

CITY OF HILLSBORO
HIGHLAND COUNTY
REGULAR AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2021



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OHIO AUDITOR OF STATE
KEITH FABER



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City Council
City of Hillsboro
130 North High Street
Hillsboro, OH 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, 2021 through December 31, 2021. 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 cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

February 01, 2023

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City of Hillsboro
Table of Contents
For the Year Ended December 31, 2021

<u>Title</u>	<u>Page</u>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	4
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	13
Statement of Activities.....	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund.....	19
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – Street Fund	20
Statement of Net Position – Proprietary Funds.....	21
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds.....	23
Statement of Fiduciary Net Position – Custodial Fund.....	25
Statement of Changes in Fiduciary Net Position – Custodial Fund	26
Notes to Basic the Financial Statements	27
Required Supplementary Information:	
Schedule of the City’s Proportionate Share of the Net Pension Liability-Last Eight Years	75
Schedule of City Pension Contributions – Last Ten Years	77
Schedule of the City’s Proportionate Share of the Net OPEB Liability (Asset)-Last Five Years.....	79
Schedule of the City’s OPEB Contributions – Last Six Years.....	81

Notes to Required Supplementary Information.....	83
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance With <i>Government Auditing Standards</i>	85
Schedule of Findings and Responses	87
Schedule Prior Audit of Findings.....	88

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City of Hillsboro, Highland County (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 discretely presented component unit and remaining fund information of the City of Hillsboro, as of December 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in note 19 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. We did not modify our opinion regarding this matter.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

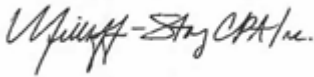
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and the net pension liability, net OPEB liability (asset) and employer contributions schedules on pages 75 through 82 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 November 10, 2022 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.



Millhuff-Stang, CPA, Inc.
Wheelersburg, Ohio

November 10, 2022

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(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, 2021. 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 2021 are as follows:

- In total, net position increased \$3,628,966. Net position of governmental activities increased \$2,121,470. Net position of business-type activities increased \$1,507,496.
- Governmental activities general revenues accounted for \$5,123,264 in revenue or 78 percent of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,483,090 or 22 percent of total governmental activities revenues of \$6,606,354. Business-type activities general revenues accounted for \$49,647 in revenue or 1 percent of all business-type activities revenues. Program specific revenues accounted for \$4,535,729 or 99 percent of total business-type activities revenues of \$4,585,376.
- The City had \$4,484,884 in expenses related to governmental activities; \$1,483,090 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,077,880 in expenses related to business-type activities; all 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 2021?" 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.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(Unaudited)

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.

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, water services and storm sewer 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, the Wastewater Treatment Plant, and Storm Sewer services 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, Sewer and Storm 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.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(Unaudited)

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 2021 compared to the prior year:

Table 1

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Assets						
Current and Other Assets	\$ 6,635,203	\$ 5,743,599	\$ 7,448,755	\$ 6,713,937	\$ 14,083,958	\$ 12,457,536
Capital Assets, Net	19,030,076	19,187,183	31,802,577	31,901,504	50,832,653	51,088,687
Total Assets	25,665,279	24,930,782	39,251,332	38,615,441	64,916,611	63,546,223
Deferred Outflows of Resources						
Deferred Charge on Refunding	-	-	112,915	81,066	112,915	81,066
Pensions	533,761	655,978	366,521	285,423	900,282	941,401
OPEB	345,008	456,054	189,231	182,978	534,239	639,032
Total Deferred Outflows of Resources	878,769	1,112,032	668,667	549,467	1,547,436	1,661,499
Liabilities						
Current and Other Liabilities	147,324	213,697	125,330	127,232	272,654	340,929
Long-Term Liabilities:						
Due Within One Year	414,588	463,160	945,329	954,950	1,359,917	1,418,110
Due in More Than One Year						
Net Pension Liability	3,238,115	3,693,613	1,183,515	1,331,099	4,421,630	5,024,712
Net OPEB Liability	319,880	1,425,859	-	894,156	319,880	2,320,015
Other Amounts	1,926,777	2,263,360	10,816,321	10,937,179	12,743,098	13,200,539
Total Liabilities	6,046,684	8,059,689	13,070,495	14,244,616	19,117,179	22,304,305
Deferred Inflows of Resources						
Property Taxes not Levied to Finance Current Year Operations	341,088	342,512	-	-	341,088	342,512
Pensions	987,380	891,258	530,245	360,336	1,517,625	1,251,594
OPEB	637,479	339,408	426,511	174,704	1,063,990	514,112
Total Deferred Inflows of Resources	1,965,947	1,573,178	956,756	535,040	2,922,703	2,108,218
Net Position						
Net Investment in Capital Assets	16,847,472	16,645,772	20,257,453	20,113,548	37,104,925	36,759,320
Restricted	2,804,512	2,713,978	-	-	2,804,512	2,713,978
Unrestricted (Deficit)	(1,120,567)	(2,949,803)	5,635,295	4,271,704	4,514,728	1,321,901
Total Net Position	\$ 18,531,417	\$ 16,409,947	\$ 25,892,748	\$ 24,385,252	\$ 44,424,165	\$ 40,795,199

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(Unaudited)

The net pension liability (NPL) is a large liability reported by the City at December 31, 2021 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." The net OPEB liability is another significant liability reported at December 31, 2021 and is reported pursuant to GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting the net OPEB asset and deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability (asset) to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(Unaudited)

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position. If there is a net Pension or OPEB asset, these assets are separately reported as an asset in the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability (asset), respectively, not accounted for as deferred inflows/outflows.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 78% 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.

Total governmental activities net position increased \$2,121,470 primarily due to an increase in cash and a decrease in net pension and OPEB liabilities which were partially offset by a decrease in net capital assets, a decrease in deferred outflows of resources for pension, and an increase in deferred inflows for pension and OPEB. The increase in cash is due to revenues exceeding expenses for the City's governmental activities. The changes in net pension liability, deferred outflows, and deferred inflows are primarily due to actuarial changes related to pension and OPEB. Capital assets and net investment in capital assets for the City decreased primarily due to depreciation expense and disposals, which were partially offset by capital asset additions.

Business-type activities net position increased \$1,507,496 primarily due to the increase in cash and cash equivalents and an decrease in net pension and OPEB liabilities which was partially offset by increases in deferred inflows of resources related to pension and OPEB.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(Unaudited)

Table 2 shows the changes in net position for the year 2021 compared to the prior year.

Table 2
Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 652,839	\$ 487,594	\$ 4,535,729	\$ 4,446,727	\$ 5,188,568	\$ 4,934,321
Operating Grants and Contributions	486,982	990,953	-	-	486,982	990,953
Capital Grants and Contributions	343,269	-	-	1,078,314	343,269	1,078,314
Total Program Revenues	1,483,090	1,478,547	4,535,729	5,525,041	6,018,819	7,003,588
General Revenues:						
Property & Income Taxes	4,837,608	4,221,296	-	-	4,837,608	4,221,296
Unrestricted Investment Earnings	12,478	52,150	2,989	1,367	15,467	53,517
Grants and Contributions Not Restricted to Specific Programs	140,487	165,873	-	-	140,487	165,873
Miscellaneous	132,691	379,313	46,658	117,406	179,349	496,719
Total General Revenues	5,123,264	4,818,632	49,647	118,773	5,172,911	4,937,405
Total Revenues	6,606,354	6,297,179	4,585,376	5,643,814	11,191,730	11,940,993
Program Expenses						
General Government -						
Legislative and Executive	263,752	1,370,480	-	-	263,752	1,370,480
Judicial	220,335	480,828	-	-	220,335	480,828
Security of Persons and Property	2,161,292	2,733,872	-	-	2,161,292	2,733,872
Public Health	23,020	21,829	-	-	23,020	21,829
Leisure Time Activities	116,891	84,992	-	-	116,891	84,992
Community Environment	483,445	147,160	-	-	483,445	147,160
Transportation	1,113,841	1,222,672	-	-	1,113,841	1,222,672
Basic Utility Services	-	42,966	-	-	-	42,966
Interest and Fiscal Charges	35,302	124,220	-	-	35,302	124,220
Contributions to Hillsboro CIC	67,006	-	-	-	67,006	-
Issuance Costs	-	6,868	-	-	-	6,868
Water Fund	-	-	1,096,772	1,468,685	1,096,772	1,468,685
Storm Sewer Maintenance and Repair	-	-	403,747	309,187	403,747	309,187
Sewer Fund	-	-	1,577,361	1,750,408	1,577,361	1,750,408
Total Expenses	4,484,884	6,235,887	3,077,880	3,528,280	7,562,764	9,764,167
Increase in Net Position	2,121,470	61,292	1,507,496	2,115,534	3,628,966	2,176,826
Beginning Net Position	16,409,947	16,348,655	24,385,252	22,269,718	40,795,199	38,618,373
Ending Net Position	\$ 18,531,417	\$ 16,409,947	\$ 25,892,748	\$ 24,385,252	\$ 44,424,165	\$ 40,795,199

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(Unaudited)

Governmental Activities

Governmental activities net position increased \$2,121,470 or 13% during 2021. Charges for Services revenue increased primarily due to significant increases in licenses and permits and fines and forfeitures in 2021. These increases were primarily due to reduced activity in 2020 because of the COVID-19 pandemic. Operating grants decreased primarily due to Cares Act monies received to assist the City in dealing with the COVID-19 pandemic in 2020. Capital Grants and Contributions increased due to construction activity in 2021. Overall expenses decreased due to reductions in pension and OPEB expenses due to actuarial calculations as well as less expenses required to deal with COVID-19 pandemic related costs.

