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## **City of Hamilton, Ohio – Electric System**

Financial Statements

Years Ended December 31, 2014 and 2013

With Independent Auditor's Report





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the City of Hamilton – Electric System, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Hamilton - Electric System is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

August 11, 2015

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Hamilton, Ohio - Electric System, an enterprise fund of the City of Hamilton, Ohio (the Electric System), as of and for the years ended December 31, 2014 and 2013 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.

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**Opinion**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the City of Hamilton, Ohio - Electric System of as of December 31, 2014 and 2013, 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 Matters**

As described in Note 1, the financial statements present only the Electric System and do not purport to, and do not present fairly the financial position of the City of Hamilton, Ohio as of December 31, 2014 and 2013, 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 on pages 3 through 9 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 15, 2015

# City of Hamilton, Ohio

## Electric System

Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013  
Unaudited

The discussion and analysis of the City of Hamilton, Ohio's Electric System's financial performance provide an overall review of that system's financial activities for the year ended December 31, 2014 and 2013. 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 2014 and 2013 are as follows:

- The assets and deferred outflow of resources of the Hamilton Electric System exceeded its liabilities at the close of 2014 by \$13,448,863 and \$15,505,389 at the close of 2013 (net position). At December 31, 2014 and 2013, \$15,346,601 and \$21,645,838, respectively (unrestricted net position) may be used to meet the system's ongoing obligations to customers and creditors.
- The system's total net position decreased \$2,056,526 between 2014 and 2013, representing a 13.3% decrease.
- In 2014, the Electric System's long-term debt, net of discounts, decreased \$8,487,259.

### Electric System Summary

The City of Hamilton, Ohio has owned and operated an electric utility system since 1893. Currently, the system is the second largest municipally owned electric system in Ohio. The electric system is a fully integrated electric generation, transmission and distribution system. The system owns both thermal and hydroelectric generation facilities and maintains a diverse customer base, with approximately 29,000 customers. Customer rates are established by the City and are not subject to the regulatory jurisdiction of the Public Utilities Commission of Ohio (PUCO) or any other regulatory body.

This annual report consists only of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows as well as Notes to the Financial Statements for the City of Hamilton, Ohio's Electric System for the years ended December 31, 2014 and 2013.

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

The financial statements contained within this report include the City of Hamilton, Ohio's Electric System *only*. Readers desiring to view city-wide financial statements, as well as the impact that the Electric System has on the City's overall financial position and operating results, should refer to the City's Basic Financial Statements appearing in the Comprehensive Annual Financial Report for 2014 and 2013. The City of Hamilton's Electric System is reported as a business-type, enterprise fund and is considered a major fund for purposes of individual fund reporting. Payments made from the Electric Fund are restricted to Electric System purposes by municipal ordinance, Ohio Revised Code and indentures issued pursuant to long-term financing.

# City of Hamilton, Ohio

## Electric System

Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013  
Unaudited

In the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, the view of the System looks at all financial transactions of the Electric Fund and asks the question, "How did we do financially during 2014 and 2013?" These statements provide answers to that question. The statements include all assets, deferred outflow of resources and liabilities of the System using the accrual basis of accounting similar to the accounting used by private sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the System's net position and the changes in net position. The change in net position is important because it tells the reader whether, for the system, the financial position of the City has improved or diminished. However, in evaluating this position, non-financial information including the condition of capital assets will also need to be evaluated. The Notes to the Electric System's Financial Statements provide additional information that is essential to a full understanding of the data provided.

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

### Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of financial position. In the case of the Electric Fund, assets and deferred outflow of resources exceeded liabilities by \$13,448,863 and \$15,505,389 as of December 31, 2014 and 2013, respectively. Unrestricted net position of \$15,346,601, \$21,645,838 and \$27,970,368 for 2014, 2013 and 2012, respectively encompass the largest portion of the net position of the System.

Table 1 provides a summary of the Electric System's Statement of Net Position for the Years Ended December 31, 2014, 2013 and 2012.

	2014	2013	2012
Current and Other Assets	\$35,775,833	\$43,607,275	\$45,510,204
Capital Assets	123,502,545	127,205,607	128,567,414
Total Assets	<u>159,278,378</u>	<u>170,812,882</u>	<u>174,077,618</u>
Deferred Outflow of Resources	2,822,345	3,294,204	3,797,102
Long-term Liabilities	129,371,661	138,428,672	146,861,381
Other Liabilities	19,280,199	20,173,025	18,109,611
Total Liabilities	<u>148,651,860</u>	<u>158,601,697</u>	<u>164,970,992</u>
Net investment in capital assets	(12,434,457)	(16,392,889)	(25,228,826)
Restricted	10,536,719	10,252,440	10,162,186
Unrestricted	15,346,601	21,645,838	27,970,368
Total Net Position	<u>\$13,448,863</u>	<u>\$15,505,389</u>	<u>\$12,903,728</u>

# **City of Hamilton, Ohio**

## **Electric System**

Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013  
Unaudited

A vast majority of the System's assets lie within the physical property, plant and equipment of the system having a historical cost less accumulated depreciation of \$123,502,545, \$127,205,607 and \$128,567,414, respectively at December 31, 2014, 2013 and 2012. The System employs these assets in the generation, transmission, and distribution of electricity to customers; consequently, these assets are not readily available for future spending. The System's investment in its capital assets is reported net of related debt in the Net Position section of the Statement of Net Position and it should be noted that the resources needed to repay these debts must be provided from other sources, primarily the revenues of the system, since the capital assets themselves cannot be used to liquidate the liabilities.

