)	(771,000)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation		2,370,065	2,385,378
Change in deferred outflows-pension		(210,433)	(454,228)
Change in deferred inflows-pension		(49,857)	77,297
Changes in Assets and Liabilities:			
(Increase) decrease in receivables		(445,088)	(732,982)
(Increase) decrease in inventory		(29,551)	(2,644)
(Increase) decrease in prepaid items		18,602	(3,696)
Increase (decrease) in customer deposits payable		7,935	(1,020)
Increase (decrease) in payables		214,961	146,470
Increase (decrease) in accrued liabilities		(120,607)	57,862
Increase (decrease) in intergovernmental payables		798	(10,661)
Increase (decrease) in net pension liability		514,773	491,722
Net cash from operating activities	$	911,229	1,182,498
Schedule of noncash activities:			
Outstanding liabilities for purchase of certain capital assets	$	155,575	139,074

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. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 72, *Fair Value Measurement and Application*, all investments are recorded at fair value 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 Discounts – Unamortized bond discounts are amortized on the interest method over the term of the related bonds. Amortization of bond discounts was $28,615 and $3,713 in 2017 and 2016, 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 $6,030,594 and $5,463,958 at December 31, 2017 and 2016, 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 $49 and $551,681 at December 31, 2017 and 2016, 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 2017, 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, 2017 and 2016, approximately 93% 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 1.96 years and STAR Ohio which has a credit rating of AAAm.

3. ACCOUNTS RECEIVABLE

Receivables at December 31, 2017 and 2016 consist of the following:

		2017	2016
Earned and unbilled consumer accounts	$	2,404,859	1,944,455
Earned and billed consumer accounts		3,660,691	3,950,681
Other		-	78
Less allowance for uncollectible accounts		(2,308,515)	(2,583,267)
Total	$	3,757,035	3,311,947

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 $2,500,049 and $3,051,681 at December 31, 2017 and 2016.

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

	Balance 1/1/17	Increases	Decreases	Balance 12/31/17
Capital assets not being depreciated:				
Land	$ 710,882	-	-	710,882
Construction in progress	1,945,897	1,016,647	(684,271)	2,278,273
Subtotal	2,656,779	1,016,647	(684,271)	2,989,155
Capital assets being depreciated:				
Buildings and improvements	1,242,405	96,708	-	1,339,113
Machinery and equipment	75,626,106	1,564,838	(175,131)	77,015,813
Subtotal	76,868,511	1,661,546	(175,131)	78,354,926
Totals at historical cost	79,525,290	2,678,193	(859,402)	81,344,081
Less accumulated depreciation:				
Buildings and improvements	710,945	83,713	-	794,658
Machinery and equipment	44,030,246	2,286,352	(55,135)	46,261,463
Total accumulated depreciation	44,741,191	2,370,065	(55,135)	47,056,121
Capital assets, net	$ 34,784,099	308,128	(804,267)	34,287,960

	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

6. LONG TERM DEBT

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.

In August 2017, the City defeased $4,250,000 of Gas System Revenue Bonds through the issuance of $5,840,000 of Revenue Refunding Bonds. A portion of the net proceeds of the 2017 Bonds were used to make current payments on the old bonds and the remaining proceeds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of $3,990,000 at December 31, 2017, are not included in the Gas System's outstanding debt since the Gas System has in-substance satisfied its obligations through the advance refunding. The Gas System reduced its aggregate debt service payments over the life of the refunded bonds by $1,191,937 and obtained an economic gain (difference between the present values of the old and new debt service payments) of $988,240.

Activity for the year ended December 31, 2017 was as follows:

	Balance 1/1/17	Additions	Reductions	Balance 12/31/17	Due Within One Year
2009 Revenue Bonds	$ 4,250,000	-	(4,250,000)	-	-
2017 Refunding Bonds	-	5,840,000	(70,000)	5,770,000	525,000
Less deferred amount for issuance discounts	(28,615)	-	28,615	-	-
Net pension liability	1,715,789	514,773	-	2,230,562	-
Compensated absences	362,579	105,681	(161,520)	306,740	150,622
	$ 6,299,753	6,460,454	(4,452,905)	8,307,302	675,622

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

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
2018	$	525,000	128,671	653,671
2019		530,000	116,964	646,964
2020		545,000	105,145	650,145
2021		555,000	92,991	647,991
2022		570,000	80,615	650,615
2023-2027		3,045,000	206,500	3,251,500
Total	$	5,770,000	730,886	6,500,886

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:

	2017	2016
Statutory Maximum Contribution Rates		
Employer	14.0 %	14.0 %
Employee	10.0 %	10.0 %
Actual Contribution Rates		
Employer:		
Pension	13.0 %	12.0 %
Post-employment Health Care Benefits	1.0 %	2.0 %
Total Employer	14.0 %	14.0 %
Employee	10.0 %	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 $180,917 and $155,150 for 2017 and 2016, respectively. Of these amounts, $4,052 and $4,110 were reported as intergovernmental payables in 2017 and 2016, 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, 2016 and 2015, 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:

	2017	2016
Proportionate Share of the Net Pension Liability	$2,230,562	$1,715,789
Proportion of the Net Pension Liability	0.0098227%	0.0099057%
Change in Proportion	-0.0000830%	
Pension Expense	$713,799	$212,758

At December 31, 2017 and 2016, the Gas System reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	2017	2016
Deferred Outflows of Resources		
Net difference between projected and actual earnings on pension plan investments	$ 332,183	$ 504,335
Changes in assumptions	353,794	-
Differences between expected and actual experience	3,024	-
Gas System contributions subsequent to the measurement date	180,917	155,150
Total Deferred Outflows of Resources	$ 869,918	$ 659,485
Deferred Inflows of Resources		
Differences between expected and actual experience	$ 13,275	$ 33,713
Gas System change in proportionate share	35,715	65,134
Total Deferred Inflows of Resources	$ 48,990	$ 98,847

$180,917 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, 2018. 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:	
2018	$ 248,461
2019	283,316
2020	117,950
2021	(9,716)
Total	$ 640,011

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.

