City of Hamilton, Ohio – Electric System

Financial Statements

Years Ended December 31, 2008 and 2007

With Independent Auditors' Report

TABLE OF CONTENTS

Independent Auditors' Report 1

Management's Discussion and Analysis ..... 2 - 6

Financial Statements:

Statements of Net Assets 7

Statements of Revenues, Expenses and Changes in Net Assets 8

Statements of Cash Flows 9

Notes to Financial Statements ..... 10 - 19

CLARK SCHAEFER HACKETT
STRENGTH IN NUMBERS

INDEPENDENT AUDITORS' REPORT

Honorable City Council
City of Hamilton, Ohio

We have audited the accompanying financial statements of the City of Hamilton, Ohio - Electric System, an enterprise fund of the City of Hamilton, Ohio as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the City of Hamilton's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Electric System and do not purport to, and do not, present fairly the financial position of the City of Hamilton, Ohio as of December 31, 2008 and 2007, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Hamilton, Ohio - Electric System as of December 31, 2008 and 2007 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 2, 2009

City of Hamilton, Ohio
Electric System

Management's Discussion and Analysis
For the Year Ended December 31, 2008 and 2007
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, 2008 and 2007. 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 Assets; Revenues, Expenses and Changes in Net Assets; and Cash Flows to enhance their understanding of the system's fiscal performance.

Financial Highlights

Key highlights for 2008 and 2007 are as follows:

- The assets of the Hamilton Electric System exceeded its liabilities at the close of 2008 by $3,343,016 and $4,363,462 at the close of 2007 (net assets). At December 31, 2008 and 2007, $11,902,237 and $16,509,570, respectively (unrestricted net assets) may be used to meet the system's ongoing obligations to customers and creditors.
- The system's total net assets decreased between 2008 and 2007 by $1,020,446.
- The system's investment in capital assets, net of related debt, increased by $872,569.

Electric System Summary and Using this Annual Report

The City of Hamilton, Ohio has owned and operated an electric utility system since 1893. Currently, the system is the second largest municipally owned electric system in Ohio. The electric system is a fully integrated electric generation, transmission and distribution system. The system owns both thermal and hydroelectric generation facilities and maintains a diverse 29,500 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 Assets, the Statement of Revenues, Expenses and Changes in Net Assets, 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 year ended December 31, 2008 and 2007.

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 2008 and 2007. 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 Year Ended December 31, 2008 and 2007
Unaudited

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the view of the System looks at all financial transactions of the Electric Fund and asks the question, "How did we do financially during 2008 and 2007?" These statements provide answers to that question. The statements include all assets 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 assets and the changes in those net assets. The change in net assets 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 assets may serve over time as a useful indicator of financial position. In the case of the Electric Fund, assets exceeded liabilities by $3,343,016 and $4,363,462 as of December 31, 2008 and 2007, respectively. Unrestricted net assets of $11,902,237, $16,509,570, and $14,762,874 for 2008, 2007 and 2006, respectively encompass the largest portion of the net assets of the System.

Table 1 provides a summary of the Electric System's Statement of Net Assets for the Years Ended December 31, 2008, 2007 and 2006.

	2008	2007	2006
Current and Other Assets	$42,458,763	$30,583,592	$32,740,760
Capital Assets	136,462,283	134,399,559	137,698,181
Total Assets	178,921,046	164,983,151	170,438,941
Long-term Liabilities	136,980,299	142,890,129	149,809,753
Other Liabilities	38,597,731	17,729,560	17,516,948
Total Liabilities	175,578,030	160,619,689	167,326,701
Invested in capital assets, net of related debt	(18,942,067)	(19,814,636)	(19,130,231)
Restricted	10,382,846	7,668,528	7,479,597
Unrestricted	11,902,237	16,509,570	14,762,874
Total Net Assets	$3,343,016	$4,363,462	$3,112,240