As of December 31, 2014 and 2013, the Electric System was able to report positive balances in net position of \$13,448,863 and \$15,505,389, respectively. Operating income of \$4,471,214 for 2014, \$9,945,175 for 2013, and \$9,451,659 for 2012 were positive, even with depreciation and amortization expense exceeding \$8 million in all three years. Net operating income of \$4,471,214, which is a decrease from 2013 of \$5,473,961, was due to power production at the Prairie State and Greenup Hydroelectric facilities being down in 2014, causing the increase in expense for purchased power. The increase in rates charged to customers was not sufficient to offset the increase in power costs.

Net non-operating expenses of \$6.5 million decreased by \$815,774, primarily due to paying less interest, as the City continued to make its scheduled annual debt service payments, and increases in investment earnings, due to certificates of deposit, with a five-year term, maturing during 2014.

# City of Hamilton, Ohio

## Electric System

Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013  
Unaudited

### *Statement of Revenues, Expenses and Changes in Net Position*

	2014	2013	2012
Operating Revenues	\$61,577,164	\$60,346,033	\$62,172,965
Operating Expenses:			
Purchased power and fuel	29,921,359	23,857,306	21,836,976
Depreciation	8,485,358	8,118,319	11,252,662
Other Operating Expenses	18,699,233	18,425,233	19,631,668
Total Operating Expenses	<u>57,105,950</u>	<u>50,400,858</u>	<u>52,721,306</u>
Operating income	4,471,214	9,945,175	9,451,659
Non-Operating revenues (expenses)			
Interest and fiscal charges	(7,008,240)	(7,337,621)	(7,616,356)
Other non-operating revenues (expenses)	480,500	(5,893)	83,475
Total non-operating revenues (expenses)	<u>(6,527,740)</u>	<u>(7,343,514)</u>	<u>(7,532,881)</u>
Contributions	-	-	200,000
Change in Net Position	<u>(2,056,526)</u>	2,601,661	2,118,778
Beginning Net Position	<u>15,505,389</u>	12,903,728	10,784,950
Ending Net Position	<u>\$13,448,863</u>	<u>\$15,505,389</u>	<u>\$12,903,728</u>

### **Capital Assets and Debt Administration**

*Capital Assets:* The City's net investment in capital assets of the Electric System as of December 31, 2014, 2013 and 2012 amounted to (\$12.43 million), (\$16.39 million) and (\$25.23 million), respectively, (net of accumulated depreciation and related debt). The negative balances are a direct result of continued depreciation expense coupled with long-term debt balances. This investment in capital assets includes land, buildings, improvements, construction in progress, and machinery and equipment including the City's hydro-electric and thermal generation facilities. The plant and equipment of the Electric System are rigorously tested and maintenance schedules are adhered to in a strenuous fashion to insure safe, long-term, efficient operation.

Note 5 (Capital Assets) provides Electric System asset activity during 2014 and 2013.

*Debt Administration:* At the end of 2014, the City had two outstanding long-term revenue bond issues, the 2005 Electric System Revenue Refunding Bonds totaling \$106,130,000 and 2009 Electric System Revenue Bonds totaling \$31,930,000.

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

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

# City of Hamilton, Ohio

## Electric System

Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013  
Unaudited

### Economic Factors and Future Trends

The City's 2014 rate base consisted of approximately 26,100 residential customers and 2,900 commercial and industrial customers. The residential customers account for 46% of the revenue, the commercial and industrial customers account for the remaining 54%. No one customer of the Electric System accounted for more than 3.4% of total revenues and the ten largest customers, which included the City's Water System, accounted for approximately 15.8% of the Electric System's revenues in 2014. The Electric System customer base is comprised of approximately 90% residential and 10% commercial and industrial customers.

