

City of Hillsboro
Highland County, Ohio
Regular Audit
For the Year Ended December 31, 2017



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Dave Yost • Auditor of State

Members of City Council
City of Hillsboro
130 North High Street
Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of the City of Hillsboro, Highland County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 29, 2018

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City of Hillsboro
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For the Year Ended December 31, 2017

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Independent Auditor's Report

City Council
City of Hillsboro
130 North High Street
Hillsboro, Ohio 45133

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Highland County (the City), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 City'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 City'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Highland County, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Street Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 and the net pension liability and employer contributions schedules on pages 63 through 66 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

September 21, 2018

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

The discussion and analysis of the City of Hillsboro's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- In total, net position decreased \$223,338. Net position of governmental activities decreased \$196,682. Net position of business-type activities decreased \$26,656.
- Governmental activities general revenues accounted for \$4,456,058 in revenue or 73 percent of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,637,519 or 27 percent of total governmental activities revenues of \$6,093,577. Business-type activities general revenues accounted for \$55,759 in revenue or 2 percent of all business-type activities revenues. Program specific revenues accounted for \$3,655,195 or 98 percent of total business-type activities revenues of \$3,710,954.
- The City had \$6,290,259 in expenses related to governmental activities; \$1,637,519 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,737,610 in expenses related to business-type activities; \$3,655,195 of these expenses were offset by program specific charges for services, grants and contributions.

Using the Annual Financial Report

This annual report consists of a series of financial statements and notes to the financial statements. These statements are organized so the reader can understand the City of Hillsboro as a financial whole or as an entire operating entity. The statements then proceed to provide a detailed look at specific financial conditions.

The statement of net position and statement of activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what monies remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in a single column.

Reporting the City as a Whole

Statement of Net Position and Statement of Activities

While this report contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The statement of net position and the statement of activities answer this question. These statements include all assets, liabilities and deferred inflows and outflows of resources using the accrual basis of accounting similar to the accounting basis used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the change in net position. The change in net position is important because it identifies whether the financial position of the City has improved or diminished for the City as a whole. However, in evaluating the overall position of the City, nonfinancial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

In the statement of net position and the statement of activities, the City is divided into two types of activities:

- **Governmental Activities** - Most of the City's services are reported as governmental activities including police, fire, administration, and all departments with the exception of business-type activities (wastewater treatment and water services).
- **Business-Type Activities** - These services have a charge based upon usage. The City charges fees to recoup the cost of the entire operation of the Water Plant and Wastewater Treatment Plant as well as all capital expenses associated with these facilities.

Reporting the City's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents; however, fund financial statements focus on the City's most significant funds. The City of Hillsboro's major funds are the General Fund, the Street Fund, and the Water and Sewer Enterprise Funds.

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the year-end balances available for spending in the future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services provided. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future on services provided to residents. The relationships between governmental activities reported in the statement of net position and the statement of activities and the governmental fund statements are reconciled in the financial statements.

Enterprise Funds - When the City charges customers for the services it provides, these services are generally reported in enterprise funds. Enterprise funds use the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds also use the accrual basis of accounting.

The City as a Whole

The statement of net position reviews the City as a whole. Table 1 provides a summary of the City's net position for 2017 compared to the prior year:

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current and Other Assets	\$ 4,192,656	\$ 4,719,862	\$ 5,021,573	\$ 4,914,038	\$ 9,214,229	\$ 9,633,900
Capital Assets, Net	16,763,882	16,263,663	30,597,975	31,276,394	47,361,857	47,540,057
Total Assets	20,956,538	20,983,525	35,619,548	36,190,432	56,576,086	57,173,957
Deferred Outflows of Resources						
Deferred Charge on Refunding Pensions	182,854	243,806	-	-	182,854	243,806
	1,089,897	1,042,396	605,470	503,853	1,695,367	1,546,249
Total Deferred Outflows of Resources	1,272,751	1,286,202	605,470	503,853	1,878,221	1,790,055
Liabilities						
Current and Other Liabilities	541,805	649,461	158,220	150,932	700,025	800,393
Long-Term Liabilities:						
Due Within One Year	271,360	277,238	809,400	758,089	1,080,760	1,035,327
Due in More Than One Year						
Net Pension Liability	3,837,321	3,453,702	1,538,027	1,341,563	5,375,348	4,795,265
Other Amounts	2,325,924	2,536,716	11,821,158	12,504,635	14,147,082	15,041,351
Total Liabilities	6,976,410	6,917,117	14,326,805	14,755,219	21,303,215	21,672,336
Deferred Inflows of Resources						
Property Taxes not Levied to Finance Current Year Operations	305,500	306,420	-	-	305,500	306,420
Pensions	132,585	34,714	16,349	30,546	148,934	65,260
Total Deferred Inflows of Resources	438,085	341,134	16,349	30,546	454,434	371,680
Net Position						
Net Investment in Capital Assets	14,111,954	13,879,015	18,035,241	18,069,523	32,147,195	31,948,538
Restricted	1,412,190	1,649,261	-	-	1,412,190	1,649,261
Unrestricted (Deficit)	(709,350)	(516,800)	3,846,623	3,838,997	3,137,273	3,322,197
Total Net Position	\$ 14,814,794	\$ 15,011,476	\$ 21,881,864	\$ 21,908,520	\$ 36,696,658	\$ 36,919,996

Total governmental activities net position decreased \$196,682 primarily due to an increase in the net pension liability, which was partially offset by a decrease in other long term liabilities. The decrease to current liabilities is due to a decrease in contracts payable. Business-type activities net position decreased \$26,656, primarily due to the increase in the net pension liability, and a decrease in capital assets, which was partially offset by a decrease in other long-term liabilities.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 80% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. Net investment in capital assets for the City as a whole increased primarily due to road projects through the Ohio Department of Transportation and

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

reduction of debt balances, which is partially offset by depreciation expense. Total liabilities for governmental activities increased \$59,293 as a result of an increase to the net pension liability, which was partially offset by a decrease in current liabilities. Total liabilities of business-type activities decreased \$428,414 as a result of debt payments which was partially offset by an increase in the net pension liability.

Table 2 shows the changes in net position for the year 2017 compared to the prior year.

Table 2
Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 524,793	\$ 549,903	\$ 3,655,195	\$ 3,766,108	\$ 4,179,988	\$ 4,316,011
Operating Grants and Contributions	280,558	332,947	-	-	280,558	332,947
Capital Grants and Contributions	832,168	417,941	-	-	832,168	417,941
Total Program Revenues	1,637,519	1,300,791	3,655,195	3,766,108	5,292,714	5,066,899
General Revenues:						
Property & Income Taxes	4,197,573	4,557,439	-	-	4,197,573	4,557,439
Unrestricted Investment Earnings	32,885	21,141	4,857	-	37,742	21,141
Grants and Contributions Not Restricted to Specific Programs	113,401	119,946	-	-	113,401	119,946
Gain on Sale of Capital Assets	-	5,967	-	-	-	5,967
Other	112,199	69,470	50,902	71,985	163,101	141,455
Total General Revenues	4,456,058	4,773,963	55,759	71,985	4,511,817	4,845,948
Total Revenues	6,093,577	6,074,754	3,710,954	3,838,093	9,804,531	9,912,847
Program Expenses						
General Government -						
Legislative and Executive	1,617,940	1,088,210	-	-	1,617,940	1,088,210
Judicial	420,804	392,888	-	-	420,804	392,888
Security of Persons and Property	2,579,465	2,915,782	-	-	2,579,465	2,915,782
Public Health	7,786	19,654	-	-	7,786	19,654
Leisure Time Activities	66,593	84,934	-	-	66,593	84,934
Community Environment	41,237	58,027	-	-	41,237	58,027
Transportation	1,426,433	1,284,246	-	-	1,426,433	1,284,246
Interest and Fiscal Charges	130,001	85,427	-	-	130,001	85,427
Issuance Costs	-	36,194	-	-	-	36,194
Water Fund	-	-	1,642,701	1,685,110	1,642,701	1,685,110
Storm Sewer Maintenance and Repair	-	-	14,462	-	14,462	-
Sewer Fund	-	-	2,080,447	1,985,525	2,080,447	1,985,525
Total Expenses	6,290,259	5,965,362	3,737,610	3,670,635	10,027,869	9,635,997
Special Item	-	-	-	335,000	-	335,000
Increase (Decrease) in Net Position	(196,682)	109,392	(26,656)	502,458	(223,338)	611,850
Beginning Net Position	15,011,476	14,902,084	21,908,520	21,406,062	36,919,996	36,308,146
Ending Net Position	\$ 14,814,794	\$ 15,011,476	\$ 21,881,864	\$ 21,908,520	\$ 36,696,658	\$ 36,919,996

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

Governmental Activities

Governmental activities net position decreased \$196,682 or 1% during 2017. Capital Grants and Contributions increased due to a road construction project through the Ohio Department of Transportation in 2017. Legislative and executive expenses increased primarily due to changes in pension actuarial calculations and the demolition of the colony theatre. Security of persons and property decreased primarily due to changes in pension actuarial calculations and reductions of expenses for police and fire protections services. Transportation expenses increased primarily to repair and maintenance items in 2017.

General revenues primarily consist of property and income tax revenue of \$4,197,573, which is 94% of total general revenues in 2017. General government expenses include legislative and executive and judicial programs, totaled \$2,038,744 which is 32% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 41% of total expenses.

Business-Type Activities

The City's business-type activities are its water and sewer departments. The water and wastewater treatment plants provide services to the City's residents. The water plant generated operating revenues of \$1,486,970 and had operating expenses of \$1,431,927, and interest expense of \$210,774. The wastewater treatment plant generated operating revenues of \$2,168,225 and had operating expenses of \$2,008,544, and interest expense of \$71,653. Operating revenues remained consistent between the two years for both the water and sewer funds. Contractual service expenses in the Water Fund decreased in 2017 due to less maintenance and repairs in 2017. The City's goal is to cover the costs of operations as well as to build the cash balance in these funds. The City is also generating funds for additional capital expansion to ensure continued capacity and capacity improvements for future growth and development.