City of Hamilton, Ohio
Electric System

Management's Discussion and Analysis
For the Year Ended December 31, 2008 and 2007
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 $136,462,283, $134,399,559, and $137,698,181, respectively at December 31, 2008, 2007 and 2006. 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 Assets section of the Statement of Net Assets 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, 2008 and 2007, the City was able to report positive balances in net assets of $3,343,016 and $4,363,462, respectively. Operating income of $6,153,297 for 2008, $8,461,154 for 2007 and $12,757,537 for 2006 were positive, in light of depreciation expense exceeding $9,700,000 in all three years, a great deal of which ratably allocates the cost of generation assets. Maintenance of positive operating income is primarily due to controlling the growth of expenses and maintaining rates commensurate with the costs of providing electricity. Interest expense on the City's outstanding long-term revenue bonds was reduced by more than $2.5 million annually as a function of the refinancing that occurred in 2002.

Statement of Revenues, Expenses and Changes in Net Assets

	2008	2007	2006
Operating Revenues	$65,136,558	$62,927,311	$58,694,775
Operating Expenses:			
Purchased electric	22,993,054	25,019,450	17,983,335
Depreciation	10,077,438	9,987,085	9,792,995
Other Operating Expenses	25,912,769	19,459,622	18,160,908
Total Operating Expenses	58,983,261	54,466,157	45,937,238
Operating income	6,153,297	8,461,154	12,757,537
Non-Operating revenues (expenses)			
Interest and fiscal charges	(8,003,532)	(8,256,337)	(8,370,207)
Other non-operating revenues (expenses)	889,789	922,130	(1,805,886)
Total non-operating revenues (expenses)	(7,113,743)	(7,334,207)	(10,176,093)
Contributions	-	124,275	1,042,400
Transfers out	(60,000)	-	(600,212)
Change in Net Assets	(1,020,446)	1,251,222	3,023,632
Beginning Net Assets	4,363,462	3,112,240	88,608
Ending Net Assets	$3,343,016	$4,363,462	$3,112,240

Purchased electric power volume and cost per MWh decreased in 2008 due to a mild summer and lower City electric sales volume. Revenues increased due to increased off-system sales (opportunity sales resulting from high market prices).

Capital Assets and Debt Administration

Capital Assets: The City's investment in capital assets of the Electric System as of December 31, 2008, 2007 and 2006 amounted to ($18.94 Million), ($19.81 Million), and ($19.13 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) provide Electric System asset activity during 2008 and 2007.

Debt Administration: At the end of 2008, the City had outstanding long-term revenue bond issues, the 2002 Electric System Variable Rate Revenue Refunding Bonds totaling $149,020,000. The City remarketed these bonds to a term fixed rate in 2005. The City also had $4,000,000 outstanding on a line of credit at December 31, 2008

In March 2005, the City issued $9,800,000 (Electric System's portion $2,799,860) in bond anticipation notes that were authorized by Council in December 2004 for the purpose of acquiring, installing and paying all related costs for a new automated meter reading (AMR) system. The installation of meters began in March 2005 and was completed and functioning by September 2006. In September 2008, the City continued to rollover these bond anticipation notes in the amount of $5,320,000 (Electric System's portion $1,520,000).

In September 2008, the City issued bond anticipation notes in the amount of $3,650,000 to refinance notes issued in 2007. The proceeds of these notes were originally used to fund construction of an ash removal system and the rebuilding of the #9 turbine, as well as various other projects. Also in September 2008, the City issued bond anticipation notes in the amount of $13,000,000 to finance capital improvement to generation, transmission, and distribution facilities.

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

Economic Factors and the Future of the System

The City's Electric System is continually monitoring the cost of purchased power, coal and natural gas. However, the cost of coal over the past five years has been highly volatile and the City is required by both ordinance and indentures to pass these cost increases to its customers. The number of customers has remained relatively steady. Debt service coverage has been maintained above indenture required minimums. The price of coal for power generation is fixed. This will help stabilize City electric rates in 2009.

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 updated and reviewed in the spring and fall of each year, or more often as deemed necessary by City Management.

In spite of increasing costs and a focus on replacement, improvement and renewal of system assets, the City's Electric System has prospered. All bond anticipation notes of the City have received a MIG-1 rating, the highest possible rating. The City's Electric System maintains an A3 underlying rating for the system and the 2002 Electric System Revenue Refunding Bonds maintained a VMIG-1 rating.