The City has a rate ordinance, which sets forth rates and charges for residential service and non-residential service. All rates include:

- A power cost adjustment (PCA) charge (Rider A) that allows for increases or decreases in the fuel and purchased power costs to be passed directly through to the Electric System's customers in comparison with the level of power costs embedded in the base rates. This charge was \$0.02322/kWh for January through September 2014 and \$0.002731/kWh for October through December 2014.
- An electric rate stabilization adjustment rider (Rider B) that allows for a percentage adder to be applied to all charges under each rate schedule to replenish revenues previously withdrawn from the Electric Rate Stabilization Fund. Rider B was at 0% for 2014.
- A suburban surcharge (Rider C) of 5% for all Electric System customers outside the corporate limits of the City.
- An unfunded environmental mandates adjustment rider (UEMA – Rider D) that allows for expenses associated with the Electric System's compliance with environmental mandates, not included in the base rates or PCA. Rider D wasn't assessed for 2014.
- An unfunded governmental and regulatory, excluding environmental (Rider D), mandates adjustment rider (UGRMA – Rider E) that allows for expenses associated with the Electric System's compliance with governmental and regulatory mandates not included in the base rates, PCA or Rider D. Rider E wasn't assessed for 2014.
- The Economic Development Cost Adjustment (Rider F) for Electric wasn't assessed in 2014.

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

# City of Hamilton, Ohio

## Electric System

Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013  
Unaudited

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

Future City power supply resources are identified in the City's 20-year Power Supply Plan. The Power Supply Plan was designed to diversify the mix of resources, in an effort to mitigate exposure to generating unit outages, fuel costs, environmental regulations and market prices. Planned and on-going transmission system improvements complement future power supply resources. The transmission system improvements enable the City to import energy from Prairie State Energy Campus, Fremont Energy Center and Meldahl Hydroelectric Plant, as well as the Greenup Hydroelectric Plant. When these improvements are completed, the Electric System will be capable of reliable operation without the Hamilton Power Plant being in operation.

The Prairie State Energy Campus is a 2-unit, 1,600 MW coal-fired generating project that is located in Central Illinois. Prairie State is projected to be the cleanest coal-fired generating facility in the United States. The first unit came on-line in December 2011 and the second unit in June 2012. The City and American Municipal Power ("AMP") executed a purchase power agreement, wherein the City will purchase 17.5 MW from each unit, resulting in a total of 35 MW of capacity. Prairie State will provide approximately 268,700 MWh, 36% of the City's energy requirement, in 2015. The project was financed by AMP. AMP is participating in 368 MW of the Prairie State Energy Campus, on behalf of its members.

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

On March 1, 2009, the City and AMP completed an agreement, effective March 31, 2009, pursuant to which the City will retain approximately 54 MW of the 105 MW Meldahl project. Additionally, the City will sell approximately 34.1 MW of the 70.2 MW Greenup Project to AMP. The agreement features a sale price of the Greenup power of \$139 million, which will be paid by AMP to the City at the commencement of operations of the Meldahl Project in 2015. The City anticipates using the sale proceeds to retire outstanding debt and/or fund necessary capital improvements to the Electric System. Pursuant to the agreement, the City's share of the combined Meldahl/Greenup annual power generation is expected to be approximately 412,165 MWh, thereby diversifying the City's power resources and moving further away from the production of

# City of Hamilton, Ohio

## Electric System

Management's Discussion and Analysis  
For the Years Ended December 31, 2014 and 2013  
Unaudited

power via fossil fuels. The combination of Meldahl and Greenup generation will provide approximately 60-70% of the City's energy requirement in 2015.

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

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

The Power Supply Plan spreads the City's needs between multiple resources and thus would not be significantly affected by the price or performance of a single project. The benefits of this plan include reduced exposure to fuel costs, environmental regulations and market prices, as well as solidifying approximately 92% of the City's energy requirement in 2015.

The City maintains an A3 rating with a stable outlook for its Electric System and for both its 2002 Electric System Revenue Refunding Bonds and its 2009 Electric System Revenue Bonds.

### **Requests for Information**

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

**CITY OF HAMILTON, OHIO – ELECTRIC SYSTEM  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 15,336,941	23,006,717
Accounts receivable (less allowance for uncollectible accounts of \$4,108,716 and \$3,864,700, respectively)	6,927,786	7,127,230
Interest receivable	14,907	13,589
Interfund receivable	455,450	635,600
Inventory of supplies at cost	1,879,812	1,871,318
Prepaid expenses	<u>624,218</u>	<u>700,381</u>
Total current assets	<u>25,239,114</u>	<u>33,354,835</u>
Restricted cash and investments	<u>10,536,719</u>	<u>10,252,440</u>
Capital assets:		
Property, plant and equipment	407,016,623	391,164,717
Construction in progress	16,411,719	27,653,795
Accumulated depreciation	<u>(299,925,797)</u>	<u>(291,612,905)</u>
Total capital assets	<u>123,502,545</u>	<u>127,205,607</u>
Total assets	<u>159,278,378</u>	<u>170,812,882</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred charge on debt refunding	<u>2,822,345</u>	<u>3,294,204</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	2,879,261	4,035,925
Accrued wages and benefits	387,684	388,413
Accrued liabilities	609	149
Intergovernmental payable	113,319	109,629
Accrued interest payable	1,463,647	1,543,982
Customer deposits payable	1,127,582	941,902
Compensated absences payable-current	503,097	613,025
General obligation notes payable	4,000,000	4,000,000
Revenue bonds payable-current portion	<u>8,805,000</u>	<u>8,540,000</u>
Total current liabilities	<u>19,280,199</u>	<u>20,173,025</u>
Noncurrent Liabilities:		
Compensated absences payable	534,659	839,411
Revenue bonds payable	<u>128,837,002</u>	<u>137,589,261</u>
Total noncurrent liabilities	<u>129,371,661</u>	<u>138,428,672</u>
Total liabilities	<u>148,651,860</u>	<u>158,601,697</u>
<b>NET POSITION</b>		
Net investment in capital assets	(12,434,457)	(16,392,889)
Restricted for debt service	6,536,719	6,252,440
Restricted for rate stabilization	4,000,000	4,000,000
Unrestricted	<u>15,346,601</u>	<u>21,645,838</u>
Total net position	<u>\$ 13,448,863</u>	<u>15,505,389</u>