General revenues primarily consist of property and income tax revenue of \$4,837,608, which is 94% of total general revenues in 2021. General government expenses include legislative and executive and judicial programs, totaled \$484,087, which is 11% of total governmental expenses. Security of persons and property is one of the major activities of the City, totaling \$2,161,292 comprising 48% of total expenses. Transportation expenses totaled \$1,113,841, which is 25% of total governmental expenses.

Business-Type Activities

The City's business-type activities are its water, sewer and storm sewer maintenance and repair departments. The water and wastewater treatment plants provide services to the City's residents. The water operation generated operating revenues of \$1,801,918 and had operating expenses of \$975,399, interest expense of \$88,085, and bond issuance costs of \$33,288. The sewer operations generated operating revenues of \$2,267,992, had operating expenses of \$1,488,694, and had interest expense of \$88,667. The storm sewer operations generated operating revenues of \$465,819 and had operating expenses of \$402,364. Operating revenues remained stable between the two years. Fringe benefit expenses in the Water and Sewer activities decreased in 2021 due to decreased pension and OPEB expenses due to changes in actuarial calculations. The storm sewer expenses increased in 2021 due to contractual services. 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 15. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$7,717,308 and expenditures and other financing uses of \$6,679,875. The net change in fund balance for the year was most significant in the General Fund with an increase of \$787,912. The General Fund revenue continued to exceed expenditures from 2020 to 2021. The Street Fund had an increase in fund balance of \$194,977 in 2021. The increase was due mainly to a transfer in from the General Fund in the amount of \$281,000.

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 2021, the City amended its General Fund budget. With the General Fund supporting many of the major activities such as the City's police department, 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 and final budgeted revenues and other financing sources were \$4,504,075. The City's actual revenues and other financing sources were \$936,735 more than the final budgeted revenues and other financing sources due primarily to higher tax revenues. Original and final budgeted expenditures and other financing uses were \$5,377,820, and \$6,140,431, respectively.

The General Fund's actual expenditures were \$986,801 less than final budgeted expenditures mainly due to conservative budgeting by the City.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the 2021 the City had \$50,832,653 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2021 and 2020 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 940,307	\$ 740,307	\$ 10,460	\$ 10,460	\$ 950,767	\$ 750,767
Land Improvements	1,238,481	880,609	68,501	77,286	1,306,982	957,895
Buildings and Improvements	2,876,451	2,924,993	24,298,338	24,833,859	27,174,789	27,758,852
Furniture and Equipment	453,234	491,185	500,194	575,421	953,428	1,066,606
Vehicles	244,577	219,299	680,471	565,636	925,048	784,935
Infrastructure/Water & Sewer Lines	13,265,826	13,916,538	5,624,190	4,609,706	18,890,016	18,526,244
Construction in Progress	11,200	14,252	620,423	1,229,136	631,623	1,243,388
Totals	\$ 19,030,076	\$ 19,187,183	\$ 31,802,577	\$ 31,901,504	\$ 50,832,653	\$ 51,088,687

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

Debt

At December 31, 2021, the City of Hillsboro had \$13,500,860 in bonds, loans, and leases outstanding, \$1,321,492 was due within one year. These amounts exclude any premiums outstanding on bonds as of December 31, 2021.

Table 4
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
O.W.D.A. Loan	\$ -	\$ -	\$ 6,248,788	\$ 6,098,660	\$ 6,248,788	\$ 6,098,660
Capital Lease	63,618	130,400	67,548	165,078	131,166	295,478
OPWC Loan	354,311	443,619	687,887	829,439	1,042,198	1,273,058
General Obligation Refunding Bonds	-	-	2,141,000	-	2,141,000	-
Various Purpose GO Refunding Bonds	220,000	235,000	2,215,000	2,270,000	2,435,000	2,505,000
GO Refunding and Improvement Bonds	1,480,000	1,710,000	-	2,255,000	1,480,000	3,965,000
Installment Loan	46,879	-	140,637	-	187,516	-
Total	\$ 2,164,808	\$ 2,519,019	\$ 11,500,860	\$ 11,618,177	\$ 13,665,668	\$ 14,137,196

The City's overall legal debt margin was \$11,865,962 at December 31, 2021.

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

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2021
(Unaudited)

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 Alex Butler, City Auditor, 130 North High Street, Hillsboro, Ohio 45133, (937) 393-5791.

City of Hillsboro
Statement of Net Position
December 31, 2021

	Governmental Activities	Business-Type Activities	Totals	Component Unit Hillsboro CIC
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 4,908,848	\$ 6,643,026	\$ 11,551,874	\$ -
Cash and Cash Equivalents with Fiscal Agent	16,854	-	16,854	
Cash and Cash Equivalents in Segregated Accounts	-	-	-	35,878
Receivables:				
Taxes	1,126,896	-	1,126,896	-
Accounts	58,577	670,380	728,957	-
Due from Other Governments	256,436	-	256,436	-
Loans Receivable	132,675	-	132,675	-
Net OPEB Asset (See Note 10)	134,917	135,349	270,266	
Non-Depreciable Capital Assets	951,507	630,883	1,582,390	-
Depreciable Capital Assets, Net	18,078,569	31,171,694	49,250,263	-
<i>Total Assets</i>	<u>25,665,279</u>	<u>39,251,332</u>	<u>64,916,611</u>	<u>35,878</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Charge on Debt Refunding	-	112,915	112,915	-
Pension	533,761	366,521	900,282	-
OPEB	345,008	189,231	534,239	-
<i>Total Deferred Outflows of Resources</i>	<u>878,769</u>	<u>668,667</u>	<u>1,547,436</u>	<u>-</u>
LIABILITIES:				
Accounts Payable	45,303	39,240	84,543	-
Accrued Wages and Benefits	75,014	48,649	123,663	-
Due to Other Governments	24,257	14,029	38,286	-
Accrued Interest Payable	2,750	23,412	26,162	-
Long-Term Liabilities:				
Due Within One Year	414,588	945,329	1,359,917	-
Due in More than One Year:				
Net Pension Liability (See Note 9)	3,238,115	1,183,515	4,421,630	-
Net OPEB Liability (See Note 10)	319,880	-	319,880	-
Other Amounts Due in More than One Year	1,926,777	10,816,321	12,743,098	-
<i>Total Liabilities</i>	<u>6,046,684</u>	<u>13,070,495</u>	<u>19,117,179</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES:				
Property Taxes not Levied to Finance Current Year Operations	341,088	-	341,088	-
Pension	987,380	530,245	1,517,625	-
OPEB	637,479	426,511	1,063,990	-
<i>Total Deferred Inflows of Resources</i>	<u>1,965,947</u>	<u>956,756</u>	<u>2,922,703</u>	<u>-</u>
NET POSITION:				
Net Investment in Capital Assets	16,847,472	20,257,453	37,104,925	-
Restricted for:				
Capital Projects	39,489	-	39,489	-
Debt Service	331,589	-	331,589	-
Street	857,686	-	857,686	-
Recreation	320,131	-	320,131	-
Revolving Loan	255,881	-	255,881	-
American Rescue Plan Act	343,271	-	343,271	-
Other Purposes	656,465	-	656,465	-
Unrestricted (Deficit)	(1,120,567)	5,635,295	4,514,728	35,878
<i>Total Net Position</i>	<u>\$ 18,531,417</u>	<u>\$ 25,892,748</u>	<u>\$ 44,424,165</u>	<u>\$ 35,878</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	Hillsboro CIC
Governmental Activities:								
General Government:								
Legislative and Executive	\$ 263,752	\$ 28,601	\$ -	\$ -	\$ (235,151)	\$ (235,151)	\$ -	
Judicial	220,335	134,908	-	-	(85,427)	(85,427)	-	
Security of Persons and Property	2,161,292	344,886	38,617	343,269	(1,434,520)	(1,434,520)	-	
Public Health	23,020	4,086	-	-	(18,934)	(18,934)	-	
Leisure Time Activities	116,891	20,088	47,747	-	(49,056)	(49,056)	-	
Community Environment	483,445	73,544	-	-	(409,901)	(409,901)	-	
Transportation	1,113,841	46,726	400,618	-	(666,497)	(666,497)	-	
Contributions to Hillsboro CIC	67,006	-	-	-	(67,006)	(67,006)	-	
Interest and Fiscal Charges	35,302	-	-	-	(35,302)	(35,302)	-	
Total Governmental Activities	4,484,884	652,839	486,982	343,269	(3,001,794)	(3,001,794)	-	
Business-Type Activities:								
Sewer	1,577,361	2,267,992	-	-	-	690,631	690,631	
Storm Sewer Maintenance and Repair	403,747	465,819	-	-	-	62,072	62,072	
Water	1,096,772	1,801,918	-	-	-	705,146	705,146	
Total Business-Type Activities	3,077,880	4,535,729	-	-	-	1,457,849	1,457,849	
Total Primary Government	\$ 7,562,764	\$ 5,188,568	\$ 486,982	\$ 343,269	(3,001,794)	1,457,849	(1,543,945)	
Component Unit:								
Hillsboro Community Improvement Corporation	31,320	-	192	-	-	-	(31,128)	
Total Component Unit	\$ 31,320	\$ -	\$ 192	\$ -	-	-	(31,128)	
General Revenues:								
Taxes:								
Property Taxes Levied for:								
General Purposes					381,139	-	381,139	
Special Purposes					69,598	-	69,598	
Debt Service					34,799	-	34,799	
Capital Projects					19,832	-	19,832	
Income Taxes					4,332,240	-	4,332,240	
Grants and Contributions								
Not Restricted to Specific Programs					140,487	-	140,487	
Contributions from City					-	-	-	
Unrestricted Investment Earnings					12,478	2,989	15,467	
Miscellaneous					132,691	46,658	179,349	
Total General Revenues					5,123,264	49,647	5,172,911	
Change in Net Position					2,121,470	1,507,496	3,628,966	
Net Position, Beginning of the Year					16,409,947	24,385,252	40,795,199	
Net Position, End of the Year					\$ 18,531,417	\$ 25,892,748	\$ 44,424,165	
							\$ 35,878	