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 William E. Moller, City of Hamilton Finance Director, 345 High Street, Hamilton, Ohio 45011, (513) 785-7161, (email at mollerb@ci.hamilton.oh.us) or visit the City website at www.hamilton-city.org.

CITY OF HAMILTON, OHIO – ELECTRIC SYSTEM
STATEMENTS OF NET ASSETS
DECEMBER 31, 2008 AND 2007

		2008	2007
ASSETS			
Current assets:			
Cash and investments	$	18,040,020	8,302,623
Accounts receivable (less allowance for uncollectible accounts of $5,675,508 and $5,188,631, respectively)		6,850,685	7,288,058
Interest receivable		161,055	58,717
Inventory of supplies at cost		3,397,066	3,246,685
Prepaid expenses		508,182	515,466
Total current assets		28,957,008	19,411,549
Restricted cash and investments		10,382,846	7,723,053
Bond issuance costs		3,118,909	3,448,990
Capital assets:			
Property, plant and equipment		358,625,833	355,755,510
Construction in progress		19,696,413	10,719,974
Accumulated depreciation		(241,859,963)	(232,075,925)
Total capital assets		136,462,283	134,399,559
Total assets	$	178,921,046	164,983,151
LIABILITIES			
Current liabilities:			
Accounts payable	$	4,037,982	2,060,178
Accrued wages and benefits		302,297	202,170
Accrued liabilities		262	5
Intergovernmental payable		263,516	261,429
Accrued interest payable		1,495,280	1,499,706
Customer deposits payable		743,255	719,023
Compensated absences payable-current		570,139	542,049
Unearned revenue		2,430,000	-
General obligation notes payable		18,170,000	6,070,000
Revenue bonds payable and line of credit-current portion		10,585,000	6,375,000
Total current liabilities		38,597,731	17,729,560
Noncurrent Liabilities:			
Compensated absences payable		1,102,175	1,120,934
Revenue bonds payable		135,878,124	141,769,195
Total noncurrent liabilities		136,980,299	142,890,129
Total liabilities		175,578,030	160,619,689
NET ASSETS			
Invested in capital assets, net of related debt		(18,942,067)	(19,814,636)
Restricted for debt service		6,382,846	3,668,528
Restricted for rate stabilization		4,000,000	4,000,000
Unrestricted		11,902,237	16,509,570
Total net assets	$	3,343,016	4,363,462

See notes to financial statements.

CITY OF HAMILTON, OHIO - ELECTRIC SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Operating revenues:		
Charges for services	$ 65,048,814	62,221,020
Other operating revenues	87,744	706,291
Total operating revenues	65,136,558	62,927,311
Operating expenses:		
Personal services	10,471,142	9,631,011
Materials and supplies	3,904,300	1,837,188
Contractual services	9,195,985	3,596,750
Purchased electric	22,993,054	25,019,450
Depreciation	10,077,438	9,987,085
Other operating expenses	2,341,342	4,394,673
Total operating expenses	58,983,261	54,466,157
Operating income	6,153,297	8,461,154
Non-operating revenues (expenses):		
Investment earnings	892,668	1,076,488
Loss on disposal of capital assets	(2,879)	(154,358)
Interest and fiscal charges	(8,003,532)	(8,256,337)
Total non-operating revenues (expenses)	(7,113,743)	(7,334,207)
Income (loss) before contributions and transfers	(960,446)	1,126,947
Contributions	-	124,275
Transfers out	(60,000)	-
Change in net assets	(1,020,446)	1,251,222
Net assets - beginning of year	4,363,462	3,112,240
Net assets - end of year	$ 3,343,016	4,363,462

See notes to financial statements.