See notes to financial statements.

**CITY OF HAMILTON, OHIO - ELECTRIC SYSTEM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2014 AND 2013**

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	<u>2014</u>	<u>2013</u>
<b>Operating revenues:</b>		
Charges for services	\$ 61,342,652	59,889,069
Other operating revenues	<u>234,512</u>	<u>456,964</u>
Total operating revenues	<u>61,577,164</u>	<u>60,346,033</u>
<b>Operating expenses:</b>		
Personal services	8,910,590	9,542,265
Materials and supplies	1,103,290	653,834
Contractual services	5,569,667	5,228,017
Purchased power and fuel	29,921,359	23,857,306
Depreciation	8,485,358	8,118,319
Other operating expenses	<u>3,115,686</u>	<u>3,001,117</u>
Total operating expenses	<u>57,105,950</u>	<u>50,400,858</u>
Operating income	4,471,214	9,945,175
<b>Non-operating revenues (expenses):</b>		
Investment earnings	496,113	14,143
Loss on disposal of capital assets	(15,613)	(20,036)
Interest and fiscal charges	<u>(7,008,240)</u>	<u>(7,337,621)</u>
Total non-operating revenues (expenses)	<u>(6,527,740)</u>	<u>(7,343,514)</u>
Change in net position	(2,056,526)	2,601,661
Net position - beginning of year	<u>15,505,389</u>	<u>12,903,728</u>
Net position - end of year	\$ <u>13,448,863</u>	<u>15,505,389</u>

See notes to financial statements.

**CITY OF HAMILTON, OHIO - ELECTRIC SYSTEM  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 61,962,748	59,791,180
Cash paid for employee services and benefits	(10,233,777)	(9,859,940)
Cash paid to suppliers for goods and services	<u>(39,749,085)</u>	<u>(31,219,579)</u>
Net cash provided by operating activities	<u>11,979,886</u>	<u>18,711,661</u>
<b>Cash flows from noncapital financing activities:</b>		
Advances in from other funds	180,150	180,150
Advances out to other funds	<u>-</u>	<u>(475,750)</u>
Net cash provided (used) by noncapital financing activities	<u>180,150</u>	<u>(295,600)</u>
<b>Cash flows from capital and related financing activities:</b>		
Payments for capital acquisition	(4,936,353)	(6,850,316)
Debt proceeds	4,000,000	4,000,000
Premium on issuance of debt	-	15,840
Debt principal payments	(12,540,000)	(11,700,000)
Debt interest payments	<u>(6,563,975)</u>	<u>(6,863,785)</u>
Net cash used by capital and related financing activities	<u>(20,040,328)</u>	<u>(21,398,261)</u>
<b>Cash flows from investing activities:</b>		
Interest from investments	<u>494,795</u>	<u>3,556</u>
Net change in cash and investments	(7,385,497)	(2,978,644)
Cash and investments at beginning of year	<u>33,259,157</u>	<u>36,237,801</u>
Cash and investments at end of year	\$ <u>25,873,660</u>	<u>33,259,157</u>
<b>Reconciliation of operating income to net cash providing by operating activities:</b>		
Operating income	\$ 4,471,214	9,945,175
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,485,358	8,118,319
Change in Assets and Liabilities:		
(Increase) decrease in receivables	199,444	(677,976)
(Increase) decrease in inventory	(8,494)	(34,044)
(Increase) decrease in prepaid items	76,163	(57,508)
Increase (decrease) in customer deposits payable	185,680	122,974
Increase (decrease) in payables	(1,018,220)	1,191,180
Increase (decrease) in accrued liabilities	(414,949)	129,463
Increase (decrease) in intergovernmental payables	<u>3,690</u>	<u>(25,922)</u>
Net cash provided by operating activities	\$ <u>11,979,886</u>	<u>18,711,661</u>
<b>Schedule of noncash activities:</b>		
Outstanding liabilities for purchase of certain capital assets	\$ 478,884	617,328
Change in fair value of investments	5,183	74,686

See notes to financial statements.