See accompanying notes to the basic financial statements.

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2021

	General	Street	All Other Governmental Funds	Total Governmental Funds
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 2,458,312	\$ 694,274	\$ 1,756,262	\$ 4,908,848
Cash and Cash Equivalents with Fiscal Agent	-	16,854	-	16,854
Accounts Receivable	40,884	-	17,693	58,577
Taxes Receivable	244,362	-	104,726	349,088
Income Taxes Receivable	777,808	-	-	777,808
Due from Other Governments	28,804	158,175	69,457	256,436
Loans Receivable	-	-	132,675	132,675
<i>Total Assets</i>	<u>\$ 3,550,170</u>	<u>\$ 869,303</u>	<u>\$ 2,080,813</u>	<u>\$ 6,500,286</u>
LIABILITIES:				
Accounts Payable	\$ 23,582	\$ 5,854	\$ 15,867	\$ 45,303
Accrued Wages and Benefits	66,942	4,482	3,590	75,014
Due to Other Governments	10,772	1,281	12,204	24,257
<i>Total Liabilities</i>	<u>101,296</u>	<u>11,617</u>	<u>31,661</u>	<u>144,574</u>
DEFERRED INFLOWS OF RESOURCES:				
Property Taxes not Levied to Finance Current Year Operations	238,762	-	102,326	341,088
Unavailable Revenue - Delinquent Taxes	5,600	-	2,400	8,000
Unavailable Revenue - Income Taxes	284,678	-	-	284,678
Unavailable Revenue - Grants	23,299	105,450	34,581	163,330
<i>Total Deferred Inflows of Resources</i>	<u>552,339</u>	<u>105,450</u>	<u>139,307</u>	<u>797,096</u>
FUND BALANCES:				
Nonspendable	28,294	-	-	28,294
Restricted	-	752,236	1,909,845	2,662,081
Assigned	1,684,796	-	-	1,684,796
Unassigned	1,183,445	-	-	1,183,445
<i>Total Fund Balances</i>	<u>2,896,535</u>	<u>752,236</u>	<u>1,909,845</u>	<u>5,558,616</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 3,550,170</u>	<u>\$ 869,303</u>	<u>\$ 2,080,813</u>	<u>\$ 6,500,286</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, 2021

Total Governmental Fund Balances \$ 5,558,616

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. 19,030,076

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes	292,678	
Intergovernmental	163,330	

Total 456,008

The net pension and OPEB liabilities (assets) are not due and payable in the current period: therefore, the liabilities, assets and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	533,761	
Deferred Outflows - OPEB	345,008	
Deferred Inflows - Pension	(987,380)	
Deferred Inflows - OPEB	(637,479)	
Net OPEB Asset	134,917	
Net Pension Liability	(3,238,115)	
Net OPEB Liability	(319,880)	

Total (4,169,168)

Long-term liabilities, including accrued interest payable, bonds, loans, 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	(2,750)	
Capital Lease Payable	(63,618)	
Compensated Absences	(158,762)	
Installment Loan Payable	(46,879)	
OPWC Loans Payable	(354,311)	
General Obligation Bonds	(1,700,000)	
Premium on Bonds	(17,795)	

Total (2,344,115)

Net Position of Governmental Activities \$ 18,531,417

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, 2021

	General	Street	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 4,877,693	\$ -	\$ 127,115	\$ 5,004,808
Charges for Services	120	-	-	120
Licenses and Permits	129,299	43,229	3,497	176,025
Fines and Forfeitures	279,160	-	117,446	396,606
Intergovernmental	153,879	375,559	487,760	1,017,198
Interest	5,741	532	6,205	12,478
Rent	-	-	80,088	80,088
Other	41,578	9,083	82,030	132,691
<i>Total Revenues</i>	<u>5,487,470</u>	<u>428,403</u>	<u>904,141</u>	<u>6,820,014</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	895,182	-	17,539	912,721
Judicial	402,191	-	73,851	476,042
Security of Persons and Property	2,240,385	-	203,239	2,443,624
Public Health	23,020	-	-	23,020
Leisure Time Activities	4,527	-	73,238	77,765
Community Environment	162,247	-	51,020	213,267
Transportation	-	373,998	14,997	388,995
Capital Outlay	265,649	157,326	432,812	855,787
Debt Service:				
Principal Retirements	38,881	27,901	334,309	401,091
Interest and Fiscal Charges	6,891	2,080	28,177	37,148
<i>Total Expenditures</i>	<u>4,038,973</u>	<u>561,305</u>	<u>1,229,182</u>	<u>5,829,460</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,448,497</u>	<u>(132,902)</u>	<u>(325,041)</u>	<u>990,554</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	79,415	281,000	490,000	850,415
Loans Issued	-	46,879	-	46,879
Transfers Out	(740,000)	-	(110,415)	(850,415)
<i>Total Other Financing Sources and Uses</i>	<u>(660,585)</u>	<u>327,879</u>	<u>379,585</u>	<u>46,879</u>
<i>Net Change in Fund Balances</i>	787,912	194,977	54,544	1,037,433
<i>Fund Balance at Beginning of Year</i>	<u>2,108,623</u>	<u>557,259</u>	<u>1,855,301</u>	<u>4,521,183</u>
<i>Fund Balance at End of Year</i>	<u>\$ 2,896,535</u>	<u>\$ 752,236</u>	<u>\$ 1,909,845</u>	<u>\$ 5,558,616</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, 2021

Net Change in Fund Balances - Total Governmental Funds \$ 1,037,433

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 depreciation exceeded capital asset additions in the current period.