The City's Funds

Information about the City's major funds starts on page 13. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$7,105,853 and expenditures and other financing uses of \$7,436,615. The net change in fund balance for the year was most significant in the Street Fund with a decrease of \$202,479. The majority of the decrease in fund balance is due to expenditures exceeding revenues, which is partially offset by a transfer from the General Fund. The General Fund had a decrease of fund balance of \$5,048. The General Fund transferred \$836,000 to other funds during 2017.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

During the course of 2017, the City amended its General Fund budget slightly. With the General Fund supporting many of the major activities such as the City's police and fire departments, as well as most general government activities, the General Fund is monitored closely to prevent possible revenue shortfalls or overspending by individual departments.

For the General Fund, original budgeted revenues and other financing sources were \$4,600,080 which were \$10,651 below final budgeted revenues and other financing sources of \$4,610,731. The City's actual revenues and other financing sources were \$8,700 more than the final budgeted revenues and other financing sources due primarily to higher than expected intergovernmental, interest and other revenues. Original budgeted expenditures and other financing uses were \$5,181,492, while final budget amounts were \$5,333,593. The increase is due to an increase in security of persons and property.

The General Fund's actual expenditures were \$556,362 less than final budgeted expenditures mainly due to conservative budgeting by the City.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2017 the City had \$47,361,857 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2017 and 2016 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 580,307	\$ 561,543	\$ 10,460	\$ 10,460	\$ 590,767	\$ 572,003
Land Improvements	692,075	689,140	82,679	93,713	774,754	782,853
Buildings and Improvements	3,029,555	3,109,807	26,289,955	26,790,798	29,319,510	29,900,605
Furniture and Equipment	375,130	418,067	359,426	424,129	734,556	842,196
Vehicles	301,990	308,768	564,408	484,455	866,398	793,223
Infrastructure/Water & Sewer Lines	11,251,215	10,872,166	3,193,135	3,472,839	14,444,350	14,345,005
Construction in Progress	533,610	304,172	97,912	-	631,522	304,172
Totals	\$ 16,763,882	\$ 16,263,663	\$ 30,597,975	\$ 31,276,394	\$ 47,361,857	\$ 47,540,057

See Note 13 for additional information on the City's capital assets.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

Debt

At December 31, 2017, the City of Hillsboro had \$14,998,417 in bonds, loans, and leases outstanding, \$1,034,067 was due within one year.

Table 4
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
O.W.D.A. Loan	\$ -	\$ -	\$ 6,401,201	\$ 6,882,215	\$ 6,401,201	\$ 6,882,215
Capital Lease	75,683	63,454	282,060	227,076	357,743	290,530
OPWC Loan	-	-	632,473	653,578	632,473	653,578
Improvement Revenue Bonds	-	50,000	2,512,000	2,559,000	2,512,000	2,609,000
GO Refunding and Improvement Bonds	1,970,000	2,000,000	2,735,000	2,885,000	4,705,000	4,885,000
General Obligation Bonds	390,000	515,000	-	-	390,000	515,000
Total	\$ 2,435,683	\$ 2,628,454	\$ 12,562,734	\$ 13,206,869	\$ 14,998,417	\$ 15,835,323

The City's overall legal debt margin was \$9,508,180 at December 31, 2017.

See Note 14 for additional information about the City's debt.

The Future

The City of Hillsboro continues to work diligently to increase revenues and decrease costs to put the City on more stable footing. The City has continued to grow with new homes constructed annually, and several new commercial facilities opened with more planned for the future.

The City of Hillsboro has committed itself to financial excellence in the coming years. Our commitment to the residents of the City of Hillsboro will be full disclosure of the financial position of the City.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to reflect the City's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to Gary Lewis, City Auditor, 130 North High Street, Hillsboro, Ohio 45133, (937) 393-5791.

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City of Hillsboro
Statement of Net Position
December 31, 2017

	Governmental Activities	Business-Type Activities	Totals
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,226,227	\$ 4,456,032	\$ 6,682,259
Cash and Cash Equivalents with Fiscal Agent	20,715	-	20,715
Receivables:			
Taxes	1,274,920	-	1,274,920
Accounts	33,584	562,841	596,425
Internal Balances	(2,700)	2,700	-
Due from Other Governments	309,974	-	309,974
Loans Receivable	329,936	-	329,936
Non-Depreciable Capital Assets	1,113,917	108,372	1,222,289
Depreciable Capital Assets, Net	15,649,965	30,489,603	46,139,568
<i>Total Assets</i>	<u>20,956,538</u>	<u>35,619,548</u>	<u>56,576,086</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Charge on Debt Refunding	182,854	-	182,854
Pension	1,089,897	605,470	1,695,367
<i>Total Deferred Outflows of Resources</i>	<u>1,272,751</u>	<u>605,470</u>	<u>1,878,221</u>
LIABILITIES:			
Accounts Payable	69,326	95,145	164,471
Contracts Payable	574	-	574
Accrued Wages and Benefits	41,024	19,342	60,366
Due to Other Governments	426,094	10,181	436,275
Accrued Interest Payable	4,787	33,552	38,339
Long-Term Liabilities:			
Due Within One Year	271,360	809,400	1,080,760
Due in More than One Year:			
Net Pension Liability (See Note 9)	3,837,321	1,538,027	5,375,348
Other Amounts Due in More than One Year	2,325,924	11,821,158	14,147,082
<i>Total Liabilities</i>	<u>6,976,410</u>	<u>14,326,805</u>	<u>21,303,215</u>
DEFERRED INFLOWS OF RESOURCES:			
Property Taxes not Levied to Finance Current Year Operations	305,500	-	305,500
Pension	132,585	16,349	148,934
<i>Total Deferred Inflows of Resources</i>	<u>438,085</u>	<u>16,349</u>	<u>454,434</u>
NET POSITION:			
Net Investment in Capital Assets	14,111,954	18,035,241	32,147,195
Restricted for:			
Capital Projects	313,274	-	313,274
Recreation	178,838	-	178,838
Revolving Loan	463,338	-	463,338
Parking Meter	144,970	-	144,970
Other Purposes	311,770	-	311,770
Unrestricted (Deficit)	(709,350)	3,846,623	3,137,273
<i>Total Net Position</i>	<u>\$ 14,814,794</u>	<u>\$ 21,881,864</u>	<u>\$ 36,696,658</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 1,617,940	\$ 120,839	\$ 5,808	\$ -	\$ (1,491,293)		\$ (1,491,293)
Judicial	420,804	44,926	27,172	-	(348,706)		(348,706)
Security of Persons and Property	2,579,465	214,786	59,538	-	(2,305,141)		(2,305,141)
Public Health	7,786	604	-	-	(7,182)		(7,182)
Leisure Time Activities	66,593	8,565	8,543	-	(49,485)		(49,485)
Community Environment	41,237	2,155	2,982	-	(36,100)		(36,100)
Transportation	1,426,433	130,015	176,027	832,168	(288,223)		(288,223)
Interest and Fiscal Charges	130,001	2,903	488	-	(126,610)		(126,610)
Total Governmental Activities	6,290,259	524,793	280,558	832,168	(4,652,740)		(4,652,740)
Business-Type Activities:							
Sewer	2,080,447	2,168,225	-	-	-	87,778	87,778
Storm Sewer Maintenance and Repair	14,462	-	-	-	-	(14,462)	(14,462)
Water	1,642,701	1,486,970	-	-	-	(155,731)	(155,731)
Total Business-Type Activities	3,737,610	3,655,195	-	-	-	(82,415)	(82,415)
Total Primary Government	\$ 10,027,869	\$ 4,179,988	\$ 280,558	\$ 832,168	(4,652,740)	(82,415)	(4,735,155)
General Revenues:							
Taxes:							
Property Taxes Levied for:							
					333,628	-	333,628
					59,646	-	59,646
					36,936	-	36,936
					119,438	-	119,438
					3,647,925	-	3,647,925
Grants and Contributions							
					113,401	-	113,401
					32,885	4,857	37,742
					112,199	50,902	163,101
Total General Revenues					4,456,058	55,759	4,511,817
Change in Net Position					(196,682)	(26,656)	(223,338)
Net Position, Beginning of the Year					15,011,476	21,908,520	36,919,996
Net Position, End of the Year					\$ 14,814,794	\$ 21,881,864	\$ 36,696,658

See accompanying notes to the basic financial statements.

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2017

	General	Street	All Other Governmental Funds	Total Governmental Funds
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,032,973	\$ 183,899	\$ 1,009,355	\$ 2,226,227
Cash and Cash Equivalents with Fiscal Agent	-	-	20,715	20,715
Accounts Receivable	20,828	-	12,756	33,584
Interfund Receivable	47,600	-	-	47,600
Taxes Receivable	1,179,904	-	95,016	1,274,920
Due from Other Governments	50,841	196,495	62,638	309,974
Loans Receivable	-	-	329,936	329,936
<i>Total Assets</i>	<u>\$ 2,332,146</u>	<u>\$ 380,394</u>	<u>\$ 1,530,416</u>	<u>\$ 4,242,956</u>
LIABILITIES:				
Accounts Payable	\$ 37,428	\$ 31,898	-	\$ 69,326
Contracts Payable	-	-	574	574
Accrued Wages and Benefits	34,329	4,220	2,475	41,024
Due to Other Governments	9,624	400,835	15,635	426,094
Interfund Payable	-	-	50,300	50,300
<i>Total Liabilities</i>	<u>81,381</u>	<u>436,953</u>	<u>68,984</u>	<u>587,318</u>
DEFERRED INFLOWS OF RESOURCES:				
Property Taxes not Levied to Finance Current Year Operations	213,850	-	91,650	305,500
Unavailable Revenue - Delinquent Taxes	7,857	-	3,366	11,223
Unavailable Revenue - Income Taxes	572,792	-	-	572,792
Unavailable Revenue - Grants	44,125	164,170	44,524	252,819
<i>Total Deferred Inflows of Resources</i>	<u>838,624</u>	<u>164,170</u>	<u>139,540</u>	<u>1,142,334</u>
FUND BALANCES:				
Nonspendable	15,433	-	-	15,433
Restricted	-	-	1,369,639	1,369,639
Assigned	927,778	-	-	927,778
Unassigned (Deficit)	468,930	(220,729)	(47,747)	200,454
<i>Total Fund Balances</i>	<u>1,412,141</u>	<u>(220,729)</u>	<u>1,321,892</u>	<u>2,513,304</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 2,332,146</u>	<u>\$ 380,394</u>	<u>\$ 1,530,416</u>	<u>\$ 4,242,956</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2017