CITY OF HAMILTON, OHIO - ELECTRIC SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

		2008	2007
Cash flows from operating activities:			
Cash received from customers	$	68,028,425	62,076,857
Cash paid for employee services and benefits		(10,487,303)	(9,535,581)
Cash paid to suppliers for goods and services		(37,015,432)	(34,382,170)
Net cash provided by operating activities		20,525,690	18,159,106
Cash flows from noncapital financing activities:			
Transfers to other funds		(60,000)	-
Net cash used for noncapital financing activities		(60,000)	-
Cash flows from capital and related financing activities:			
Payments for capital acquisition		(11,599,882)	(6,718,546)
Debt proceeds		18,170,000	6,070,000
Line of credit proceeds		4,000,000	-
Debt principal payments		(12,445,000)	(13,195,000)
Debt interest payments		(6,983,948)	(7,254,667)
Net cash used by capital and related financing activities		(8,858,830)	(21,098,213)
Cash flows from investing activities:			
Interest from investments		790,330	1,103,097
Net cash provided by investing activities		790,330	1,103,097
Net change in cash and investments		12,397,190	(1,836,010)
Cash and investments at beginning of year		16,025,676	17,861,686
Cash and investments at end of year	$	28,422,866	16,025,676
Reconciliation of operating income to net cash providing by operating activities:			
Operating income	$	6,153,297	8,461,154
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		10,077,438	9,987,085
Change in Assets and Liabilities:			
(Increase) decrease in receivables		437,373	(850,109)
(Increase) decrease in inventory		(150,381)	(444,950)
(Increase) decrease in prepaid items		7,284	1,247,348
Increase (decrease) in customer deposits payable		24,232	20,116
Increase (decrease) in payables		1,434,645	(341,357)
Increase (decrease) in unearned revenue		2,430,000	-
Increase (decrease) in accrued liabilities		109,715	18,715
Increase (decrease) in intergovernmental payables		2,087	61,104
Net cash provided by operating activities	$	20,525,690	18,159,106
Schedule of noncash activities:			
Capital contributions	$	-	124,275
Outstanding liabilities for purchase of certain capital assets		598,417	-
Change in fair value of investments		81,918	(92,886)

See notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus, Basis of Accounting and Basis of Presentation – The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. The Electric System has elected only to apply Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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 and Issuance Costs – Unamortized bond discounts and issuance costs are amortized on the interest method over the term of the related bonds. Amortization of bond discounts was $48,204 and $49,983 in 2008 and 2007, respectively. Amortization of issuance costs in 2008 and 2007 amounted to $330,081 and $342,260, 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.

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 $25,004,632 and $12,357,148 at December 31, 2008 and 2007, respectively, and consisted of demand deposits, money market funds, U.S. government securities and STAR Ohio. Cash and investments held by trustees were $3,418,234 and $3,668,528 as of December 31, 2008 and 2007, 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, 2008.

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, 2008, nearly 86% 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 AAA and an average maximum maturity of 3.52 years and STAR Ohio which has a credit rating of AAAm.

3. ACCOUNTS RECEIVABLE

Receivables at December 31, 2008 and 2007 consist of the following:

		2008	2007
Earned and unbilled consumer accounts	$	3,837,934	3,535,877
Earned and billed consumer accounts		8,537,344	8,882,303
Other		150,915	58,509
Less allowance for uncollectible accounts		(5,675,508)	(5,188,631)
Total	$	6,850,685	7,288,058

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 $10,382,846 and $7,723,053 at December 31, 2008 and 2007, respectively.

5. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2008 and 2007 was as follows:

		Balance 1/1/08	Increases	Decreases	Balance 12/31/08
Nondepreciable capital assets:					
Land	$	1,837,989	64,045	-	1,902,034
Construction in progress		10,719,974	10,841,691	(1,865,252)	19,696,413
Subtotal		12,557,963	10,905,736	(1,865,252)	21,598,447
Capital assets being depreciated:					
Buildings and improvements		16,164,737	75,632	-	16,240,369
Machinery and equipment		337,752,784	3,026,925	(296,279)	340,483,430
Subtotal		353,917,521	3,102,557	(296,279)	356,723,799
Totals at historical cost		366,475,484	14,008,293	(2,161,531)	378,322,246
Less accumulated depreciation:					
Buildings and improvements		6,267,605	234,436	-	6,502,041
Machinery and equipment		225,808,320	9,843,002	(293,400)	235,357,922
Total accumulated depreciation		232,075,925	10,077,438	(293,400)	241,859,963
Capital assets, net	$	134,399,559	3,930,855	(1,868,131)	136,462,283