Capital Asset Additions	855,787	
Current Year Depreciation	(1,006,161)	
Total		(150,374)

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	(6,733)	
Total		(6,733)

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

Taxes	(167,200)	
Intergovernmental	(46,460)	
Total		(213,660)

Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 323,391

Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 4,116

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (86,232)

Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as OPEB expense in the statement of activities. 827,663

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	245,000	
Amortization on premium	1,136	
Capital Leases	66,782	
OPWC Loans	89,308	
Total		402,226

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	29,808	
Decrease in Accrued Interest Payable	711	
Total		30,519

Proceeds from the issuance of an installment loan in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (46,879)

Net Change in Net Position of Governmental Activities \$ 2,121,470

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, 2021

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,879,724	\$ 3,879,724	\$ 4,758,748	\$ 879,024
Charges for Services	98	98	120	22
Licenses and Permits	108,173	108,173	129,299	21,126
Fines and Forfeitures	215,799	215,799	254,965	39,166
Intergovernmental	136,226	136,226	166,915	30,689
Interest	12,180	12,180	11,050	(1,130)
Rent	6,522	6,522	-	(6,522)
Other	145,353	145,353	40,298	(105,055)
<i>Total Revenues</i>	<u>4,504,075</u>	<u>4,504,075</u>	<u>5,361,395</u>	<u>857,320</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	2,068,000	1,348,489	1,172,440	176,049
Judicial	481,000	489,717	408,835	80,882
Security of Persons and Property	2,671,500	2,874,671	2,386,373	488,298
Public Health	22,000	23,020	23,020	-
Community Environment	135,320	412,534	189,077	223,457
Capital Outlay	-	206,228	188,113	18,115
Debt Service				
Principal Retirements	-	38,881	38,881	-
Interest and Fiscal Charges	-	6,891	6,891	-
<i>Total Expenditures</i>	<u>5,377,820</u>	<u>5,400,431</u>	<u>4,413,630</u>	<u>986,801</u>
<i>Excess of Revenues Over Expenditures</i>	<u>(873,745)</u>	<u>(896,356)</u>	<u>947,765</u>	<u>1,844,121</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	-	79,415	79,415
Transfers Out	-	(740,000)	(740,000)	-
<i>Total Other Financing Sources and Uses</i>	<u>-</u>	<u>(740,000)</u>	<u>(660,585)</u>	<u>79,415</u>
<i>Net Change in Fund Balance</i>	(873,745)	(1,636,356)	287,180	1,923,536
<i>Fund Balance at Beginning of Year</i>	1,634,860	1,634,860	1,634,860	-
<i>Prior Year Encumbrances Appropriated</i>	129,953	129,953	129,953	-
<i>Fund Balance at End of Year</i>	<u>\$ 891,068</u>	<u>\$ 128,457</u>	<u>\$ 2,051,993</u>	<u>\$ 1,923,536</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, 2021

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and Permits	\$ 39,812	\$ 39,812	\$ 43,229	\$ 3,417
Intergovernmental	282,796	282,795	307,067	24,272
Interest	460	460	532	72
Other	8,742	8,742	9,083	341
<i>Total Revenues</i>	<u>331,810</u>	<u>331,809</u>	<u>359,911</u>	<u>28,102</u>
EXPENDITURES:				
Current:				
Transportation	546,235	642,740	406,570	236,170
Capital Outlay	185,285	218,019	188,882	29,137
Debt Service				
Principal Retirements	23,712	27,901	27,901	-
Interest and Fiscal Charges	1,768	2,080	2,080	-
<i>Total Expenditures</i>	<u>757,000</u>	<u>890,740</u>	<u>625,433</u>	<u>265,307</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(425,190)</u>	<u>(558,931)</u>	<u>(265,522)</u>	<u>293,409</u>
OTHER FINANCING SOURCES:				
Transfers In	166,691	166,691	281,000	114,309
<i>Total Other Financing Sources</i>	<u>166,691</u>	<u>166,691</u>	<u>281,000</u>	<u>114,309</u>
<i>Net Change in Fund Balance</i>	(258,499)	(392,240)	15,478	407,718
<i>Fund Balance at Beginning of Year</i>	546,122	546,122	546,122	-
<i>Prior Year Encumbrances Appropriated</i>	34,845	34,845	34,845	-
<i>Fund Balance at End of Year</i>	<u>\$ 322,468</u>	<u>\$ 188,727</u>	<u>\$ 596,445</u>	<u>\$ 407,718</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Net Position
Proprietary Funds
December 31, 2021

	Water	Sewer	Storm Sewer	Total
ASSETS:				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,878,200	\$ 4,241,432	\$ 523,394	\$ 6,643,026
Accounts Receivable	260,574	341,086	68,720	670,380
Total Current Assets	2,138,774	4,582,518	592,114	7,313,406
<i>Noncurrent Assets</i>				
Net OPEB Asset	61,053	54,999	19,297	135,349
Non-Depreciable Capital Assets	522,788	5,230	102,865	630,883
Depreciable Capital Assets, Net	6,672,125	23,272,567	1,227,002	31,171,694
Total Noncurrent Assets	7,255,966	23,332,796	1,349,164	31,937,926
Total Assets	\$ 9,394,740	\$ 27,915,314	\$ 1,941,278	\$ 39,251,332
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Charge on Refunding	112,915	-	-	112,915
Pensions	127,901	108,760	129,860	366,521
OPEB	62,135	52,034	75,062	189,231
Total Deferred Outflows of Resources	302,951	160,794	204,922	668,667
LIABILITIES:				
<i>Current Liabilities</i>				
Accounts Payable	\$ 10,273	\$ 22,420	\$ 6,547	\$ 39,240
Accrued Wages and Benefits	21,217	19,755	7,677	48,649
Due to Other Governments	6,217	5,574	2,238	14,029
Accrued Interest Payable	23,412	-	-	23,412
Compensated Absences - Current Portion	257	257	-	514
Capital Leases Payable - Current Portion	30,450	30,450	6,648	67,548
OWDA Loans - Current Portion	-	505,613	-	505,613
Installment Loan - Current Portion	8,750	8,750	8,750	26,250
General Obligation Refunding Bonds Payable - Current Portion	205,000	-	-	205,000
OPWC Loans - Current Portion	-	80,404	-	80,404
General Obligation Refunding and Improvement Bonds - Current Portion	60,000	-	-	60,000
Total Current Liabilities	365,576	673,223	31,860	1,070,659
<i>Noncurrent Liabilities</i>				
Long Term Liabilities:				
OWDA Loans Payable - Net of Current Portion	497,249	5,201,619	44,307	5,743,175
Installment Loan - Net of Current Portion	38,129	38,129	38,129	114,387
Compensated Absences Payable - Net of Current Portion	54,661	48,436	-	103,097
General Obligation Refunding Bonds Payable - Net of Current Portion	1,936,000	-	-	1,936,000
OPWC Loans - Net of Current Portion	-	607,483	-	607,483
General Obligation Refunding and Improvement Bonds - Net of Current Portion	2,312,179	-	-	2,312,179
Net Pension Liability	534,002	480,860	168,653	1,183,515
Total Noncurrent Liabilities	5,372,220	6,376,527	251,089	11,999,836
Total Liabilities	5,737,796	7,049,750	282,949	13,070,495
DEFERRED INFLOWS OF RESOURCES:				
Pensions	238,773	218,681	72,791	530,245
OPEB	192,202	175,349	58,960	426,511
Total Deferred Inflows of Resources	430,975	394,030	131,751	956,756
NET POSITION:				
Net Investment in Capital Assets	2,220,071	16,805,349	1,232,033	20,257,453
Unrestricted	1,308,849	3,826,979	499,467	5,635,295
Total Net Position	\$ 3,528,920	\$ 20,632,328	\$ 1,731,500	\$ 25,892,748

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, 2021

	Water	Sewer	Storm Sewer	Total
OPERATING REVENUES				
Charges for Services	\$ 1,791,218	\$ 2,255,992	\$ 465,819	\$ 4,513,029
Tap-In Fees	10,700	12,000	-	22,700
<i>Total Operating Revenues</i>	1,801,918	2,267,992	465,819	4,535,729
OPERATING EXPENSES				
Salaries and Wages	559,148	513,408	176,269	1,248,825
Fringe Benefits	(231,523)	(240,787)	71,118	(401,192)
Contractual Services	269,724	389,794	64,110	723,628
Materials & Supplies	112,375	86,002	40,983	239,360
Other	7,913	1,413	29	9,355
Depreciation Expense	257,762	738,864	49,855	1,046,481
<i>Total Operating Expenses</i>	975,399	1,488,694	402,364	2,866,457
<i>Operating Income</i>	826,519	779,298	63,455	1,669,272
NONOPERATING REVENUES (EXPENSES)				
Interest	-	2,989	-	2,989
Other Non-Operating Revenues	26,882	18,163	1,613	46,658
Bond Issuance Costs	(33,288)	-	-	(33,288)
Interest and Fiscal Charges	(88,085)	(88,667)	(1,383)	(178,135)
<i>Total Nonoperating Revenues (Expenses)</i>	(94,491)	(67,515)	230	(161,776)
<i>Changes in Net Position Before Transfers</i>	732,028	711,783	63,685	1,507,496
Transfers In	-	-	64,320	64,320
Transfers Out	-	(64,320)	-	(64,320)
<i>Total Transfers</i>	-	(64,320)	64,320	-
<i>Changes in Net Postion</i>	732,028	647,463	128,005	1,507,496
<i>Net Position at Beginning of Year</i>	2,796,892	19,984,865	1,603,495	24,385,252
<i>Net Position at End of Year</i>	<u>\$ 3,528,920</u>	<u>\$ 20,632,328</u>	<u>\$ 1,731,500</u>	<u>\$ 25,892,748</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2021