Total Governmental Fund Balances		\$ 2,513,304
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,763,882
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	584,015	
Intergovernmental	<u>252,819</u>	
Total		836,834
The net pension liability is not due and payable in the current period: therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	1,089,897	
Deferred Inflows - Pension	(132,585)	
Net Pension Liability	<u>(3,837,321)</u>	
Total		(2,880,009)
Long-term liabilities, including accrued interest payable, bonds, capital lease obligations, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(4,787)	
Capital Lease Payable	(75,683)	
Deferred Charge on Debt Refunding	182,854	
Compensated Absences	(161,601)	
General Obligation Bonds	<u>(2,360,000)</u>	
Total		<u>(2,419,217)</u>
Net Position of Governmental Activities		<u><u>\$ 14,814,794</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2017

	General	Street	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 4,061,360	\$ -	\$ 215,474	\$ 4,276,834
Charges for Services	412	-	-	412
Licenses and Permits	90,767	51,144	4,147	146,058
Fines and Forfeitures	228,380	-	132,266	360,646
Intergovernmental	101,635	1,018,699	115,091	1,235,425
Interest	19,797	819	12,269	32,885
Rent	-	-	17,677	17,677
Other	47,637	11,209	53,353	112,199
<i>Total Revenues</i>	<u>4,549,988</u>	<u>1,081,871</u>	<u>550,277</u>	<u>6,182,136</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,315,491	-	102,667	1,418,158
Judicial	299,771	-	95,026	394,797
Security of Persons and Property	2,051,689	-	208,218	2,259,907
Public Health	7,786	-	-	7,786
Leisure Time Activities	-	-	29,876	29,876
Community Environment	30,808	-	10,429	41,237
Transportation	-	608,496	7,104	615,600
Capital Outlay	22,725	1,246,502	213,799	1,483,026
Debt Service:				
Principal Retirements	22,126	21,362	205,000	248,488
Interest and Fiscal Charges	640	1,707	67,393	69,740
<i>Total Expenditures</i>	<u>3,751,036</u>	<u>1,878,067</u>	<u>939,512</u>	<u>6,568,615</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>798,952</u>	<u>(796,196)</u>	<u>(389,235)</u>	<u>(386,479)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	32,000	538,000	298,000	868,000
Inception of Capital Lease	-	55,717	-	55,717
Transfers Out	(836,000)	-	(32,000)	(868,000)
<i>Total Other Financing Sources and Uses</i>	<u>(804,000)</u>	<u>593,717</u>	<u>266,000</u>	<u>55,717</u>
<i>Net Change in Fund Balances</i>	(5,048)	(202,479)	(123,235)	(330,762)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>1,417,189</u>	<u>(18,250)</u>	<u>1,445,127</u>	<u>2,844,066</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,412,141</u>	<u>\$ (220,729)</u>	<u>\$ 1,321,892</u>	<u>\$ 2,513,304</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds \$ (330,762)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital asset additions exceeded depreciation in the current period.

Capital Asset Additions	1,483,026	
Current Year Depreciation	(870,525)	
	612,501	
Total		612,501

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of capital assets.

Loss on Disposal of Capital Assets	(112,282)	
Total	(112,282)	(112,282)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	(79,261)	
Intergovernmental	(9,298)	
Total	(88,559)	(88,559)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 293,501

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (727,490)

Repayments of long-term debt and capital leases are expenditures in governmental funds, but the repayment reduces liabilities in the statement of net position and does not result in an expense in the statement of activities.

Bond Payments	205,000	
Amortization on deferred amount on refunding	(60,952)	
Capital Leases	43,488	
Total	187,536	187,536

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Decrease in Compensated Absences	23,899	
Decrease in Accrued Interest Payable	691	
Total	24,590	24,590

Inception of capital leases is recorded as other financing sources in the governmental funds, but is recorded as a capital lease obligation and therefore is not recorded in the statement of activities.

(55,717)

Net Change in Net Position of Governmental Activities \$ (196,682)

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 4,076,189	\$ 4,093,004	\$ 4,093,336	\$ 332
Charges for Services	410	410	412	2
Licenses and Permits	90,387	90,363	90,767	404
Fines and Forfeitures	226,486	227,900	227,439	(461)
Intergovernmental	110,352	107,577	110,816	3,239
Interest	19,714	16,000	19,797	3,797
Other	44,676	42,477	44,864	2,387
<i>Total Revenues</i>	<u>4,568,214</u>	<u>4,577,731</u>	<u>4,587,431</u>	<u>9,700</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,385,171	1,463,172	1,447,898	15,274
Judicial	386,225	386,225	311,028	75,197
Security of Persons and Property	2,202,741	2,241,241	2,065,438	175,803
Public Health	23,000	23,000	7,786	15,214
Community Environment	30,630	30,630	38,756	(8,126)
Capital Outlay	22,725	22,725	22,725	-
<i>Total Expenditures</i>	<u>4,050,492</u>	<u>4,166,993</u>	<u>3,893,631</u>	<u>273,362</u>
<i>Excess of Revenues Over Expenditures</i>	<u>517,722</u>	<u>410,738</u>	<u>693,800</u>	<u>283,062</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	31,866	33,000	32,000	(1,000)
Advances Out	-	(47,600)	(47,600)	-
Transfers Out	(1,131,000)	(1,119,000)	(836,000)	283,000
<i>Total Other Financing Sources and Uses</i>	<u>(1,099,134)</u>	<u>(1,133,600)</u>	<u>(851,600)</u>	<u>282,000</u>
<i>Net Change in Fund Balance</i>	(581,412)	(722,862)	(157,800)	565,062
<i>Fund Balance at Beginning of Year</i>	667,423	667,423	667,423	-
<i>Prior Year Encumbrances Appropriated</i>	344,461	344,461	344,461	-
<i>Fund Balance at End of Year</i>	<u>\$ 430,472</u>	<u>\$ 289,022</u>	<u>\$ 854,084</u>	<u>\$ 565,062</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
Street Fund
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and Permits	\$ 14,870	\$ 51,144	\$ 51,144	\$ -
Intergovernmental	295,933	1,017,826	1,017,826	-
Interest	238	819	819	-
Other	3,259	11,209	11,209	-
<i>Total Revenues</i>	<u>314,300</u>	<u>1,080,998</u>	<u>1,080,998</u>	<u>-</u>
EXPENDITURES:				
Current:				
Transportation	505,159	851,159	821,745	29,414
Capital Outlay	358,617	1,190,785	1,190,785	-
<i>Total Expenditures</i>	<u>863,776</u>	<u>2,041,944</u>	<u>2,012,530</u>	<u>29,414</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(549,476)</u>	<u>(960,946)</u>	<u>(931,532)</u>	<u>29,414</u>
OTHER FINANCING SOURCES:				
Transfers In	538,000	538,000	538,000	-
<i>Total Other Financing Sources</i>	<u>538,000</u>	<u>538,000</u>	<u>538,000</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(11,476)	(422,946)	(393,532)	29,414
<i>Fund Balance at Beginning of Year</i>	152,246	152,246	152,246	-
<i>Prior Year Encumbrances Appropriated</i>	<u>347,360</u>	<u>347,360</u>	<u>347,360</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 488,130</u>	<u>\$ 76,660</u>	<u>\$ 106,074</u>	<u>\$ 29,414</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Net Position
Proprietary Funds
December 31, 2017

	Water	Sewer	Other Enterprise Fund	Total
ASSETS:				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 968,983	\$ 3,395,770	\$ 91,279	\$ 4,456,032
Accounts Receivable	223,989	338,852	-	562,841
Interfund Receivable	50,300	-	-	50,300
Total Current Assets	1,243,272	3,734,622	91,279	5,069,173
<i>Noncurrent Assets</i>				
Non-Depreciable Capital Assets	48,573	59,799	-	108,372
Depreciable Capital Assets, Net	7,272,227	23,217,376	-	30,489,603
Total Noncurrent Assets	7,320,800	23,277,175	-	30,597,975
Total Assets	\$ 8,564,072	\$ 27,011,797	\$ 91,279	\$ 35,667,148
DEFERRED OUTFLOWS OF RESOURCES:				
Pensions	320,596	284,874	-	605,470
LIABILITIES:				
<i>Current Liabilities</i>				
Accounts Payable	\$ 25,795	\$ 58,749	\$ 10,601	\$ 95,145
Accrued Wages and Benefits	10,161	9,181	-	19,342
Due to Other Governments	5,390	4,791	-	10,181
Accrued Interest Payable	33,552	-	-	33,552
Interfund Payable	-	-	47,600	47,600
Compensated Absences - Current Portion	5,484	5,484	-	10,968
Capital Leases Payable - Current Portion	35,543	35,543	-	71,086
OWDA Loans - Current Portion	-	485,835	-	485,835
Revenue Bonds Payable - Current Portion	48,000	-	-	48,000
OPWC Loans - Current Portion	-	38,511	-	38,511
General Obligation Refunding and Improvement Bonds - Current Portion	155,000	-	-	155,000
Total Current Liabilities	318,925	638,094	58,201	1,015,220
<i>Noncurrent Liabilities</i>				
Long Term Liabilities:				
OWDA Loans Payable - Net of Current Portion	-	5,915,366	-	5,915,366
Compensated Absences Payable - Net of Current Portion	21,826	35,030	-	56,856
Revenue Bonds Payable - Net of Current Portion	2,464,000	-	-	2,464,000
Capital Leases Payable - Net of Current Portion	105,487	105,487	-	210,974
OPWC Loans - Net of Current Portion	-	593,962	-	593,962
General Obligation Refunding and Improvement Bonds - Net of Current Portion	2,580,000	-	-	2,580,000
Net Pension Liability	814,388	723,639	-	1,538,027
Total Noncurrent Liabilities	5,985,701	7,373,484	-	13,359,185
Total Liabilities	6,304,626	8,011,578	58,201	14,374,405
DEFERRED INFLOWS OF RESOURCES:				
Pensions	8,656	7,693	-	16,349
NET POSITION:				
Net Investment in Capital Assets	1,932,770	16,102,471	-	18,035,241
Unrestricted	638,616	3,174,929	33,078	3,846,623
Total Net Position	\$ 2,571,386	\$ 19,277,400	\$ 33,078	\$ 21,881,864