# CITY OF HAMILTON, OHIO – ELECTRIC SYSTEM

## Notes to Financial Statements Years Ended December 31, 2014 and 2013

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

**Income Taxes** – The Electric System, which is owned and operated by the City, is exempt from income taxes since it is a division of a municipality.

**Cash and Investments** – Certain Electric System cash and investments are held in the City Treasury and pooled for investment management purposes. The portion of these pooled funds owned by the Electric System is reported as cash and investments. The Electric System’s investments are stated at fair value. Interest earned on funds invested is distributed on the basis of the relationship of the average monthly balance of all funds, including the Electric System.

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

**Capital Assets** – Expenditures that increase values or extend the useful life of the respective assets are capitalized while the costs of maintenance and repairs are charged to operating expenses. Interest costs related to the construction of property, plant and equipment are capitalized. Depreciation is calculated on a straight-line basis over the estimated useful life of the various classes of assets. The range of useful lives for computing depreciation is 3 to 75 years.

**Bond Discounts** – Unamortized bond discounts are amortized on the interest method over the term of the related bonds. Amortization of bond discounts was \$52,741 and \$55,151 in 2014 and 2013, respectively.

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

**Deferred Outflows of Resources** – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement reporting element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The Electric System only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statements of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

**Use of Estimates** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. CASH AND INVESTMENTS

The Electric System follows the practice of pooling cash and investments with the City Treasurer except for the cash and investments of certain accounts maintained by trustees. Pooled cash and investments of the Electric System totaled \$19,336,941 and \$27,006,717 at December 31, 2014 and 2013, respectively, and consisted of demand deposits, money market funds, U.S. government securities and STAR Ohio. Cash and investments held by trustees were \$6,536,719 and \$6,252,440 as of December 31, 2014 and 2013, respectively.

Star Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2014.

**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, 2014 and 2013, approximately 98% of the City’s deposits with financial institutions, including the amount of pooled deposits related to the Electric System, were exposed to custodial credit risk because they are considered uninsured and uncollateralized. However, the State of Ohio has established by statute a collateral pooling system for financial institutions acting as public depositories. Public depositories must pledge qualified securities with fair values greater than the total amount of all public deposits to be secured by the collateral pool. This pooled collateral covers the Electric System’s uninsured and uncollateralized deposits.

**Investments** – The State of Ohio statutes, Electric Revenue Bond indentures, and the City Charter authorize the City to invest in obligations of the U.S. Treasury, agencies, instrumentalities, and repurchase agreements. Custodial credit risk in regards to investments is the risk that, in the event of a failure of a counter party, the City will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The City employs the use of “safekeeping” accounts to hold and maintain custody of its investments as identified within this policy and as means of mitigating this risk.

Interest rate risk is the risk that the City will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy by limiting investments to certain maximum maturities. As a rule, unless specified otherwise within the policy, investments are to have a maximum maturity of five years unless the investment is matched to a specific expenditure. The context of a specific investment purchase must be weighed in proportion to the remainder of the existing investment portfolio and the “prudent investor” rule to attempt to limit such risk.

The City’s pooled investments, as well as the investments held by trustees specifically for the Electric System, are invested primarily in U.S. governmental agency securities with a credit rating of AA+ and an average maximum maturity of 4.19 years and STAR Ohio which has a credit rating of AAAm.

**3. ACCOUNTS RECEIVABLE**

Receivables at December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Earned and unbilled consumer accounts	\$ 4,217,077	4,051,407
Earned and billed consumer accounts	6,774,417	6,937,586
Other	45,008	2,937
Less allowance for uncollectible accounts	<u>(4,108,716)</u>	<u>(3,864,700)</u>
Total	<u>\$ 6,927,786</u>	<u>7,127,230</u>

#### 4. RESTRICTED ASSETS

Restricted assets consist of assets whose use has been restricted by bond indenture for debt service and rate stabilization. Restricted assets were \$10,536,719 and \$10,252,440 at December 31, 2014 and 2013, respectively.

#### 5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013 was as follows:

	Balance 1/1/14	Increases	Decreases	Balance 12/31/14
<b><i>Nondepreciable capital assets:</i></b>				
Land	\$ 2,070,732	-	-	2,070,732
Construction in progress	27,653,795	2,129,638	(13,371,714)	16,411,719
Subtotal	<u>29,724,527</u>	<u>2,129,638</u>	<u>(13,371,714)</u>	<u>18,482,451</u>
<b><i>Capital assets being depreciated:</i></b>				
Intangibles	1,070,786	-	-	1,070,786
Buildings and improvements	16,488,522	3,456,106	-	19,944,628
Machinery and equipment	371,534,677	12,583,879	(188,079)	383,930,477
Subtotal	<u>389,093,985</u>	<u>16,039,985</u>	<u>(188,079)</u>	<u>404,945,891</u>
Totals at historical cost	<u>418,818,512</u>	<u>18,169,623</u>	<u>(13,559,793)</u>	<u>423,428,342</u>
Less accumulated depreciation:				
Intangibles	128,496	21,416	-	149,912
Buildings and improvements	7,637,122	268,282	-	7,905,404
Machinery and equipment	283,847,287	8,195,660	(172,466)	291,870,481
Total accumulated depreciation	<u>291,612,905</u>	<u>8,485,358</u>	<u>(172,466)</u>	<u>299,925,797</u>
Capital assets, net	\$ <u>127,205,607</u>	<u>9,684,265</u>	<u>(13,387,327)</u>	<u>123,502,545</u>