	Water	Sewer	Storm Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents:				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 1,787,333	\$ 2,251,616	\$ 466,228	\$ 4,505,177
Cash Payments to Suppliers for Goods and Services	(401,088)	(472,965)	(101,995)	(976,048)
Cash Payments to Employees for Services and Benefits	(756,577)	(686,408)	(245,107)	(1,688,092)
<i>Net Cash Provided by Operating Activities</i>	<u>629,668</u>	<u>1,092,243</u>	<u>119,126</u>	<u>1,841,037</u>
Cash Flows from Noncapital Financing Activities:				
Transfers Out	-	(64,320)	-	(64,320)
Transfers In	-	-	64,320	64,320
Other Nonoperating Receipts	26,882	18,163	1,613	46,658
Interfund Repayment	-	79,840	(79,840)	-
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>26,882</u>	<u>33,683</u>	<u>(13,907)</u>	<u>46,658</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from OWDA Loan	497,249	209,919	-	707,168
Proceeds from Installment Loans	46,879	46,879	46,879	140,637
Proceeds from Issuance of Bonds	2,150,000	-	-	2,150,000
Payments for Capital Acquisitions	(580,987)	(268,775)	(100,359)	(950,121)
Principal Payments	(2,364,546)	(741,314)	(9,262)	(3,115,122)
Interest Payments	(130,991)	(88,667)	(1,383)	(221,041)
Bond Issuance Costs	(33,288)	-	-	(33,288)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(415,684)</u>	<u>(841,958)</u>	<u>(64,125)</u>	<u>(1,321,767)</u>
Cash Flows from Investing Activities:				
Interest on Investments	-	2,989	-	2,989
<i>Net Cash Provided by Investing Activities</i>	<u>-</u>	<u>2,989</u>	<u>-</u>	<u>2,989</u>
Net Increase in Cash and Cash Equivalents	240,866	286,957	41,094	568,917
Cash and Cash Equivalents at Beginning of Year	1,637,334	3,954,475	482,300	6,074,109
Cash and Cash Equivalents at End of Year	<u>\$ 1,878,200</u>	<u>\$ 4,241,432</u>	<u>\$ 523,394</u>	<u>\$ 6,643,026</u>

(Continued)

City of Hillsboro
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2021

	Water	Sewer	Storm Sewer	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	\$ 826,519	\$ 779,298	\$ 63,455	\$ 1,669,272
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>				
Depreciation	257,762	738,864	49,855	1,046,481
Pension expense not affecting cash	(57,440)	(70,301)	68,968	(58,773)
OPEB expense not affecting cash	(371,369)	(344,868)	(67,714)	(783,951)
Changes in Assets and Liabilities:				
Decrease/(Increases) in Accounts Receivable	(14,585)	(16,376)	409	(30,552)
Increase/(Decrease) in Accounts Payable	(11,076)	4,244	3,127	(3,705)
Increase in Accrued Wages and Benefits	1,391	2,502	977	4,870
Increase in Compensated Absences Payable	(1,855)	(1,274)	-	(3,129)
Increase in Due to Other Governments	321	154	49	524
Total Adjustments	(196,851)	312,945	55,671	171,765
Net Cash Provided by Operating Activities	<u>\$ 629,668</u>	<u>\$ 1,092,243</u>	<u>\$ 119,126</u>	<u>\$ 1,841,037</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Fiduciary Net Position
Custodial Fund
December 31, 2021

ASSETS:

Cash and Cash Equivalents in Segregated Accounts	\$ 133,441
Accounts Receivable	<u>61,922</u>
<i>Total Assets</i>	<u><u>\$ 195,363</u></u>

NET POSITION:

Restricted for Individuals, Organizations, and Other Governments	<u>195,363</u>
<i>Total Net Position</i>	<u><u>\$ 195,363</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Changes in Fiduciary Net Position
Custodial Fund
For the Year Ended December 31, 2021

Additions:

Fines and forfeitures for other governments	\$594,319
	<hr/>
<i>Total additions</i>	<i>594,319</i>
	<hr/>

Deductions:

Fines and forfeitures disbtributions to other governments	588,314
	<hr/>
<i>Total deductions</i>	<i>588,314</i>
	<hr/>
Change in net position	6,005
Net position , January 1	189,358
	<hr/>
Net position, December 31	\$195,363
	<hr/> <hr/>

The notes to the basic financial statements are an integral part of this statement.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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 one discretely presented component unit which is described below.

The Hillsboro Community Improvement Corporation (the "CIC") was formed pursuant to Ordinance 2021-01 passed February 2, 2021 and incorporated as a not-for-profit corporation under Chapters 1724 of the Ohio Revised Code for the purpose to advance, encourage, and promote industrial, economic, commercial and civic development of the City of Hillsboro (the "City"). The CIC has been designated as the City's agent for industrial and commercial distributions and research development.

The Board of Directors (the "Board") is to be comprised of six members. All six of the Board members are elected or appointed officials of the City of Hillsboro. All Board members are appointed by the Mayor of the City of Hillsboro with approval of Hillsboro City Council. Additional information regarding the CIC is included in Note 20.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

1. FINANCIAL REPORTING ENTITY (Continued)

The Hillsboro Municipal Court which provides judiciary services is included as a custodial 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.

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 County. These entities include Madison Township, Buckskin Township, Paint Township (Ross County), Paint Township (Highland County), Jackson Township, Liberty Township, Washington Township, New Market Township, and the City of Greenfield. The City does not have representation on the District. During 2021, the City paid \$650,000 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Storm Sewer Fund - This fund accounts for the provision of storm sewer management and maintenance services to residential and commercial users within the City.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and custodial funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and therefore not available to support the City's own programs. The City only reports custodial funds, which are used to account for and maintain assets held by the City or as a fiscal agent for individuals, private organizations, and other governmental units and other funds. These assets include 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/OPEB 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/OPEB 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 and proprietary funds' statements of net position for pensions and OPEB. The deferred outflows of resources related to pensions and OPEB are explained in Note 9 and Note 10, respectively.

In addition to liabilities, the statements of financial position will report 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 and OPEB. Property taxes for which there is an enforceable legal claim as of December 31, 2021, but which were levied to finance fiscal year 2022 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 and OPEB are only reported on the government-wide statement of net position and the statement of net position for proprietary funds. (See Note 9 and Note 10).

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 custodial 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.

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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2021, investments were limited to 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.

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, 2021

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" in the statement of net position when reported. The City had no Internal Balances to report at December 31, 2021.

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, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and OPEB 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$2,804,512 of restricted net position, none was restricted by enabling legislation.

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 and stormwater management 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/OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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.

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. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and, with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

3. DEPOSITS AND INVESTMENTS (Continued)

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 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 \$9,915,302 was either covered by FDIC or collateralized in the manner described below.

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, 2021, 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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

3. DEPOSITS AND INVESTMENTS (Continued)

Investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>
Money Market Funds	\$ 13,522	\$ 13,522	\$ -	\$ -
Negotiable Certificates of Deposit	1,943,270	698,638	742,585	502,047
	<u>\$ 1,956,792</u>	<u>\$ 712,160</u>	<u>\$ 742,585</u>	<u>\$ 502,047</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, 2021. All investments of the City are valued using quoted market prices (Level 1 inputs).

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 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, 2021, less than 1.0% are in money market funds and over 99.0% are in negotiable certificates of deposit.

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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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.

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	\$ 787,912	\$ 194,977
Revenue Accruals	(124,795)	(115,371)
Expenditure Accruals	3,367	33,701
Prospective Difference:		
Activity of Funds Reclassified for		
GAAP Reporting Purposes	(378,024)	-
Encumbrances	(1,280)	(97,829)
Budgetary Basis	\$ 287,180	\$ 15,478

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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 represents delinquent taxes outstanding and real and public utility taxes which were measurable and unpaid as of December 31, 2021. 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 2021 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, 2021, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2021 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$123,015,790
Public Utility Personal Property	<u>6,183,850</u>
Total Property Taxes	<u>\$129,199,640</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

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, 2021, were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ 79,415	\$ 740,000
Street	281,000	-
Non-Major Special Revenue Funds		
Police Pension	140,000	-
Fire Pension	-	79,415
Recreation	40,000	-
Municipal Vehicle	-	31,000
Total Non-Major Special Revenue Funds	<u>180,000</u>	<u>110,415</u>
Non-Major General Bond Retirement Fund	<u>310,000</u>	<u>-</u>
Enterprise Funds		
Sewer Fund	-	64,320
Storm Sewer Fund	64,320	-
Total Enterprise Funds	<u>64,320</u>	<u>64,320</u>
Total All Funds	<u>\$ 914,735</u>	<u>\$ 914,735</u>

8. RECEIVABLES

Receivables at December 31, 2021 consisted of taxes, accounts (billings for user charged services including unbilled utility services), loans, and intergovernmental receivables arising from grants, entitlements and shared revenues.