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2017

	Water	Sewer	Other Enterprise Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 1,473,070	\$ 2,152,625	\$ -	\$ 3,625,695
Tap-In Fees	13,900	15,600	-	29,500
<i>Total Operating Revenues</i>	1,486,970	2,168,225	-	3,655,195
OPERATING EXPENSES				
Salaries and Wages	561,502	524,272	-	1,085,774
Fringe Benefits	232,026	184,154	-	416,180
Contractual Services	171,642	223,073	14,462	409,177
Materials & Supplies	137,223	209,819	-	347,042
Utilities	79,145	180,810	-	259,955
Other	15,665	13,327	-	28,992
Depreciation Expense	234,724	673,089	-	907,813
<i>Total Operating Expenses</i>	1,431,927	2,008,544	14,462	3,454,933
<i>Operating Income (Loss)</i>	55,043	159,681	(14,462)	200,262
NONOPERATING REVENUES (EXPENSES)				
Loss on Disposal of Capital Assets	-	(250)	-	(250)
Interest	-	4,857	-	4,857
Other Non-Operating Revenues	44,114	6,788	-	50,902
Interest and Fiscal Charges	(210,774)	(71,653)	-	(282,427)
<i>Total Nonoperating Revenues (Expenses)</i>	(166,660)	(60,258)	-	(226,918)
<i>Changes in Net Position Before Transfers</i>	(111,617)	99,423	(14,462)	(26,656)
Transfers In	-	-	47,540	47,540
Transfers Out	-	(47,540)	-	(47,540)
<i>Total Transfers</i>	-	(47,540)	47,540	-
<i>Changes in Net Postion</i>	(111,617)	51,883	33,078	(26,656)
<i>Net Position at Beginning of Year</i>	2,683,003	19,225,517	-	21,908,520
<i>Net Position at End of Year</i>	<u>\$ 2,571,386</u>	<u>\$ 19,277,400</u>	<u>\$ 33,078</u>	<u>\$ 21,881,864</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2017

	Water	Sewer	Other Enterprise Fund	Total
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>				
<i>Cash Flows from Operating Activities:</i>				
Cash Received from Customers	\$ 1,552,361	\$ 2,242,226	\$ -	\$ 3,794,587
Cash Payments to Suppliers for Goods and Services	(411,095)	(624,526)	(3,861)	(1,039,482)
Cash Payments to Employees for Services and Benefits	(734,402)	(673,329)	-	(1,407,731)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>406,864</u>	<u>944,371</u>	<u>(3,861)</u>	<u>1,347,374</u>
<i>Cash Flows from Noncapital Financing Activities:</i>				
Other Nonoperating Receipts	44,114	6,788	-	50,902
Operating Transfers-Out	-	(47,540)	-	(47,540)
Operating Transfers-In	-	-	47,540	47,540
Advances Out	(50,300)	-	-	(50,300)
Advances In	-	-	47,600	47,600
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>(6,186)</u>	<u>(40,752)</u>	<u>95,140</u>	<u>48,202</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>				
Proceeds from Capital Leases	55,717	55,717	-	111,434
Payments for Capital Acquisitions	(107,411)	(122,233)	-	(229,644)
Principal Payments	(225,225)	(530,344)	-	(755,569)
Interest Payments	(210,774)	(71,653)	-	(282,427)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(487,693)</u>	<u>(668,513)</u>	<u>-</u>	<u>(1,156,206)</u>
<i>Cash Flows from Investing Activities:</i>				
Interest on Investments	-	4,857	-	4,857
<i>Net Cash Provided by Investing Activities</i>	<u>-</u>	<u>4,857</u>	<u>-</u>	<u>4,857</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(87,015)	239,963	91,279	244,227
Cash and Cash Equivalents at Beginning of Year	<u>1,055,998</u>	<u>3,155,807</u>	<u>-</u>	<u>4,211,805</u>
Cash and Cash Equivalents at End of Year	<u>\$ 968,983</u>	<u>\$ 3,395,770</u>	<u>\$ 91,279</u>	<u>\$ 4,456,032</u>

(Continued)

City of Hillsboro
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2017

	Water	Sewer	Other Enterprise Fund	Total
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>				
Operating Income (Loss)	\$ 55,043	\$ 159,681	\$ (14,462)	\$ 200,262
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>				
<i>Operating Activities:</i>				
Depreciation	234,724	673,089	-	907,813
Pension expense not affecting cash	53,915	26,735	-	80,650
<i>Changes in Assets and Liabilities:</i>				
Decrease in Accounts Receivable	65,391	74,001	-	139,392
Increase/(Decrease) in Accounts Payable	(5,600)	3,099	10,601	8,100
Increase in Accrued Wages and Benefits	912	537	-	1,449
Increase in Compensated Absences Payable	4,104	7,865	-	11,969
Decrease in Accrued Interest Payable	(1,206)	-	-	(1,206)
Decrease in Due to Other Governments	(419)	(636)	-	(1,055)
Total Adjustments	<u>351,821</u>	<u>784,690</u>	<u>10,601</u>	<u>1,147,112</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 406,864</u>	<u>\$ 944,371</u>	<u>\$ (3,861)</u>	<u>\$ 1,347,374</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2017

	<u>Agency</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 113,505
Receivables:	
Accounts	<u>142,244</u>
<i>Total Assets</i>	<u><u>\$ 255,749</u></u>
LIABILITIES :	
Due to Other Governments	\$ 83,924
Undistributed Monies	58,199
Deposits Held and Due to Others	<u>113,626</u>
<i>Total Liabilities</i>	<u><u>\$ 255,749</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

1. FINANCIAL REPORTING ENTITY

The financial statements of the City of Hillsboro have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

CITY GOVERNMENT AND REPORTING ENTITY

The City of Hillsboro (the "City"), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City, named in honor of Lord Hillsborough, was founded in 1807 by David Hayes and was named the City seat of Highland City. On January 1, 1952, Hillsboro was first organized as a city under the laws of the State of Ohio.

The City of Hillsboro is a home rule municipal corporation established under the laws of the State of Ohio. The legislative authority is vested in a seven member council three of whom are elected at-large and four by ward for four year terms. The presiding officer is the president, who is elected by the Council for a two year term. Council enacts ordinances and resolutions relating to tax levies, city services, and licensing, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes. The mayor is elected at-large and is the Chief Executive Officer of the City. The Mayor supervises the administration of all departments and appoints their directors and all other employees in accordance with civil service requirements.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are fairly presented and completed. The primary government consists of all funds, departments, boards and commissions that are not legally separate from the City. The City departments include a public safety department, a public service department, a parks and recreation department, a planning and zoning department, income tax department, utility departments including sewer and water, and staff to provide support to service providers.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or levying of taxes. The City has no blended or discretely presented component units.

The Hillsboro Municipal Court which provides judiciary services is included as an agency fund in the City's financial statements. The Municipal Court Judge is an elected City Official who has a fiduciary responsibility for the collection and distribution of the court fees and fines.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

1. FINANCIAL REPORTING ENTITY (Continued)

The City has contracted with the Paint Creek Joint EMS/Fire District to provide EMS and fire protection services for the City. Paint Creek Joint EMS/Fire District is a jointly government organization made up of governments from Highland and Ross City. These entities include Madison Township, Buckskin Township, Paint Township (Ross Trustee), Paint Township (Highland Trustee), Jackson Township, Liberty Township, Washington Township, New Market Township, and the Village of Greenfield. The City does not have representation on the District. During 2017, the City paid \$554,544 to the Paint Creek Joint EMS/Fire District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The City's basic financial statements consist of government-wide statements, including a statement of net position and statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues not classified as program revenues are presented as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies that extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain functions or activities in separate funds in order to assist financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

FUND ACCOUNTING

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The City maintains records showing revenues, actual and accrued expenditures, and encumbrances to assure legal and accounting compliance and to assure that budgetary authority is not exceeded. The difference between governmental fund assets and deferred outflows and liabilities and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

General Fund - This fund is established to account for resources devoted to financing the general services that the City performs for its residents that are not accounted for or reported in another fund. Municipal income tax, general tax revenues, as well as other sources of revenue used to finance the fundamental operations of the City are included in this fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Street Fund - This fund is established to account for resources devoted to financing street repairs and construction. The primary source of revenue is intergovernmental gasoline tax monies.

The other governmental funds of the City account for grants and other resources, debt service and capital projects that are generally restricted to use for a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - This fund accounts for the provision of water treatment and distribution to residential and commercial users within the City.

Sewer Fund - This fund accounts for the provision of wastewater treatment services to residential and commercial users within the City.

The other enterprise fund of the City is comprised of the storm sewer maintenance and repair fund. The primary source of revenue is transfers from the sewer fund.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the City as a trustee or as an agent for individuals, private organizations, or other units of government. The fiduciary fund category is split into four classifications: agency funds, pension trust funds, investment trust funds, and private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's fiduciary fund consists only of an agency fund which is used to account for the activities of the Hillsboro Municipal Court.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all liabilities and all deferred inflows and outflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and liabilities and deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities on the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental funds.

Like the government-wide financial statements, all enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, all liabilities, and all deferred inflows and outflows of resources associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

BASIS OF ACCOUNTING

Accounting basis determines when transactions and economic events are reflected in its financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of unavailable revenue, the reporting of deferred inflows and outflows of resources, the presentation of expenses versus expenditures, the recording of net pension liabilities.

Revenues-Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: interest and grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Deferred Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows for the deferred charge on debt refunding and for deferred pension amounts. The deferred charge on debt refunding is reported in the government-wide statement 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. Deferred outflows of resources are reported on the government-wide statement of net position for pensions. The deferred outflows of resources related to pensions are explained in Note 9.