	Balance 1/1/13	Increases	Decreases	Balance 12/31/13
<b><i>Nondepreciable capital assets:</i></b>				
Land	\$ 2,046,870	23,862	-	2,070,732
Construction in progress	<u>28,308,823</u>	<u>2,129,256</u>	<u>(2,784,284)</u>	<u>27,653,795</u>
Subtotal	<u>30,355,693</u>	<u>2,153,118</u>	<u>(2,784,284)</u>	<u>29,724,527</u>
<b><i>Capital assets being depreciated:</i></b>				
Intangibles	1,070,786	-	-	1,070,786
Buildings and improvements	16,488,522	-	-	16,488,522
Machinery and equipment	<u>364,486,891</u>	<u>7,407,714</u>	<u>(359,928)</u>	<u>371,534,677</u>
Subtotal	<u>382,046,199</u>	<u>7,407,714</u>	<u>(359,928)</u>	<u>389,093,985</u>
Totals at historical cost	<u>412,401,892</u>	<u>9,560,832</u>	<u>(3,144,212)</u>	<u>418,818,512</u>
Less accumulated depreciation:				
Intangibles	107,080	21,416	-	128,496
Buildings and improvements	7,409,861	227,261	-	7,637,122
Machinery and equipment	<u>276,317,537</u>	<u>7,869,642</u>	<u>(339,892)</u>	<u>283,847,287</u>
Total accumulated depreciation	<u>283,834,478</u>	<u>8,118,319</u>	<u>(339,892)</u>	<u>291,612,905</u>
Capital assets, net	\$ <u>128,567,414</u>	<u>1,442,513</u>	<u>(2,804,320)</u>	<u>127,205,607</u>

## 6. LONG-TERM DEBT

In May 2005, the City converted its 2002 Series A and B Variable Rate Revenue Refunding Bonds from a seven-day floating variable interest rate to a term fixed rate for the remaining term of the bonds. The revenue bonds fully mature in 2025.

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

Debt activity for the year ended December 31, 2014 was as follows:

	Balance			Balance	Due
	1/1/14	Additions	Reductions	12/31/14	Within
					One Year
Series 2005 Refunding	\$ 113,865,000	-	(7,735,000)	106,130,000	7,990,000
Series 2009A Revenue Bonds	18,215,000	-	(805,000)	17,410,000	815,000
Series 2009B Revenue BABs	14,520,000	-	-	14,520,000	-
Less deferred amount:					
for issuance discounts	(470,739)	-	52,741	(417,998)	-
	\$ <u>146,129,261</u>	<u>-</u>	<u>(8,487,259)</u>	<u>137,642,002</u>	<u>8,805,000</u>

Debt activity for the year ended December 31, 2013 was as follows:

	Balance			Balance	Due
	1/1/13	Additions	Reductions	12/31/13	Within
					One Year
Series 2005 Refunding	\$ 121,355,000	-	(7,490,000)	113,865,000	7,735,000
Series 2009A Revenue Bonds	18,425,000	-	(210,000)	18,215,000	805,000
Series 2009B Revenue BABs	14,520,000	-	-	14,520,000	-
Less deferred amount:					
for issuance discounts	(525,890)	-	55,151	(470,739)	-
	\$ <u>153,774,110</u>	<u>-</u>	<u>(7,644,849)</u>	<u>146,129,261</u>	<u>8,540,000</u>

Under the terms of the revenue bond indenture, the City has agreed to certain covenants including, among other things, maintaining revenue levels and providing for operating expenses and debt service. The revenue bonds are insured under municipal bond insurance policies. Under the terms of the policies, the payments of principal and interest are guaranteed by the insurer.