Loans receivable represents low interest loans for development projects and home improvements granted to eligible City residents and businesses under the Community Development Program. These loans are generally to be repaid over a three to twenty-year period.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

8. RECEIVABLES (Continued)

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

<u>General</u>	
Local Government	\$16,515
Homestead & Rollback	12,289
 <u>Street Fund</u>	
Gasoline Tax	158,175
 <u>Non-Major Special Revenue</u>	
State Highway Fund	
Gasoline Tax	12,825
Victim's Rights Office	
VOCA Grant	27,231
Fire Pension Fund	
Homestead & Rollback	1,940
Police Pension Fund	
Homestead & Rollback	1,940
Recreation Fund	
Grants	23,581
 <u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,940</u>
Total Governmental Activities	<u>\$256,436</u>

9. DEFINED BENEFIT RETIREMENT PLANS

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability (Asset)

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

Pensions and OPEB 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 net pension liability and the net OPEB liability (asset) represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) 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 and OPEB.

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

Net Pension Liability/Net OPEB Liability (Asset)

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio revised Code permits but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a net pension/OPEB asset or long-term net pension/OPEB liability on the accrual basis in the accompanying financial statements. Any liability for the contractually required pension/OPEB contribution outstanding at the end of the year is included as an intergovernmental payable on the accrual basis of accounting.

The remainder of this note includes the pension disclosures. See Note 10 for the OPEB disclosures.

Plan Description – Ohio Public Employees Retirement System (OPERS)

The City participates 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 combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 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, including requirements for reduced and unreduced benefits):

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

9. DEFINED BENEFIT RETIREMENT 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 01/07/13 or eligible to retire ten years after 01/07/13	Members not in other Groups and members hired on or after 01/07/13
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

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. The initial amount of a member's pension benefit is vested upon receipt of the initial benefit payment for calculation of an annual cost-of-living adjustment.

When a traditional plan benefit recipient has received benefits for 12 months, current law provides for an annual cost of living adjustment (COLA). This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment of the defined benefit portion of their pension benefit. For those retiring prior to January 7, 2013, the COLA is 3 percent. For those retiring on or after January 7, 2013, beginning in calendar year 2019, the COLA is based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of the benefit (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options. When members choose to annuitize their defined contribution benefit, the annuitized portion of the benefit is reclassified to a defined benefit.

Beginning in 2022, the Combined Plan will be consolidated under the Traditional Pension Plan (defined benefit plan) and the Combined Plan option will no longer be available for new hires beginning in 2022.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

9. DEFINED BENEFIT RETIREMENT 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:

	Local
2021 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
2021 Actual Contribution Rates	
Employer:	
Pension **	14.0 %
Post-employment Health Care Benefits **	0.0
Total Employer	14.0 %
Employee	10.0 %
* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.	
** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.	

The City’s contractually required contribution to OPERS was \$333,957 for fiscal year 2021, of which the entire amount was paid during 2021. Of this amount, \$25,342 was reported as a payroll liability for 2021.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F 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. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. That report may be obtained by visiting the OP&F 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 OP&F may retire and receive a lifetime monthly pension. OP&F 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.

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

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

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 (see OP&F annual comprehensive financial report referenced above for additional information, including requirements for deferred retirement option plan provisions and reduced and unreduced benefits).

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F 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, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

The COLA amount for members who have 15 or more years of service credit as of July 1, 2013, and members who are receiving a pension benefit that became effective before July 1, 2013, will be equal to 3.0 percent of the member’s base pension benefit.

The COLA amount for members who have less than 15 years of service credit as of July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will be equal to a percentage of the member’s base pension benefit where the percentage is the lesser of 3.0% or the percentage increase in the consumer price index, if any, over the twelve-month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Members who retired prior to July 24, 1986, or their surviving beneficiaries under optional plans are entitled to cost- of-living allowance increases. The annual increase is paid on July 1st of each year. The annual COLA increase is \$360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

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

	Police	Firefighter
Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00
Employee	12.25 %	12.25
Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50
Post-Employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00
Employee	12.25 %	12.25

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

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

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$156,664 for 2021. Of this amount \$11,212 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, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2020 and was determined by rolling forward the total pension liability as of January 1, 2020, to December 31, 2020. 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
Proportion of the Net Pension Liability:			
Current Measurement Date	0.0159610%	0.0301911%	
Prior Measurement Date	0.0152540%	0.0298322%	
Change in Proportionate Share	<u>0.0007070%</u>	<u>0.0003589%</u>	
Proportionate Share of the:			
Net Pension Liability	\$2,363,476	\$2,058,154	\$4,421,630
Pension Expense	\$74,406	\$154,689	\$229,095

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$86,038	\$86,038
Changes of assumptions	0	34,516	34,516
Changes in proportion and differences between City contributions and proportionate share of contributions	199,291	89,816	289,107
City contributions subsequent to the measurement date	333,957	156,664	490,621
Total Deferred Outflows of Resources	<u>\$533,248</u>	<u>\$367,034</u>	<u>\$900,282</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$98,866	\$80,180	\$179,046
Net difference between projected and actual earnings on pension plan investments	\$921,213	\$99,834	\$1,021,047
Changes in proportion and differences between City contributions and proportionate share of contributions	95,768	221,764	317,532
Total Deferred Inflows of Resources	<u>\$1,115,847</u>	<u>\$401,778</u>	<u>\$1,517,625</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

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

\$490,621 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 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F	Total
Fiscal Year Ending December 31:			
2022	(318,136)	(51,920)	(370,056)
2023	(97,261)	10,641	(86,620)
2024	(375,518)	(132,495)	(508,013)
2025	(125,641)	(23,721)	(149,362)
2026	-	6,087	6,087
Total	(\$916,556)	(\$191,408)	(\$1,107,964)

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 was determined by an actuarial valuation as of December 31, 2020, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2020, are presented below for OPERS Traditional Plan.

	2020
Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA:	
Pre-January 7, 2013 Retirees	3 percent, simple
Post-January 7, 2013 Retirees	.5 percent, simple through 2021, then 2.15 percent, simple
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

In October 2020, the OPERS Board adopted a change in COLA for Post-January 7, 2013 retirees, changing it from 1.4 percent simple through 2020 then 2.15 simple to .5 percent simple through 2021 then 2.15 percent simple.

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

Actuarial Assumptions – OPERS (Continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

The allocation of investment assets with the defined benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long-term expected 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. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2020, these best estimates are summarized in the following table:

Asset Class	2020 Target Allocation	2020 Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	25.00 %	1.32 %
Domestic Equities	21.00	5.64
Real Estate	10.00	5.39
Private Equity	12.00	10.42
International Equities	23.00	7.36
Other investments	9.00	4.75
Total	100.00 %	5.43 %

Discount Rate The discount rate used to measure the total pension liability was 7.2% for the Traditional Pension Plan and the Combined Plan for the year ended December 31, 2020. 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 was applied to all periods of projected benefit payments to determine the total pension liability.

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

Actuarial Assumptions – OPERS (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 as of the measurement date of December 31, 2020 using the current period discount rate assumption of 7.2 percent, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

For the year ended December 31, 2020:

	<u>1% Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1% Increase</u>
	(6.2%)	(7.2%)	(8.2%)
City’s proportionate share of the net pension liability	\$4,508,344	\$2,363,477	\$580,023

Changes between Measurement Date and Report Date. During 2021, the OPERS Board lowered the investment rate of return from 7.2 percent to 6.9 along with certain other changes to assumptions for the actuarial valuation as of December 31, 2020. The effects of these changes are unknown.

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2020 is based on the results of an actuarial valuation date of January 1, 2020, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’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. Assumptions considered were withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases, and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2020, are presented below:

Valuation date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
Actuarial cost method	Entry age normal
Investment rate of return	8.0 percent
Projected salary increases	3.75 percent to 10.5 percent
Payroll growth	3.25 percent per annum, compounded annually, consisting of inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of living adjustments	2.20 percent simple for increases based on the lesser of the increase in CPI and 3 percent

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

Actuarial Assumptions – OP&F (Continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77%	77%
68 - 77	105%	105%
78 and up	115%	115%

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35%	35%
60 - 69	60%	60%
70 - 79	75%	75%
80 and up	100%	100%

The most recent experience study was completed for the five year period ended December 31, 2016.

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 expected. 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 average 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.

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2020, are summarized below:

<u>Asset Class</u>	<u>Allocation</u>	<u>Real Rate of Return</u>
Cash and Cash Equivalents	0.00%	1.00%
Domestic Equity	16.00%	5.40%
Non-US Equity	16.00%	5.80%
Private Markets	8.00%	8.00%
Core Fixed Income*	23.00%	2.70%
High Yield Fixed Income	7.00%	4.70%
Private Credit	5.00%	5.50%
U.S. Inflation Linked Bonds*	17.00%	2.50%
Master Limited Partnership	8.00%	6.60%
Real Assets	8.00%	7.40%
Private Real Estate	12.00%	6.40%
Total	<u>120.00%</u>	

Note: Assumptions are geometric.