The City reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the City these amounts consist of income taxes, delinquent property taxes, and intergovernmental receivables which are not collected in the available period and pensions. Property taxes for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance fiscal year 2018 operations, have also been recorded as deferred inflows of resources.

The difference between deferred inflows on the statement of net position and the balance sheet is due to delinquent property taxes, income taxes, and intergovernmental grants not received during the available period. These were reported as revenues on the statement of activities and not recorded as deferred inflows on the statement of net position. Deferred inflows of resources related to pensions are only reported on the government-wide statement of net position and the statement of net position for proprietary funds. (See Note 9)

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

BUDGETS AND BUDGETARY ACCOUNTING

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources in effect when the final appropriations were passed by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

CASH AND INVESTMENTS

Cash balances of the City's funds, except cash held by a trustee or fiscal agent and in segregated accounts, are pooled and invested in short-term investments in order to provide improved cash management. Individual fund integrity is maintained through the City's records. Interest is distributed to various funds based upon the Ohio Revised Code requirements. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During 2017, investments were limited to Federal Home Loan Bank securities, negotiable certificates of deposit, and money market funds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

For purposes of the statement of cash flows and for presentation on the statement of net position and the balance sheet, funds included within the City's cash management pool and investments with original maturities of three months or less are considered to be cash and cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

The City had \$20,715 on deposit with Highland County Clerk of Courts to be used to purchase an easement for an upcoming road project. This balance is shown as cash and cash equivalents with fiscal agent in the accompanying financial statements.

CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the enterprise funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition value on the date donated. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of streets, bridges, storm and sanitary sewer lines and water lines. Improvements are capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation has been provided on a straight-line basis over the following estimated useful lives for both governmental and business-type activities:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Land Improvements	20 years
Furniture	20 years
Machinery and Equipment	5-20 years
Vehicles	8 years
Water/Sewer Lines	65 years
Infrastructure	10-40 years

INTERFUND ASSETS AND LIABILITIES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as "Internal Balances" at December 31, 2017.

COMPENSATED ABSENCES

Vacation 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 employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end. This item is discussed in Note 12 to the basic financial statements.

The entire compensated absences liability is reported on the government-wide financial statements.

On the fund financial statements for governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid as a result of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability. The City had no matured compensated absences payable at December 31, 2017.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgements, net pension liabilities and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND BALANCE

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in the spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, City Council has provided the City Auditor with the authority to record assigned amounts which is primarily done through the issuance of purchase orders. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NET POSITION

Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings and the effect of deferred outflows and inflows related to 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. Restricted for other purposes represents balances of state and federal grants and other restricted purposes in Special Revenue funds. The City’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Of the City’s \$1,412,190 of restricted net position, none was restricted by enabling legislation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OPERATING REVENUES AND EXPENSES

Operating revenue are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for sewer and water utility services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are classified as nonoperating.

INTERFUND TRANSACTIONS

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Transfers within governmental activities and within business-type activities are eliminated on the statement of activities.

ESTIMATES

The preparation of 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

PENSIONS

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

3. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

3. DEPOSITS AND INVESTMENTS (Continued)

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts, including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposits maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

State statute permits interim monies to be deposited or invested in the following securities:

1. Obligations of the United States including U.S. treasury securities and government agency securities guaranteed by the United States.
2. United States government agency securities and the securities issued by instrumentalities of the U.S. including, but not limited to, obligations of the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Farm Credit Bank, the Federal Home Loan Bank, the Government National Mortgage Association (GNMA), and the Small Business Administration (SBA).
3. State Treasury Asset Reserve of Ohio (STAR Ohio).
4. Obligations of the State of Ohio and obligations of political subdivisions of the State of Ohio.
5. Deposits of any Ohio financial institution subject to collateralization of public funds defined by the Ohio Revised Code.
6. Bankers Acceptances and Deposits of the top fifty banks in the United States based upon asset size or Ohio based financial institutions with at least \$2 billion in total assets.
7. Prime Commercial Paper issued with a credit rating of P-1 by Standard & Poors Corporation or A-1 by Moody's rating service.
8. Obligations of corporate entities having debt rating of Aa or better by Standard & Poors Corporation or Moody's rating service.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the City Auditor by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

3. DEPOSITS AND INVESTMENTS (Continued)

to the City Auditor or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits:

Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. Except as noted below, at year end, the City's bank balance of \$5,328,161 was either covered by FDIC or collateralized in the manner described below.

At December 31, 2017 \$22,856 of the City's bank balance of \$578,764 was exposed to custodial credit risk. Certain timing issues related to fluctuations in depository balances contributed to the uncollateralized balance. These insufficiencies were corrected the next business day.

The City does not have a deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

At December 31, 2017, one the City's financial institutions still maintained its own collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments:

Investment type	Fair Value	Less than 1 Year	1-3 Years	3-5 Years
Money Market Funds	\$ 557,688	\$ 557,688	\$ -	\$ -
Negotiable Certificates of Deposit	496,092	-	496,092	-
Federal Home Loan Bank Bonds	792,371	-	-	792,371
	<u>\$ 1,846,151</u>	<u>\$ 557,688</u>	<u>\$ 496,092</u>	<u>\$ 792,371</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the City's recurring fair value measurements as of December 31, 2017. All investments of the City are valued using quoted market prices (Level 1 inputs).

3. DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no policy specifically dealing with interest rate risk. The City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s investment policy allows the City to invest in accordance with the Ohio Revised Code (Ohio Law). The City limits their investments to money market accounts, negotiable certificates of deposit, and government securities. The City’s money market account was rated AAAm by Standard & Poor’s. The Federal Home Loan Bank Bonds were rated Aaa by Moody’s and AA+ by Standard & Poor’s. The City’s investments in individual marketable certificates of deposit are fully insured by the Federal Deposit Insurance Corporation.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. The City does have an investment policy. Of the City’s investments, as of December 31, 2017, 30.2% are in money market funds, 26.9% are in negotiable certificates of deposit, and 42.9% are in federal home loan bank bonds.

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the City’s securities are either insured and registered in the name of the City or at least registered in the name of the City. The City has no policy specifically related to custodial credit risk, but requires the City to conform to requirements of Ohio law.

4. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balance - budget (non-GAAP budgetary basis) and actual, for the General Fund and the Street Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a restriction, commitment, or assignment of fund balance for governmental fund types (GAAP basis).
4. Funds reported as part of the General Fund on the GAAP basis are not included on the budgetary basis.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis and budgetary basis for the General Fund and the Street Major Special Revenue Fund.

Net Change in Fund Balance		
	General	Street
GAAP Basis	\$ (5,048)	\$ (202,479)
Revenue Accruals	40,216	(56,590)
Expenditure Accruals	(26,764)	(57,710)
Prospective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(2,748)	-
Encumbrances	(163,456)	(76,753)
Budgetary Basis	\$ (157,800)	\$ (393,532)

5. PROPERTY TAX

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the City Auditor at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

Public utility real and property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The City Treasurer collects property tax on behalf of all taxing districts within the City. The City Auditor periodically remits to the City its share of the taxes collected. The City records receipt of these taxes in various funds.

Accrued property taxes receivable represent delinquent taxes outstanding and real and public utility taxes which were measurable and unpaid as of December 31, 2017. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2017 operations. The receivable is therefore offset by deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2017, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2017 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$108,969,860
Public Utility Personal Property	4,407,550
Total Property Taxes	\$113,377,410

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

6. LOCAL INCOME TAX

This locally levied tax of one and one-half percent applies to gross salaries, wages and other personal service compensation earned by residents both in and out of the City of Hillsboro and to earnings of nonresidents earned in the City. It also applies to net income of business organizations conducted within the City. Proceeds of the tax are credited entirely to the General Fund.

7. INTERFUND TRANSACTIONS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Transfers made during the year ended December 31, 2017, were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ 32,000	\$ (836,000)
Street	538,000	-
Non-Major Special Revenue Funds		
Police Pension	63,000	-
Fire Pension	-	(32,000)
Recreation	80,000	-
Total Non-Major Special Revenue Funds	143,000	(32,000)
Non-Major General Bond Retirement Fund	155,000	-
Sewer Fund		(47,540)
Storm Sewer Maintenance and Repair	47,540	-
Total All Funds	<u>\$ 915,540</u>	<u>\$ (915,540)</u>

The transfers into the General Fund from the Fire Pension Fund were to close out activity for that department.

Advances were made from the General Fund to the Storm Sewer Maintenance and Repair Fund in the amount of \$47,600 and another advance was made from the Water Fund to the Bond Retirement Fund in the amount of \$50,300 in order to cover debt payments. Both of these advances are expected to be repaid in 2018.

8. RECEIVABLES

Receivables at December 31, 2017 consisted of taxes, accounts (billings for user charged services including unbilled utility services), interfund, loans, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services.

Loans receivable represents low interest loans for development projects and home improvements granted to eligible City residents and businesses under the Community Development Program.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

8. RECEIVABLES (Continued)

A summary of the amounts due from other governments are as follows:

<u>General</u>	
Local Government	\$40,296
Homestead & Rollback	10,545
 <u>Street Fund</u>	
Gasoline Tax	96,975
ODOT Hobart Smith	99,520
 <u>Non-Major Special Revenue</u>	
State Highway Fund	
Gasoline Tax	7,863
Victim's Rights Office	
VOCA Grant	49,780
Police Pension Fund	
Homestead & Rollback	1,665
Fire Pension Fund	
Homestead & Rollback	1,665
 <u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,665</u>
Total Governmental Activities	<u>\$309,974</u>

9. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Substantially all City employees are covered by one of two pension plans Ohio Police and Fire Pension Fund (OPF) or Ohio Public Employees Retirement System (OPERS).