		Balance 1/1/07	Increases	Decreases	Balance 12/31/07
Nondepreciable capital assets:					
Land	$	1,634,769	203,220	-	1,837,989
Construction in progress		13,390,932	3,926,060	(6,597,018)	10,719,974
Subtotal		15,025,701	4,129,280	(6,597,018)	12,557,963
Capital assets being depreciated:					
Buildings and improvements		13,822,270	2,357,361	(14,894)	16,164,737
Machinery and equipment		331,375,863	6,968,092	(591,171)	337,752,784
Subtotal		345,198,133	9,325,453	(606,065)	353,917,521
Totals at historical cost		360,223,834	13,454,733	(7,203,083)	366,475,484
Less accumulated depreciation:					
Buildings and improvements		6,048,404	219,201	-	6,267,605
Machinery and equipment		216,477,249	9,767,884	(436,813)	225,808,320
Total accumulated depreciation		222,525,653	9,987,085	(436,813)	232,075,925
Capital assets, net	$	137,698,181	3,467,648	(6,766,270)	134,399,559

6. LONG-TERM DEBT

In 2002, the Electric System issued $184,360,000 of variable rate revenue refunding bonds to advance refund outstanding revenue bonds of the Electric System. The proceeds from these bonds were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements.

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.

The line of credit is for operations of the gas and electric utility. Interest, which is due monthly, is based on the LIBOR index plus 0.95%. The entire principal balance is due no later than July 1, 2009.

Debt activity for the year ended December 31, 2008 was as follows:

		Balance 1/1/08	Additions	Reductions	Balance 12/31/08	Due Within One Year
Line of Credit	$	-	4,000,000	-	4,000,000	4,000,000
2002 Electric Variable Refunding A/B Bonds		155,395,000	-	(6,375,000)	149,020,000	6,585,000
Less deferred amount:						
on refunding		(6,747,122)	-	645,725	(6,101,397)	-
for issuance discounts		(503,683)	-	48,204	(455,479)	-
	$	148,144,195	4,000,000	(5,681,071)	146,463,124	10,585,000

Debt activity for the year ended December 31, 2007 was as follows:

		Balance 1/1/07	Additions	Reductions	Balance 12/31/07	Due Within One Year
2002 Electric Variable Refunding A/B Bonds	$	161,570,000	-	(6,175,000)	155,395,000	6,375,000
Less deferred amount:						
on refunding		(7,416,672)	-	669,550	(6,747,122)	-
for issuance discounts		(553,666)	-	49,983	(503,683)	-
	$	153,599,662	-	(5,455,467)	148,144,195	6,375,000

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

A summary of the System's annual debt service requirements as of December 31, 2008 follows:

		Principal	Interest	Total
2009	$	6,585,000	6,467,060	13,052,060
2010		6,800,000	6,243,170	13,043,170
2011		7,025,000	5,998,370	13,023,370
2012		7,255,000	5,734,933	12,989,933
2013		7,490,000	5,451,988	12,941,988
2014-2018		41,300,000	22,414,042	63,714,042
2019-2023		48,540,000	12,574,911	61,114,911
2024-2025		24,025,000	1,699,050	25,724,050
Total	$	149,020,000	66,583,523	215,603,523

7. NOTES PAYABLE

In September 2007, the City issued $7,070,000 (Electric System's portion $2,020,000) in bond anticipation notes that provided funding to rollover the bond anticipation notes issued in March 2006. In September 2008, the City issued $5,320,000 (Electric System's portion $1,520,000) in bond anticipation notes that provided funding to rollover the bond anticipation notes issued in September 2007. The purpose of the original proceeds was to provide funding for the acquisition and installation of a new automated meter reading system.

In September 2007, the City issued bond anticipation notes in the amount of $4,050,000 that provided funding to rollover bond anticipation notes originally issued in 2006. In September 2008, the City issued bond anticipation notes in the amount of $3,650,000 that provided funding to rollover the bond anticipation notes that were issued in September 2007. The purpose of the original proceeds was to provide funding for various Electric System distribution improvements.