A summary of the System's annual debt service requirements as of December 31, 2014 follows:

	Principal	Interest	Total
2015	\$ 8,805,000	6,496,211	15,301,211
2016	9,080,000	6,144,251	15,224,251
2017	9,390,000	5,766,676	15,156,676
2018	9,690,000	5,365,626	15,055,626
2019	10,010,000	4,945,101	14,955,101
2020-2024	56,560,000	17,508,686	74,068,686
2025-2029	18,545,000	6,548,463	25,093,463
2030-2034	7,240,000	4,286,175	11,526,175
2035-2039	8,740,000	1,779,360	10,519,360
Total	\$ <u>138,060,000</u>	<u>58,840,549</u>	<u>196,900,549</u>

**7. NOTES PAYABLE**

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

	Balance 1/1/14	Additions	Reductions	Balance 12/31/14
2013 Electric System Imp. 1.00%	\$ 4,000,000	-	(4,000,000)	-
2014 Electric System Imp. 0.51%	-	4,000,000	-	4,000,000
	<u>\$ 4,000,000</u>	<u>4,000,000</u>	<u>(4,000,000)</u>	<u>4,000,000</u>

**8. DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS**

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

**Ohio Public Employees Retirement System (OPERS)**

The OPERS administers three separate pension plans:

- The Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan.
- The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.
- The Combined Plan – a cost sharing multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

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

Plan members are required to contribute 10.0% of their annual covered salary. The City was required to contribute 14.0% of covered payroll for employees. The Electric System's required contributions to OPERS for the years ended December 31, 2014, 2013, and 2012 were approximately \$981,000, \$942,000, and \$1,105,000, respectively, equal to the required contributions for each year.

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

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2014, the City contributed 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll. Active members do not make contributions to the OPEB Plan.

The OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plans was 2.0% during calendar year 2014. The OPERS Retirement Board is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payments amounts vary depending on the number of covered dependents and the coverage selected. The portion of the Electric System's contributions that were used to fund post employment benefits was approximately \$140,000, \$67,000, and \$316,000 for 2014, 2013, and 2012, respectively.

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

## Metropolitan Pension Plan

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

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

The Electric System's annual pension cost (APC) and net pension obligation (NPO) for the Metropolitan Pension Plan for the years ended December 31, 2014, 2013, and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual required contribution (ARC)	\$ 49,498	\$ 51,164	\$ 55,781
Interest on NPO	795	369	-
Adjustments to ARC	<u>(3,719)</u>	<u>(1,505)</u>	<u>-</u>
Annual pension cost (APC)	46,574	50,028	55,781
Contributions made	<u>36,227</u>	<u>39,361</u>	<u>46,568</u>
Increase in net pension obligation	10,347	10,667	9,213
Net pension obligation, beginning of year	<u>19,880</u>	<u>9,213</u>	<u>-</u>
Net pension obligation, end of year	<u>\$ 30,227</u>	<u>\$ 19,880</u>	<u>\$ 9,213</u>

The Electric System's APC, percentage of APC contributed, NPO, and unfunded actuarial accrued liabilities for the years ended December 31, 2014, 2013, and 2012 are as follows:

Years Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Unfunded Actuarial Accrued Liability
2014	\$ 46,574	77.8%	\$ 30,227	\$ 248,264
2013	50,028	78.7%	19,880	264,613
2012	55,781	83.5%	9,213	313,174

The actuarial valuation date was December 31, 2014 and the accrued liability was calculated using the entry age normal cost method. The Metropolitan Pension Plan currently has no assets. The amortization method used was level dollar and the amortization period was 7 years.

## Retiree Life Insurance

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

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

The Electric System's annual OPEB cost and net OPEB for the Retiree Life Insurance Plan for the years ended December 31, 2014, 2013, and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual required contribution (ARC)	\$ 11,711	\$ 11,621	\$ 11,346
Interest on Net OPEB	125	65	-
Adjustments to ARC	<u>(182)</u>	<u>(87)</u>	<u>-</u>
Annual OPEB cost	11,654	11,599	11,346
Contributions made	<u>10,195</u>	<u>10,093</u>	<u>9,736</u>
Increase in Net OPEB	1,459	1,506	1,610
Net OPEB, beginning of year	<u>3,116</u>	<u>1,610</u>	<u>-</u>
Net OPEB, end of year	<u>\$ 4,575</u>	<u>\$ 3,116</u>	<u>\$ 1,610</u>

The Electric System's annual OPEB cost, percentage of OPEB contributed, net OPEB, and unfunded actuarial accrued liabilities for the years ended December 31, 2014, 2013, and 2012 are as follows:

Years Ended	Annual OPEB Cost	Percentage of OPEB Contributed	Net OPEB Obligation	Unfunded Actuarial Accrued Liability
2014	\$ 11,654	87.5%	\$ 4,575	\$ 250,418
2013	11,599	87.1%	3,116	164,032
2012	11,346	85.8%	1,610	164,697

The actuarial valuation date was December 31, 2014 and the accrued liability was calculated using the entry age normal cost method. The City's post-employment life-insurance plan currently has no assets.

## 9. RELATED PARTY TRANSACTIONS

Under an arrangement with the City, the Electric System provides street lighting and traffic light services to the City, without charge. Street and traffic light facilities used approximately 5,714,000 kilowatt-hours and 5,714,000 kilowatt-hours of electrical energy in both 2014 and 2013, respectively, and the estimated operating cost of supplying these free services was \$371,000 and \$371,000 in 2014 and 2013, respectively.