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

9. DEFINED BENEFIT PENSION PLANS (Continued)

Net Pension Liability (Continued)

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police officers, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory City for member and employer contributions as follows:

	<u>State and Local</u>	<u>Public Safety</u>	<u>Law Enforcement</u>
2017 Statutory Maximum Contribution Rates			
Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	*	**
2017 Actual Contribution Rates			
Employer:			
Pension	13.0 %	17.1 %	17.1 %
Post-employment Health Care Benefits	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
Total Employer	<u>14.0 %</u>	<u>18.1 %</u>	<u>18.1 %</u>
Employee	<u>10.0 %</u>	<u>12.0 %</u>	<u>13.0 %</u>

* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

	<u>State and Local</u>	<u>Public Safety</u>	<u>Law Enforcement</u>
2016 Statutory Maximum Contribution Rates			
Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	*	**
2016 Actual Contribution Rates			
Employer:			
Pension	12.0 %	16.1 %	16.1 %
Post-employment Health Care Benefits	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
Total Employer	<u>14.0 %</u>	<u>18.1 %</u>	<u>18.1 %</u>
Employee	<u>10.0 %</u>	<u>12.0 %</u>	<u>13.0 %</u>

* This rate is determined by OPERS' Board and has no maximum rate established by ORC.

** This rate is also determined by OPERS' Board, but is limited by ORC to not more than 2 percent greater than the Public Safety rate.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

The City's contractually required contribution was \$284,661 for 2017. Of this amount, \$21,639 is reported as an intergovernmental payable.

9. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OPF)

Plan Description - City full-time police participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Plan Description – Ohio Police & Fire Pension Fund (OPF) (Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police
2017 Statutory Maximum Contribution Rates	
Employer	19.50 %
Employee	12.25 %
 2017 Actual Contribution Rates	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	0.50
Total Employer	19.50 %
 Employee	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$139,101 for 2017. Of this amount \$14,239 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability - Current Year	0.0148050%	0.0318010%	
Proportionate Share of the Net Pension Liability - Prior Year	0.0149810%	0.0342040%	
Change in Proportionate Share Proportion of the Net Pension Liability	-0.0001760%	-0.0024030%	
Pension Expense	\$3,361,074	\$2,014,274	\$5,375,348
	\$704,333	\$234,068	\$938,401

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$569	\$569
Changes of assumptions	533,249	0	533,249
Net difference between projected and actual earnings on pension plan investments	\$500,674	\$195,875	\$696,549
Changes in proportion and differences between City contributions and proportionate			
Changes in employer proportion	4,557	36,681	41,238
City contributions subsequent to the measurement date	284,661	139,101	423,762
Total deferred outflows of resources	<u>\$1,323,141</u>	<u>\$372,226</u>	<u>\$1,695,367</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$20,246	\$4,637	\$24,883
Changes in employer proportion	15,479	108,572	124,051
Total deferred inflows of resources	<u>\$35,725</u>	<u>\$113,209</u>	<u>\$148,934</u>

\$423,762 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Year Ending December 31:			
2018	\$ 412,467	\$ 60,112	\$ 472,579
2019	427,140	60,111	487,251
2020	177,587	42,360	219,947
2021	(14,439)	(27,572)	(42,011)
2022	-	(14,318)	(14,318)
2023	-	(777)	(777)
Total	<u>\$ 1,002,755</u>	<u>\$ 119,916</u>	<u>\$ 1,122,671</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	December 31, 2016	December 31, 2015
Actuarial cost method	Individual entry age	Individual entry age
Actuarial assumptions:		
Investment rate of return	7.50 percent	8 percent
Wage inflation	3.25 percent	3.75 percent
Projected salary increases	3.25 to 10.75 percent (including wage inflation of 3.25%)	4.25 to 10.05 percent (including wage inflation of 3.25%)
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00 percent, simple Post 1/7/2013 retirees: 3.00 percent, simple through 2018, then 2.15% simple	Pre 1/7/2013 retirees: 3.00 percent, simple Post 1/7/2013 retirees: 3.00 percent, simple through 2018, then 2.80% simple

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

For 2015, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2015. The prior experience study was completed for the five year period ended December 31, 2010.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - OPERS

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

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

However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed income	23.00 %	2.75 %
Domestic equities	20.70	6.34
Real estate	10.00	4.75
Private equity	10.00	8.97
International equities	18.30	7.95
Other investments	18.00	4.92
Total	<u>100.00 %</u>	<u>5.66 %</u>

Discount Rate - The discount rate used to measure the total pension liability was 7.5% for 2016 and 8% for 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.50 percent) or one-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$5,136,151	\$3,361,074	\$1,883,492

In October 2017, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2017. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

Actuarial Assumptions – OPF

OPF's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – OPF (Continued)

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study of five years was completed in January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2016 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return**</u>	<u>30 Year Expected Real Rate of Return**</u>
Cash and Cash Equivalents	0.00 %	0.00 %	0.00 %
Domestic Equity	16.00	4.47	7.80
Non-US Equity	16.00	4.47	8.00
Core Fixed Income *	20.00	1.62	5.35
Global Inflation Protected *	20.00	1.33	4.73
High Yield	15.00	3.39	7.21
Real Estate	12.00	3.93	7.43
Private Markets	8.00	6.98	10.73
Timber	5.00	4.92	7.35
Master Limited Partnerships	8.00	7.03	10.75
Total	<u>120.00 %</u>		

* levered 2x

** Numbers are net of expected inflation

OPF’s Board of Trustees has incorporated the “risk parity” concept into OPF’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.20 times due to the application of leverage in certain fixed income asset classes.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

9. DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate

The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$2,682,734	\$2,014,274	\$1,447,689

10. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, both the Ohio Public Employees Retirement System (OPERS) and the Ohio Police and Fire Pension Fund (OPF) provide post retirement health care coverage, which meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. For both systems, the Ohio Revised Code (ORC) permits, but does not mandate, OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in the ORC Chapter 145 for OPERS and Chapter 742 for OPF.

Ohio Public Employees Retirement System (OPERS)

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Ohio Public Employees Retirement System (OPERS)(continued)

provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017.

As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for 2017 was 4.0%.

City contributions to OPERS allocated to fund post employment benefits for 2017, 2016 and 2015 were \$21,888, \$39,557 and \$23,042 respectively, equal to the required contributions for the year. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, Attention: Finance Director, 277 East Town Street, Columbus, OH 43215-4642, or by calling (800) 222 7377.

Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined postemployment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

10. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Ohio Police and Fire Pension Fund (continued)

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits are codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website www.op-f.org.

Funding Policy - The ORC provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPF. A portion of each employer's contribution is set aside for the funding of post retirement health care benefits. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5% and 24.0% of covered payroll for police and fire employers, respectively. The ORC states that the employer contribution may not exceed 19.5% and 24.0% of covered payroll for police and fire employers respectively. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the ORC to the OPF board of trustees. The board of trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2017, the employer contribution allocated to the healthcare plan was .5% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and also is limited by the provisions of Sections 115 and 401(h). The OPF board of trustees is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. City contributions to OPF allocated to the healthcare plan for 2017, 2016 and 2015 were \$3,655, \$3,793 and \$2,163 respectively, equal to the required contributions for the year.

11. RISK MANAGEMENT

The City is exposed to various risks of property and casualty losses, and injuries to employees. The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services Group, Inc. (York) functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

11. RISK MANAGEMENT (Continued)

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

Assets	\$44,452,326
Liabilities	<u>(13,004,011)</u>
Net Position	<u>\$31,448,315</u>

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the City's share of these unpaid claims collectible in future years is approximately \$44,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP

\$70,282

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

The City also maintains a blanket crime bond in the amount of \$2,500. In addition the City carries employee dishonesty coverage for items over the amount of \$5,000 with a no deductible. The City pays all elected officials' bonds by statute. The City insures an employee health benefits program through Anthem Blue Cross/Blue Shield.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The City has not incurred significant reductions in insurance coverage from coverage in prior year by major category risk.

12. OTHER EMPLOYEE BENEFITS

Deferred Compensation: Employees of the City may participate in the ING Deferred Compensation Program, Ohio Deferred Compensation, or Security Benefits which were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis.

These plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries.

Compensated Absences: Vacation leave is earned at rates that vary depending upon length of service and standard work week. Current policy credits vacation on the employee's anniversary date and is to be taken by the next anniversary date. Vacation time is not cumulative and must be taken during the year unless otherwise specified. City employees are paid for earned, unused vacation leave at the time of termination of employment if the employee has at least one year of service.

The Police Department earns sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with not less than 10 years of service at retirement shall be paid the value of his/her sick leave credit for up to one-third of the leave up to a maximum of 400 hours upon termination. All other City employees earn sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with at least ten years of service at the time of separation shall be paid the value of his/her sick credit for up to one-fourth of the leave up to 300 hours. Such payment shall be based on the employee's rate of pay at the time of separation, or the full balance may be transferred to another governmental agency.

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017:

	Beginning Balance 12/31/2016	Additions	Deletions	Ending Balance 12/31/2017
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 561,543	\$ 18,764	\$ -	\$ 580,307
Construction in Progress	304,172	243,852	(14,414)	533,610
Total Capital Assets, Not Being Depreciated	<u>865,715</u>	<u>262,616</u>	<u>(14,414)</u>	<u>1,113,917</u>
Capital Assets Being Depreciated				
Land Improvements	2,016,851	44,023	-	2,060,874
Buildings and Improvements	4,048,203	1,000	-	4,049,203
Furniture and Equipment	1,949,340	39,539	(74,236)	1,914,643
Vehicles	2,011,716	58,780	-	2,070,496
Infrastructure	17,129,448	1,091,482	(528,723)	17,692,207
Total Capital Assets Being Depreciated	<u>27,155,558</u>	<u>1,234,824</u>	<u>(602,959)</u>	<u>27,787,423</u>
Less Accumulated Depreciation				
Land Improvements	(1,327,711)	(41,088)	-	(1,368,799)
Buildings and Improvements	(938,396)	(81,252)	-	(1,019,648)
Furniture and Equipment	(1,531,273)	(75,939)	67,699	(1,539,513)
Vehicles	(1,702,948)	(65,558)	-	(1,768,506)
Infrastructure	(6,257,282)	(606,688)	422,978	(6,440,992)
Total Accumulated Depreciation	<u>(11,757,610)</u>	<u>(870,525)</u>	<u>490,677</u>	<u>(12,137,458)</u>
Total Capital Assets Being Depreciated, Net	<u>15,397,948</u>	<u>364,299</u>	<u>(112,282)</u>	<u>15,649,965</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,263,663</u>	<u>\$ 626,915</u>	<u>\$ (126,696)</u>	<u>\$ 16,763,882</u>