*levered 2x

OP&F's Board of Trustees has incorporated the "risk parity" concept into OP&F'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 1.25 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.00 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 8.00 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 8.00 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 (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City's proportionate share of the net pension liability	\$2,865,215	\$2,058,154	\$1,382,727

10. DEFINED BENEFIT OPEB PLANS

See Note 9 for a description of the net OPEB liability (asset).

Plan Description – Ohio Public Employees Retirement System

Plan Description - The 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 (HRA) to qualifying benefit recipients of both the traditional pension and the combined plans. Currently, Medicare-eligible retirees are able to select medical and prescription drug plans from a range of options and may elect optional vision and dental plans. Retirees and eligible dependents enrolled in Medicare Parts A and B have the option to enroll in a Medicare supplemental plan with the assistance of the OPERS Medicare Connector. The OPERS Medicare Connector is a relationship with a vendor selected by OPERS to assist retirees, spouses and dependents with selecting a medical and pharmacy plan. Monthly allowances, based on years of service and the age at which the retiree first enrolled in OPERS coverage, are deposited into an HRA. For non-Medicare retirees and eligible dependents, OPERS sponsors medical and prescription coverage through a professionally managed self-insured plan. An allowance to offset a portion of the monthly premium is offered to retirees and eligible dependents. The allowance is based on the retiree's years of service and age when they first enrolled in OPERS coverage.

Medicare-eligible retirees who choose to become re-employed or survivors who become employed in an OPERS-covered position are prohibited from participating in an HRA. For this group of retirees, OPERS sponsors secondary coverage through a professionally managed self-insured program. Retirees who enroll in this plan are provided with a monthly allowance to offset a portion of the monthly premium. Medicare-eligible spouses and dependents can also enroll in this plan as long as the retiree is enrolled.

OPERS provides a monthly allowance for health care coverage for eligible retirees and their eligible dependents. The base allowance is determined by OPERS.

The health care 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 separation, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

Effective January 1, 2022, OPERS will discontinue the group plans currently offered to non-Medicare retirees and re-employed retirees. Instead, eligible non-Medicare retirees will select an individual medical plan. OPERS will provide a subsidy or allowance via an HRA allowance to those retirees who meet health care eligibility requirements. Retirees will be able to seek reimbursement for plan premiums and other qualified medical expenses. These changes are reflected in the December 31, 2020, measurement date health care valuation.

10. DEFINED BENEFIT OPEB PLANS (Continued)

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit with a minimum age of 60, or generally 30 years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Current retirees eligible (or who become eligible prior to January 1, 2022) to participate in the OPERS health care program will continue to be eligible after January 1, 2022. Eligibility requirements will change for those retiring after January 1, 2022, with differing eligibility requirements for Medicare retirees and non-Medicare retirees. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' Annual Comprehensive Financial Report referenced below for additional information.

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 Board in Chapter 145 of the Ohio Revised Code. Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Health care is not being funded.

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10. DEFINED BENEFIT OPEB PLANS (Continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2021 and 2020, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. 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 0 percent during calendar year 2021. 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 into the RMA for participants in the Member-Directed Plan for 2021 was 4.0 percent. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$0 for 2021.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. On January 1, 2019, OP&F implemented a new model for health care. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements.

OP&F contracted with a vendor who assists eligible retirees in choosing health care plans that are available where they live (both Medicare-eligible and pre-65 populations). A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses.

A retiree is eligible for the OP&F health care stipend unless they have access to any other group coverage including employer and retirement coverage. The eligibility of spouses and dependent children could increase the stipend amount. If the spouse or dependents have access to any other group coverage including employer or retirement coverage, they are not eligible for stipend support from OP&F. Even if an OP&F member or their dependents are not eligible for a stipend, they can use the services of the third-party administrator to select and enroll in a plan. The stipend provided by OP&F meets the definition of an other postemployment benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 75.

OP&F maintains funds for health care in two separate accounts: one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. IRS Code Section 401(h) account is maintained for Medicare Part B reimbursements.

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 is 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. The report may be obtained by visiting the OP&F 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.

10. DEFINED BENEFIT OPEB PLANS (Continued)

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. 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 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

The Board of Trustees is authorized to allocate a portion of the total employer contributions for retiree health care benefits. For 2021, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded.

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care 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.

The City's contractually required contribution OPEB to OP&F was \$4,116 for 2021. Of this amount, \$0 is reported as an intergovernmental payable.

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability (asset) and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2020 and was determined by rolling forward the total OPEB liability as of January 1, 2020, to December 31, 2020. The City's proportion of the net OPEB liability (asset) was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS	OP&F	Total
Proportion of the Net OPEB Liability (Asset):			
Current Measurement Date	0.0151700%	0.0301911%	
Prior Measurement Date	0.0146630%	0.0298320%	
Change in Proportionate Share	0.0005070%	0.0003591%	
Proportionate Share of the:			
Net OPEB Asset	\$270,266	\$0	\$270,266
OPEB Liability	\$0	\$319,880	\$319,880
OPEB Expense (Gain)	(\$1,654,949)	(\$52)	(\$1,655,001)

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

10. DEFINED BENEFIT OPEB PLANS (Continued)

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Changes of assumptions	132,866	176,717	309,583
Changes in proportion and differences between City contributions and proportionate share of contributions	122,692	97,848	220,540
City contributions subsequent to the measurement date	0	4,116	4,116
Total	\$255,558	\$278,681	\$534,239
Deferred Inflows of Resources			
Differences between expected and actual experience	\$243,913	\$57,995	\$301,908
Net difference between projected and actual earnings on OPEB plan investments	143,948	11,887	155,835
Changes of assumptions	437,911	63,555	501,466
Changes in proportion and differences between City contributions and proportionate share of contributions	60,879	43,902	104,781
Total	\$886,651	\$177,339	\$1,063,990

\$4,116 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/addition to the net OPEB asset in 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2022	(323,119)	20,873	(302,246)
2023	(228,457)	23,688	(204,769)
2024	(62,554)	19,251	(43,303)
2025	(16,963)	22,278	5,315
2026	-	10,759	10,759
Thereafter	-	377	377
Total	(\$631,093)	\$97,226	(\$533,867)

10. DEFINED BENEFIT OPEB 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 coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2019 and, rolled forward to the measurement date of December 31, 2020.

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

	2020
Wage Inflation	3.25 percent
Projected Salary Increases,	3.25 to 10.75 percent
	including wage inflation
Single Discount Rate:	
Current measurement date	6.00 percent
Prior measurement date	3.16 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate:	
Current measurement date	2.00 percent
Prior measurement date	2.75 percent
Health Care Cost Trend Rate:	
Current measurement date	8.5 percent, initial

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables. The most recent experience study was completed for the five year period ended December 31, 2015.

The allocation of investment assets within the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The long-term expected rate of return on health care 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

10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OPERS (continued)

expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. For each major asset class that is included in the Health Care’s portfolio’s target asset allocation as of December 31, 2020, these best estimates are summarized in the following table:

Asset Class	2020 Target Allocation	2020 Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.07 %
Domestic Equities	25.00	5.64
Real Estate Investment Trust	7.00	6.48
International Equities	25.00	7.36
Other investments	9.00	4.02
Total	100.00 %	4.43 %

Discount Rate A single discount rate of 6.00 percent was used to measure the OPEB liability on the measurement date of December 31, 2020. A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 2.00 percent (Fidelity Index’s “20-Year Municipal GO AA Index”) for the year ended December 31, 2020. This single discount rate was based on an expected rate of return on the health care investment portfolio of 3.16 percent and a municipal bond rate of 2.75 percent for the year ended December 31, 2019. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2120. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2120, the duration of the projection period through which projected health care payments are fully funded.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates

The following table presents the District’s proportionate share of the net OPEB liability (asset) calculated as of the measurement date December 31, 2020, using the single discount rate of 6.00 percent, as well as what the District’s proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (5.00 percent) or one-percentage-point higher (7.00 percent) than the current rate:

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions –OPERS (continued)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	(5.0%)	(6.0%)	(7.0%)
City's proportionate share of the net OPEB asset	(\$67,203)	(\$270,266)	(\$437,199)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability (asset) calculated using the assumed trend rates, and the expected net OPEB liability (asset) if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2021 is 8.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50 percent in the most recent valuation.

For the fiscal year ended December 31, 2021:

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB asset	(\$276,853)	(\$270,266)	(\$262,896)

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, 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.