In 2016, the OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0 percent down to 7.5 percent, for the defined benefit investments. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 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 2.15 percent simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

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 2016, OPERS managed investments in four investment portfolios: the Defined Benefits portfolio, the 401(h) Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust was closed as of June 30, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio as of July 1, 2016. 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 8.3 percent for 2016.

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 2016 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 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability was 7.5 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 7.5 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Gas System's proportionate share of the net pension liablity	$ 3,407,727	$ 2,230,562	$ 1,249,657

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.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment 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 the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of 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 2016 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 2017, local government employers contributed at a rate of 14 percent of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14 percent 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 1 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent 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 2017 was 4 percent.

The Gas System's contributions for health care to the OPERS for the years ending December 31, 2017, 2016, and 2015 were $13,000, $22,000 and $25,000, 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 Metropolitan Pension Plan currently has no assets and the plan is not administered through a trust. GASB Statement No. 73 establishes requirements for defined benefit pensions that are not with the scope of GASB Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. The total pension liability was deemed not material to the Gas System's financial statements. As such, the Metropolitan Pension Plan liability is not reported in the financial statements.

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, 2017, 2016, and 2015 are as follows:

	2017	2016	2015
Annual required contribution (ARC)	$ 18,980	$ 19,363	$ 18,099
Interest on Net OPEB	392	282	183
Adjustments to ARC	(593)	(417)	(274)
Annual OPEB cost	18,779	19,228	18,008
Contributions made	16,460	16,634	15,947
Increase in Net OPEB	2,319	2,594	2,061
Net OPEB, beginning of year	9,230	6,636	4,575
Net OPEB, end of year	$ 11,549	$ 9,230	$ 6,636

The Gas System's annual OPEB cost, percentage of OPEB contributed, net OPEB, and unfunded actuarial accrued liabilities for years ended December 31, 2017, 2016, and 2015 are as follows:

Years Ended	Annual OPEB Cost	Percentage of OPEB Contributed	Net OPEB Obligation	Unfunded Actuarial Accrued Liability
2017	$ 18,779	87.7%	$ 11,549	$ 277,234
2016	19,228	86.5%	9,230	254,226
2015	18,008	88.6%	6,636	266,328

The actuarial valuation date was December 31, 2017 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 $94,000 and $137,000 from the Electric System to the Gas System are included in operating revenues in 2017 and 2016, 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 $3,860,000 and $3,323,000 in 2017 and 2016, 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, 2017, 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$420,000.

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 FOUR MEASUREMENT PERIODS

	2017	2016	2015	2014
Gas System's proportion of the Net Pension Liability	0.0098227%	0.0099057%	0.0101489%	0.0101489%
Gas System's proportionate share of the Net Pension Liability	$ 2,230,562	$ 1,715,789	$ 1,224,067	$ 1,198,966
Gas System's Covered Payroll	$ 1,292,917	$ 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 Payroll	172.52%	147.27%	97.83%	107.38%
Plan Fiduciary Net Position as a Percentage as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

Note: Information prior to 2014 was not available.
The schedule is reported as of the measurement date of the net pension liability, which is the prior year end.

SCHEDULE OF CONTRIBUTIONS
LAST FIVE YEARS

	2017	2016	2015	2014	2013
Contractually Required Contributions	$ 180,917	$ 155,150	$ 139,805	$ 150,141	$ 145,158
Contributions in Relation to the Contractually Required Contribution	(180,917)	(155,150)	(139,805)	(150,141)	(145,158)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
Gas System's Covered Payroll	$ 1,391,669	$ 1,292,917	$ 1,165,042	$ 1,251,175	$ 1,116,600
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

Note: Information prior to 2013 was not available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

There were no recent significant changes of benefit terms, investment policies, the size or composition of the population covered by the benefit terms impacting the actuarial valuation study for the year ended December 31, 2016.

In 2016, a five-year experience study was completed on the period January 1, 2011 through December 31, 2015. The Board adopted changes to both the demographic and economic assumptions as a result of the study. The most notable change in demographic assumptions is an increased life expectancy of the members and the most notable change in economic assumptions is the reduction in the actuarially assumed rate of return from 8.00% down to 7.50% for the defined benefit investments. The new assumptions are included in the 2016 actuarial valuation.

In 2016, OPERS, in conjunction with the Board’s investment consultants, also completed and asset liability study. Periodically, the System engages in a more comprehensive study that examines the nature of the pension liabilities the plan will ultimately pay and the characteristics of the asset allocation projections and the associated level of risk. As a result of this study, OPERS modified the asset allocation slightly, but not substantively.

Dave Yost • Auditor of State

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 2, 2018