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$12,784
Security of Persons & Property	152,211
Community Environment	567
Leisure Time Activities	36,717
Transportation	<u>668,246</u>
Total Depreciation Expense	<u>\$870,525</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2017:

	Beginning Balance <u>12/31/2016</u>	Additions	Deletions	Ending Balance <u>12/31/2017</u>
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,460	\$ -	\$ -	\$ 10,460
Construction in Progress	-	97,912	-	97,912
Total Capital Assets, Not Being Depreciated	<u>10,460</u>	<u>97,912</u>	<u>-</u>	<u>108,372</u>
Capital Assets Being Depreciated				
Land Improvements	347,177	1,494	-	348,671
Buildings and Improvements	34,411,437	-	-	34,411,437
Furniture and Equipment	1,443,578	10,467	(37,275)	1,416,770
Vehicles	832,032	117,559	-	949,591
Infrastructure	5,604,457	2,212	(136,059)	5,470,610
Total Capital Assets Being Depreciated	<u>42,638,681</u>	<u>131,732</u>	<u>(173,334)</u>	<u>42,597,079</u>
Less Accumulated Depreciation				
Land Improvements	(253,464)	(12,528)	-	(265,992)
Buildings and Improvements	(7,620,639)	(500,843)	-	(8,121,482)
Furniture and Equipment	(1,019,449)	(75,170)	37,275	(1,057,344)
Vehicles	(347,577)	(37,606)	-	(385,183)
Infrastructure	(2,131,618)	(281,666)	135,809	(2,277,475)
Total Accumulated Depreciation	<u>(11,372,747)</u>	<u>(907,813)</u>	<u>173,084</u>	<u>(12,107,476)</u>
Total Capital Assets Being Depreciated, Net	<u>31,265,934</u>	<u>(776,081)</u>	<u>(250)</u>	<u>30,489,603</u>
Business Type Activities Capital Assets, Net	<u>\$ 31,276,394</u>	<u>\$ (678,169)</u>	<u>\$ (250)</u>	<u>\$ 30,597,975</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

14. LONG-TERM OBLIGATIONS

The City's long-term obligations at year end consisted of the following:

	Outstanding 12/31/2016	Issued	Retired	Outstanding 12/31/2017	Due In One Year
Governmental Activities					
Compensated Absences	\$ 185,500	\$ 154,490	\$ 178,389	\$ 161,601	\$ 35,725
2007 - 6.0% Street Improvement Bonds	50,000	-	50,000	-	-
2009 - Various Purpose General Obligation Bonds	515,000	-	125,000	390,000	125,000
2016 - Refunding Various Purpose General Obligation Bonds	2,000,000	-	30,000	1,970,000	80,000
Capital Lease	63,454	55,717	43,488	75,683	30,635
Net Pension Liability	3,453,702	383,619	-	3,837,321	-
Total Governmental Activities	<u>\$ 6,267,656</u>	<u>\$ 593,826</u>	<u>\$ 426,877</u>	<u>\$ 6,434,605</u>	<u>\$ 271,360</u>
Business-Type Activities					
Compensated Absences	\$ 55,855	\$ 91,549	\$ 79,580	\$ 67,824	\$ 10,968
Water					
2014 General Obligation Refunding and Improvement Bonds 3.53%	2,335,000	-	120,000	2,215,000	125,000
2014 General Obligation Refunding and Improvement Bonds 3.53%	550,000	-	30,000	520,000	30,000
2005 - Water System Improvement Revenue Bonds - 4.25%	484,000	-	9,000	475,000	9,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,075,000	-	38,000	2,037,000	39,000
Capital Lease	113,538	55,717	28,225	141,030	35,543
Net Pension Liability	692,838	121,550	-	814,388	-
Total Water Fund	<u>6,250,376</u>	<u>177,267</u>	<u>225,225</u>	<u>6,202,418</u>	<u>238,543</u>
Sewer					
2004 - OWDA Loan - 1%	174,583	-	21,069	153,514	21,279
2005 - OWDA Loan - 1%	658,152	-	70,244	587,908	70,948
2010 - OWDA Loan - 1%	6,049,480	-	389,701	5,659,779	393,608
2007 - OPWC Loan - 0%	100,000	-	10,000	90,000	10,000
2014 - OPWC Loan - 0%	348,135	-	-	348,135	17,406
2015 - OPWC Loan - 0%	205,443	-	11,105	194,338	11,105
Capital Lease	113,538	55,717	28,225	141,030	35,543
Net Pension Liability	648,725	74,914	-	723,639	-
Total Sewer Fund	<u>8,298,056</u>	<u>130,631</u>	<u>530,344</u>	<u>7,898,343</u>	<u>559,889</u>
Total Business-Type Activities	<u>\$ 14,604,287</u>	<u>\$ 399,447</u>	<u>\$ 835,149</u>	<u>\$ 14,168,585</u>	<u>\$ 809,400</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

14. LONG-TERM OBLIGATIONS (Continued)

Mortgage revenue bonds in the amount of \$560,000 and \$2,400,000 were issued in 2005 to improve the water system of the City. Property and revenue of the utility facilities have been pledged to repay these debts.

The Street Improvement Bonds in the amount of \$700,000 was issued in 2007 for the improvement of city streets. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Property tax monies will be received in and the debt is being repaid from a General Obligation Bond Retirement Fund. \$280,000 of these bonds were refunded during 2016.

The 2004 OWDA loan was issued at an interest rate of 1% during 2004 and 2005 to pay for the costs of sanitary sewer lining. The 2005 OWDA loan was issued at an interest rate of 1% to pay for the costs of a lift station, equalization basin, and relief sewers. The 2007 OPWC loan was issued at a zero percent interest rate for a portion of the costs of the wastewater treatment plant bypass elimination. The 2010 OWDA loan was issued at an interest rate of 1% to pay for the costs of the Wastewater Treatment Plant upgrade. The 2014 OPWC loan was issued at a zero percent interest rate for the replacement of sanitary sewer infrastructure. The 2015 OPWC loan was issued at a zero percent interest rate for sewer improvements. The Sewer Fund is being used to repay these loans.

The 2014 OPWC loan was still open as of December 31, 2017 and no amortization schedule has yet been established for this loan.

In connection with the general obligation refunding and improvement bonds, the mortgage revenue bonds and OWDA loans, the City has pledged future customer revenues of the Water and Sewer Funds, respectively, net of specified operating expenses, to repay these bonds and loans. The bonds and loans are payable, through final maturities, from net revenues applicable to the Water and Sewer Funds, respectively. Total principal and interest remaining to be paid on the bonds is \$7,808,644. The net revenue available for these bonds was \$289,767 and principal and interest paid was \$404,950. The coverage ratio for these bonds was 0.72 for the year ended December 31, 2017. The remaining principal and interest to be paid on the OWDA loans was \$6,837,066. The net revenue available for these loans was \$832,770 and principal and interest paid was \$548,636. The coverage ratio for the loans was 1.52 for the year ended December 31, 2017.

The 2009 Various Purpose General Obligation Bonds were issued in the amount of \$2,730,000 for the purpose of constructing a new fire station. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Property tax monies will be received in and the debt is being repaid from a General Obligation Bond Retirement Fund. \$1,470,000 of these bonds were refunded during 2016.

The City issued \$3,225,000 in general obligation refunding and improvement bonds in 2014 for the purpose of refunding \$2,510,000 of the 2004 Mortgage Revenue Bonds and providing funds for \$615,000 in improvements. The entire amount of these bonds is term bonds. The bonds were issued for an 18 year period with final maturity on May 1, 2031. Properties and revenues of the utility facilities have been pledged to repay these debts.

The City issued \$2,030,000 in general obligation refunding various purpose bonds in 2016 for the purpose of advance refunding \$1,470,000 of the 2009 Various Purpose General Obligation Bonds and \$280,000 of the 2007 Street Improvement Bonds. The bonds were issued for a 13 year period with final maturity December 1, 2029 at a 2.03% interest rate. Property tax monies will be received in and the debt is being repaid from a General Obligation Bond Retirement Fund.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

14. LONG-TERM DEBT OBLIGATIONS (Continued)

The refunding resulted in an economic gain in the amount of \$115,351 and an aggregate difference between the refunding debt and the refunded debt in the amount of \$243,806. As more fully described in Note 2, the deferred charge of \$243,806 is deferred and is being amortized over the shorter of the refunded or refunding debt.

The City placed \$1,993,806 with an escrow agent so \$280,000 of the 2007 Street Improvement Bonds were redeemed on December 1, 2017 and \$1,470,000 of the 2009 Various Purpose General Obligation Bonds can be redeemed on June 1, 2020. The City has not recorded these balances on their financial statements as the debt is considered advance refunded; however, the outstanding balance on these advance refunded bonds is \$1,470,000, as of December 31, 2017.

Compensated absences (sick leave and vacation benefits) will be paid from the General Fund, Street Special Revenue Fund, and Sewer and Water Enterprise Funds. Capital lease obligations will be paid from the fund that maintains custody of the related asset.