The City's Gas System provides gas to the Electric System for use in the generation of electricity. Gas costs of \$4,014,000 and \$1,587,000 in 2014 and 2013, respectively, paid to the Gas System are included in operating expenses.

The Electric System sells electricity to the City's Water and Wastewater Systems. Included in revenues are sales to the Water System and Wastewater System in 2014 and 2013 of \$1,243,368 (\$734,064 and \$509,304) and \$1,284,994 (\$790,465 and \$494,529), respectively.

The Electric System is allocated from the City a portion of the City's administrative cost. In addition, it was charged expenses by the City's internal service funds, which provide services to various City departments. Total expenses for these items were approximately \$2,869,000 and \$2,437,000 in 2014 and 2013, respectively, and are included in other operating expenses.

#### **10. CONTINGENT LIABILITIES**

Various claims and lawsuits are pending against the City involving the Electric System. The City believes that the ultimate disposition of such claims and lawsuits will not have a material adverse effect on the financial position of the Electric System.

#### **11. RISK MANAGEMENT**

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

#### **12. JOINT VENTURES/JOINTLY GOVERNED ORGANIZATIONS**

The City of Hamilton is a member of a number of Governmental Joint Ventures and Jointly Governed Organizations as described in GASB Statement No. 61, The Financial Reporting Entity. The following is a list of organizations and a brief description of the Joint Venture and the Jointly Governed Organizations pertaining specifically to the Electric System of the City.

*(a) AMP, Inc.* – The City is a founding member of American Municipal Power, Inc. (AMP). AMP is a non-profit corporation organized under Ohio law and Internal Revenue Code Section 501 and is a jointly governed organization. The organization operates on a non-profit basis for the mutual benefit of its member municipalities, all of whom own or operate a municipal electric system. The non-profit corporation is dedicated to providing member assistance and low-cost power supplies.

The controlling board of AMP, Inc. is based upon a representative from several of the member communities. The degree of control exercised by any participating government is limited to its representation on the board. The continued existence of the corporation is not dependent upon the City. Complete financial statements may be obtained from AMP, Inc., 1111 Schrock Road, Columbus, Ohio 43219.

**(b) American Municipal Power (AMP) – OMEGA JV2 Project** – In December 2000, the City became a part of the OMEGA (Ohio Municipal Energy Generation Association) JV2 Project. The OMEGA JV2 project is a joint venture among the City of Hamilton and 35 other participating municipalities created under the auspices of the Ohio Constitution section XVIII, Sections 3 and 4 and Ohio Revised Code Section 715.02. All of the participating communities are members of AMP, Inc. and the joint venture has appointed that non-profit corporation to perform certain management functions. The purpose of the joint venture is to create distributive generation among the participating members allowing for increased electric production capacity during peak demand. The degree of control exercised by any participating member is weighted in proportion to each participant’s project share, which is 23.87% for the City (a non-majority voting position). Project share is equal to the amount of the distributive generation capacity for each of the members. Membership in the joint venture is defined as financing or non-financing participant, as well as owner or purchasing participant, for which the City qualified as a financing, purchasing participant. As a financing participant, the City makes payments to OMEGA JV2.

The following amounts were expended by the Electric Fund and recorded within the Purchase of Electric expense account to the OMEGA JV2 in 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Payments - OMEGA JV2	\$ 723,119	538,885

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

**(c) Meldahl, LLC** – On February 25, 2009, Meldahl, LLC, was formed as a non-profit limited liability company under the laws of the State of Delaware, by the filing of Articles of Organization with the Delaware Secretary of State. AMP, Inc., is the Sole Member of the LLC and the City is the largest participant in the LLC, with a majority ownership interest in the LLC of 51.4%. Meldahl, LLC, is constructing the Meldahl Hydroelectric Plant on the Ohio River, and will eventually be the operating entity of the Plant, once it is completed and on-line in 2015.

Meldahl, LLC, shall be managed by the Member. The Member shall appoint a Board of Directors, having full exclusive power on the LLC’s behalf to manage its business and affairs. Complete financial statements may be obtained from the Sole Member, AMP, Inc. 1111 Schrock Road, Columbus, Ohio 43219.

### **13. CONTRACTUAL COMMITMENTS**

At December 31, 2014, the Electric System had contractual commitments of approximately \$5,012,000 related to property, plant and equipment improvements and additions, as well as various other contract and agreements to provide or receive services related to the Electric System operations.

### **14. CLOSURE OF THE ELECTRIC SYSTEM TO COMPETITION**

In March 2002, the Hamilton City Council adopted an ordinance effectively closing the municipal borders of the City to electric deregulation. With the adoption of the ordinance, electric customers within these corporate boundaries must purchase their electricity from the Hamilton Electric System.

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# Dave Yost • Auditor of State

**CITY OF HAMILTON ELECTRIC SYSTEM**

**BUTLER COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 25, 2015**