Also in September 2008, the City issued bond anticipation notes in the amount of $13,000,000 to finance certain capital improvements to the generation, transmission, and distribution facilities.

Note activity for the year ended December 31, 2008 was as follows:

		Balance 1/1/08	Additions	Reductions	Balance 12/31/08
2008 Electric System Imp. 2.00%	$	-	16,650,000	-	16,650,000
2008 AMR System 2.00%		-	1,520,000	-	1,520,000
2007 Electric System Imp. 4.00%		4,050,000	-	(4,050,000)	-
2007 AMR System 4.00%		2,020,000	-	(2,020,000)	-
	$	6,070,000	18,170,000	(6,070,000)	18,170,000

Note activity for the year ended December 31, 2007 was as follows:

		Balance 1/1/07	Additions	Reductions	Balance 12/31/07
2007 Electric System Imp. 4.00%	$	-	4,050,000	-	4,050,000
2007 AMR System 4.00%		-	2,020,000	-	2,020,000
2006 Electric System Imp. 4.50%		4,500,000	-	(4,500,000)	-
2006 AMR System 4.25%		2,520,000	-	(2,520,000)	-
	$	7,020,000	6,070,000	(7,020,000)	6,070,000

8. DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

The Electric System contributes to the Ohio Public Employees Retirement System (OPERS) which administers three separate pension plans as described below:

- 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 PERS for the years ended December 31, 2008, 2007, and 2006 were approximately $1,070,000, $976,000, and $935,000 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 2008, 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 post employment health care benefits. For 2008, the employer contribution allocated to the health care plan was 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment 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 $535,000, $387,000 and $281,000 for 2008, 2007, and 2006, respectively.

The Health Care Preservation Plan adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Members and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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 4,993,370 kilowatt-hours and 5,225,420 kilowatt-hours of electrical energy in both 2008 and 2007, respectively, and the estimated operating cost of supplying these free services was $479,000 and $583,000 in 2008 and 2007, respectively.

The City's Gas System provides gas to the Electric System for use in the generation of electricity. Gas costs of $728,000 and $602,000 in 2008 and 2007, 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 2008 and 2007 of approximately $1,641,000 ($944,000 and $697,000) and $1,528,000 ($955,000 and $573,000), respectively.

The Electric System is allocated from the City a portion of the City's administrative cost. In addition, it was charged expenses by the City's internal service funds, which provide services to various City departments. Total expenses for these items were approximately $3,200,000 and $3,352,000 in 2008 and 2007, respectively, and are included in other operating expenses.

10. CONTINGENT LIABILITIES

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

11. RISK MANAGEMENT

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

12. JOINT VENTURES/JOINTLY GOVERNED ORGANIZATIONS

The City of Hamilton is a member of a number of Governmental Joint Ventures and Jointly Governed Organizations as described in GASB Statement No. 14, The Financial Reporting Entity. The following is a list of organizations and a brief description of the Joint Venture and the Jointly Governed Organizations pertaining specifically to the Electric System of the City.

(a) Amp Ohio, Inc. – The City of Hamilton is a member of American Municipal Power Ohio, Inc. (AMP-OHIO). AMP-OHIO 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-OHIO, 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-OHIO, Inc., 2600 Airport Drive, Columbus, Ohio 43219.

(b) Amp Ohio, Inc. – 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-OHIO, 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 2008 and 2007:

		2008	2007
Annual capacity	$	1,131,698	1,134,464
Power purchases		3,712,869	4,096,742
Total payments	$	4,844,567	5,231,206

The continued existence of OMEGA JV2 is dependent upon the City's continued participation but the City, as a purchaser participant, does not have an equity interest in OMEGA JV2. Complete financial statements may be obtained from AMP-OHIO, Inc., 2600 Airport Drive, Columbus, Ohio 43219.

13. CONTRACTUAL COMMITMENTS

As of December 31, 2008 and 2007, the Electric System had contractual commitments of approximately $5,878,000 and $1,202,000, respectively, to purchase coal and electricity.

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.