Principal and interest requirements to retire Refunding and General Obligation Bonds (Governmental Activities) and principal requirements to retire OPWC (Business-Type Activities) debt at December 31, 2017 were as follows:

	General Obligation Bonds		OPWC	General Obligation Refunding Bonds	
	Principal	Interest		Principal	Principal
2018	\$ 125,000	\$ 18,143	\$ 38,511	\$ 80,000	\$ 39,991
2019	130,000	12,393	38,512	90,000	38,367
2020	135,000	6,413	38,512	90,000	36,540
2021			38,512	230,000	34,713
2022			38,512	230,000	30,044
2023-2027			182,560	880,000	91,654
2028-2032			142,560	370,000	11,267
2033-2037			114,794		
	<u>\$ 390,000</u>	<u>\$ 36,949</u>	<u>\$ 632,473</u>	<u>\$ 1,970,000</u>	<u>\$ 282,576</u>

Principal and interest requirements to retire Mortgage Revenue Bonds, Refunding Bonds, and the OWDA Loan at December 31, 2017 were as follows:

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

14. LONG-TERM DEBT OBLIGATIONS (Continued)

	Water System Improvement Bonds		OWDA Loan		Refunding and Improvement Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 48,000	\$ 106,760	\$ 485,835	\$ 62,801	\$ 155,000	\$ 93,810
2019	50,000	104,720	490,718	57,931	160,000	88,250
2020	53,000	102,876	495,637	53,011	165,000	82,514
2021	55,000	100,343	500,606	48,043	175,000	76,513
2022	56,000	98,005	505,624	43,024	180,000	70,247
2023-2027	325,000	451,733	2,381,476	140,075	985,000	251,071
2028-2032	399,000	376,919	1,541,305	30,980	915,000	66,099
2033-2037	492,000	284,341	-	-		
2038-2042	606,000	170,519	-	-		
2043-2045	428,000	36,924	-	-		
	<u>\$ 2,512,000</u>	<u>\$ 1,833,140</u>	<u>\$ 6,401,201</u>	<u>\$ 435,865</u>	<u>\$ 2,735,000</u>	<u>\$ 728,504</u>

The City's overall legal debt margin was \$9,508,180 at December 31, 2017.

15. CONTINGENCIES

Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2017.

Litigation

The City is not currently party to legal proceedings seeking damages or injunctive relief generally incidental to its operations.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

During 2017 and in previous years, the City entered into capital lease agreements for police cruisers, a jet vac/hydro excavator, a tractor, computer equipment, a vac truck, a bucket truck, and radio read meters. The leases meet the criteria of a capital lease as defined by Governmental Accounting Standards Board No. 62, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the General Fund and as reductions of capital lease obligations in the Water and Sewer Funds. These expenditures are reflected as program/object expenditures on a budgetary basis in the General Fund.

The capital assets acquired by the leases have been capitalized in the statement of net position for governmental activities and business-type activities in the amount of \$1,043,782 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net position for governmental activities and business-type activities. Principal payments in fiscal year 2017 totaled \$43,488 in the governmental funds, \$28,225 in the Water Fund and \$28,225 in the Sewer Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2017:

Year Ending December 31,	Capitalized Lease Obligation
2018	\$ 112,395
2019	101,139
2020	91,548
2021	59,284
2022	18,301
Total Minimum Lease Payments	382,667
Less: Amount Representing Interest	(24,924)
Present Value of Minimum Lease Payments	\$ 357,743

17. NEW ACCOUNTING PRINCIPLES

For fiscal year 2017, the City has implemented GASB Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans, GASB Statement No. 80, “Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 and GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the City.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

17. NEW ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as no-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the City.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payment made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the City.

18. FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Street	All Other Governmental	Total Governmental Funds
Nonspendable				
Unclaimed Monies	\$15,433	\$0	\$0	\$15,433
Total Nonspendable	<u>15,433</u>	<u>0</u>	<u>0</u>	<u>15,433</u>
Restricted for				
Street Improvement	0	0	0	0
Parking Meter	0	0	144,970	144,970
Municipal Court Special Project	0	0	27,470	27,470
Alcohol Treatment	0	0	72,051	72,051
Other Purpose	0	0	156,086	156,086
Recreation	0	0	178,838	178,838
Rehab	0	0	13,612	13,612
Revolving Loan	0	0	463,338	463,338
Debt Services Payments	0	0	0	0
Capital Improvements	0	0	313,274	313,274
Total Restricted	<u>0</u>	<u>0</u>	<u>1,369,639</u>	<u>1,369,639</u>
Assigned to				
Future Year Appropriations	791,870	0	0	791,870
Other Purposes	135,908	0	0	135,908
Total Assigned	<u>927,778</u>	<u>0</u>	<u>0</u>	<u>927,778</u>
Unassigned (Deficit)	<u>468,930</u>	<u>(220,729)</u>	<u>(47,747)</u>	<u>200,454</u>
Total Fund Balances	<u>\$1,412,141</u>	<u>(\$220,729)</u>	<u>\$1,321,892</u>	<u>\$2,513,304</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

19. SIGNIFICANT COMMITMENTS

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

Major Funds:	
General Fund	\$163,456
Street Fund	76,753
Water Fund	77,853
Sewer Fund	245,904
Recreation Nonmajor Governmental Fund	124,469
Storm Sewer Maintenance and Repair	
Nonmajor Enterprise Fund	83,739
Total	<u><u>\$772,174</u></u>

20. ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balance: The Street Fund, Bond Retirement Fund, and Police Pension fund had a deficit fund balances of \$220,729, \$45,195 and \$2,552, respectively. These funds comply with Ohio state law, which does not permit cash basis deficits. The deficit fund balances for the Street Fund and Police Pension Fund resulted from adjustments for accrued liabilities for contracts payable and amounts due to other governments, respectively. These deficits should be eliminated by future revenues not recognized under generally accepted accounting principles at December 31, 2017. The deficit for the Bond Retirement Fund resulted from the interfund payable to the Water Fund.

City of Hillsboro
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Four Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total plan pension liability	\$ 99,811,932,954	\$ 91,534,580,978	\$ 89,017,348,266	\$ 86,407,229,435
Plan net position	<u>77,109,633,485</u>	<u>74,213,320,352</u>	<u>76,956,230,642</u>	<u>74,618,532,269</u>
Net pension liability	22,702,299,469	17,321,260,626	12,061,117,624	11,788,697,166
City's proportion of the net pension liability	0.014805%	0.014981%	0.015094%	0.015094%
City's proportionate share of the net pension liability	\$ 3,361,074	\$ 2,594,898	\$ 1,820,505	\$ 1,779,386
City's covered-employee payroll	\$ 1,977,133	\$ 1,921,650	\$ 1,911,250	\$ 2,054,054
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	170.00%	135.03%	95.25%	86.63%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%	86.36%

Note: Information not available prior to 2014.
Amounts presented as of the City's measurement date which is the prior fiscal year.

City of Hillsboro
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension System
Last Four Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total plan pension liability	\$ 20,016,288,888	\$ 19,357,013,332	\$ 18,761,561,462	\$ 18,152,090,344
Plan net position	<u>13,682,389,240</u>	<u>12,923,943,156</u>	<u>13,453,447,836</u>	<u>13,166,077,870</u>
Net pension liability	6,333,899,648	6,433,070,176	5,308,113,626	4,986,012,474
City's proportion of the net pension liability	0.0318010%	0.0342040%	0.0332208%	0.0332208%
City's proportionate share of the net pension liability	\$ 2,014,274	\$ 2,200,367	\$ 1,763,398	\$ 1,656,393
City's covered-employee payroll	\$ 759,853	\$ 773,379	\$ 712,989	\$ 1,506,581
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	265.09%	284.51%	247.32%	109.94%
Plan fiduciary net position as a percentage of the total pension liability	68.36%	66.77%	71.71%	72.53%

Note: Information prior to 2014 is not available.
Amounts presented as of the City's measurement date which is the prior fiscal year.

City of Hillsboro
Required Supplementary Information
Schedule of City Contributions
Ohio Public Employees Retirement System
Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 284,661	\$ 237,256	\$ 230,598	\$ 229,350	\$ 267,027	\$ 280,522	\$ 282,981	\$ 282,460	\$ 278,663	\$ 234,276
Contributions in relation to the contractually required contribution	<u>(284,661)</u>	<u>(237,256)</u>	<u>(230,598)</u>	<u>(229,350)</u>	<u>(267,027)</u>	<u>(280,522)</u>	<u>(282,981)</u>	<u>(282,460)</u>	<u>(278,663)</u>	<u>(234,276)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 2,189,700	\$ 1,977,133	\$ 1,921,650	\$ 1,911,250	\$ 2,054,054	\$ 2,805,220	\$ 2,829,810	\$ 3,138,444	\$ 3,278,388	\$ 3,346,800
Contributions as a percentage of covered employee payroll	13.00%	12.00%	12.00%	12.00%	13.00%	10.00%	10.00%	9.00%	8.50%	7.00%

City of Hillsboro
Required Supplementary Information
Schedule of City Contributions
Ohio Police and Fire Pension System
Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 139,101	\$ 144,372	\$ 146,942	\$ 135,468	\$ 239,245	\$ 326,127	\$ 347,467	\$ 362,331	\$ 440,732	\$ 384,022
Contributions in relation to the contractually required contribution	<u>(139,101)</u>	<u>(144,372)</u>	<u>(146,942)</u>	<u>(135,468)</u>	<u>(239,245)</u>	<u>(326,127)</u>	<u>(347,467)</u>	<u>(362,331)</u>	<u>(440,732)</u>	<u>(384,022)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 732,111	\$ 759,853	\$ 773,379	\$ 712,989	\$ 1,506,581	\$ 2,557,859	\$ 2,725,231	\$ 2,841,812	\$ 3,456,722	\$ 3,011,937
Contributions as a percentage of covered employee payroll	19.00%	19.00%	19.00%	19.00%	15.88%	12.75%	12.75%	12.75%	12.75%	12.75%

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

City Council
City of Hillsboro
130 North High Street
Hillsboro, Ohio 45133

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hillsboro, Highland County (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

September 21, 2018

City of Hillsboro
Schedule of Findings and Responses
For the Year Ended December 31, 2017

Finding 2017-001 – Material Weakness – Budget Information Within Accounting System

Proper and timely recording of budgetary information in the accounting system is pertinent to a properly functioning control environment. Officials of the City rely on information recorded within the accounting system to make spending and budgeting decisions. During testing we noted variances between budgetary information within the accounting system as compared to formally approved budgets. The City should implement the appropriate procedures, such as periodic reconciliations of budgetary information within the accounting system to formally approved budgets, to ensure that budgetary information is properly presented.

Client Response:

I relied on a newly developed monitoring report at the end of the year and did not take into account the certificate imbalances. The two reports will be integrated for a more reliable result.

City of Hillsboro
Schedule of Prior Audit Findings
For the Year Ended December 31, 2017

Finding Number	Finding Summary	Status	Additional Information
Finding 2016-001	Material Weakness – Financial Reporting	Not Corrected	Reissued in Management Letter



Dave Yost • Auditor of State

CITY OF HILLSBORO

HIGHLAND 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
DECEMBER 13, 2018**