10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OP&F (continued)

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 and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	3.25 percent
Blended discount rate:	
Current measurement date	2.96 percent
Prior measurement date	3.56 percent
Cost of Living Adjustments	2.2 percent simple

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68 to 77	105 %	87 %
78 and up	115 %	120 %

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60 to 69	60 %	45 %
70 to 79	75 %	70 %
80 and up	100 %	90 %

10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OP&F (continued)

The most recent experience study was completed for the five-year period ended December 31, 2016.

The OP&F health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see note 9.

Discount Rate – For 2020, the total OPEB liability was calculated using the discount rate of 2.96 percent. For 2019, the total OPEB liability was calculated using the discount rate of 3.56 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return of 8 percent. Based on those assumptions, OP&F’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 2.12 percent at December 31, 2020 and 2.75 percent at December 31, 2019, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 2.96 percent for 2020 and 3.56 percent for 2019. The municipal bond rate was determined using the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2037, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 2.96 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.96 percent), or one percentage point higher (3.96 percent) than the current rate.

	1% Decrease (1.96%)	Current Discount Rate (2.96%)	1% Increase (3.96%)
City’s proportionate share of the net OPEB liability	\$398,872	\$319,880	\$254,720

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care

Cost Trend Rate The total OPEB liability is based on a medical benefit that is a flat dollar amount; therefore, it is unaffected by a health care cost trend rate. An increase or decrease in the trend rate would have no effect on the total OPEB liability.

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.

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.

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, 2021.

Assets	\$59,340,305
Liabilities	<u>(17,071,953)</u>
Net Position	<u>\$42,268,352</u>

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.

2021 Contributions to PEP

\$84,561

11. RISK MANAGEMENT (Continued)

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 Voya 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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021:

	Ending Balance 12/31/2020	Additions	Deletions	Ending Balance 12/31/2021
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 740,307	\$ 200,000	\$ -	\$ 940,307
Construction in Progress	14,252	401,529	(404,581)	11,200
Total Capital Assets, Not Being Depreciated	<u>754,559</u>	<u>601,529</u>	<u>(404,581)</u>	<u>951,507</u>
Capital Assets Being Depreciated				
Land Improvements	2,398,913	408,317	-	2,807,230
Buildings and Improvements	4,187,524	33,860	-	4,221,384
Furniture and Equipment	1,590,873	60,524	(12,625)	1,638,772
Vehicles	635,931	61,879	-	697,810
Infrastructure	22,282,949	94,259	-	22,377,208
Total Capital Assets Being Depreciated	<u>31,096,190</u>	<u>658,839</u>	<u>(12,625)</u>	<u>31,742,404</u>
Less Accumulated Depreciation				
Land Improvements	(1,518,304)	(50,445)	-	(1,568,749)
Buildings and Improvements	(1,262,531)	(82,402)	-	(1,344,933)
Furniture and Equipment	(1,099,688)	(91,742)	5,892	(1,185,538)
Vehicles	(416,632)	(36,601)	-	(453,233)
Infrastructure	(8,366,411)	(744,971)	-	(9,111,382)
Total Accumulated Depreciation	<u>(12,663,566)</u>	<u>(1,006,161)</u>	<u>5,892</u>	<u>(13,663,835)</u>
Total Capital Assets Being Depreciated, Net	<u>18,432,624</u>	<u>(347,322)</u>	<u>(6,733)</u>	<u>18,078,569</u>
Governmental Activities Capital Assets, Net	<u>\$ 19,187,183</u>	<u>\$ 254,207</u>	<u>\$ (411,314)</u>	<u>\$ 19,030,076</u>

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$47,053
Security of Persons & Property	80,534
Leisure Time Activities	39,126
Transportation	<u>839,448</u>
Total Depreciation Expense	<u>\$1,006,161</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2021:

	Beginning Balance <u>12/31/2020</u>	Additions	Deletions	Ending Balance <u>12/31/2021</u>
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,460	\$ -	\$ -	\$ 10,460
Construction in Progress	1,229,136	749,142	(1,357,855)	620,423
Total Capital Assets, Not Being Depreciated	<u>1,239,596</u>	<u>749,142</u>	<u>(1,357,855)</u>	<u>630,883</u>
Capital Assets Being Depreciated				
Land Improvements	144,385	-	-	144,385
Buildings and Improvements	34,472,271	-	-	34,472,271
Furniture and Equipment	1,738,770	11,708	-	1,750,478
Vehicles	1,025,913	185,637	-	1,211,550
Infrastructure	7,645,398	1,358,922	-	9,004,320
Total Capital Assets Being Depreciated	<u>45,026,737</u>	<u>1,556,267</u>	<u>-</u>	<u>46,583,004</u>
Less Accumulated Depreciation				
Land Improvements	(67,099)	(8,785)	-	(75,884)
Buildings and Improvements	(9,638,412)	(535,521)	-	(10,173,933)
Furniture and Equipment	(1,163,349)	(86,935)	-	(1,250,284)
Vehicles	(460,277)	(70,802)	-	(531,079)
Infrastructure	(3,035,692)	(344,438)	-	(3,380,130)
Total Accumulated Depreciation	<u>(14,364,829)</u>	<u>(1,046,481)</u>	<u>-</u>	<u>(15,411,310)</u>
Total Capital Assets Being Depreciated, Net	<u>30,661,908</u>	<u>509,786</u>	<u>-</u>	<u>31,171,694</u>
Business Type Activities Capital Assets, Net	<u>\$ 31,901,504</u>	<u>\$ 1,258,928</u>	<u>\$ (1,357,855)</u>	<u>\$ 31,802,577</u>

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

14. LONG-TERM OBLIGATIONS

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

	Outstanding 12/31/2020	Issued	Retired	Outstanding 12/31/2021	Due In One Year
<u>Governmental Activities</u>					
Compensated Absences	\$ 188,570	\$ 374,347	\$ 404,155	\$ 158,762	\$ 37,911
2018 - 0% OPWC Loan - Direct	148,617	-	74,308	74,309	49,539
2019 - 0% OPWC Loan - Direct	295,002	-	15,000	280,002	10,000
2016 - Refunding Various Purpose General Obligation Bonds	1,710,000	-	230,000	1,480,000	230,000
2020 - Refunding Various Purpose General Obligation Bonds	235,000	-	15,000	220,000	14,770
Premium on 2020 Refunding Bonds	18,931	-	1,136	17,795	-
Capital Lease	130,400	-	66,782	63,618	63,618
2021 - Installment Loan - Truck - 3.452%	-	46,879	-	46,879	8,750
Net Pension Liability	3,693,613	-	455,498	3,238,115	-
Net OPEB Liability	1,425,859	-	1,105,979	319,880	-
Total Governmental Activities	\$ 7,845,992	\$ 421,226	\$ 2,367,858	\$ 5,899,360	\$ 414,588

The City has certain direct borrowings with the Ohio Public Works Commission (OPWC). In the event of a default, (1) OPWC may apply late fees of 8 percent per year, (2) loans more than sixty days late will be turned over to the Attorney General's office for collection and, as provided by law, OPWC may require that such payment be taken from the County's share of the County undivided local government fund, and (3) the outstanding amounts shall, at OPWC's option, become immediately due and payable.

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

14. LONG-TERM OBLIGATIONS (Continued)

	Outstanding 12/31/2020	Issued	Retired	Outstanding 12/31/2021	Due In One Year
<u>Business-Type Activities</u>					
Compensated Absences	\$ 106,740	\$ 267,390	\$ 270,519	\$ 103,611	\$ 514
Water					
2014 General Obligation Refunding and Improvement Bonds 3.53%	1,825,000	-	1,825,000	-	-
2014 General Obligation Refunding and Improvement Bonds 3.53%	430,000	-	430,000	-	-
2021 General Obligation Refunding Bonds - 1.25%	-	2,150,000	9,000	2,141,000	205,000
2020 - Various Purpose General Obligation Refunding Bonds	2,270,000	-	55,000	2,215,000	60,000
Premium on 2020 Refunding Bonds	167,212	-	10,033	157,179	-
2021 - OWDA Loan - 1.6% - Direct	-	497,249	-	497,249	-
2021 - Installment Loan - Truck - 3.452%	-	46,879	-	46,879	8,750
Capital Lease	75,996	-	45,546	30,450	30,450
Net Pension Liability	637,249	-	103,247	534,002	-
Net OPEB Liability	428,067	-	428,067	-	-
Total Water Fund	5,833,524	2,694,128	2,905,893	5,621,759	304,200
Sewer					
2004 - OWDA Loan - 1% - Direct	89,032	-	21,926	67,106	22,146
2005 - OWDA Loan - 1% - Direct	372,921	-	73,104	299,817	73,837
2010 - OWDA Loan - 1% - Direct	4,467,078	-	405,565	4,061,513	409,630
2019 - OWDA Loan - 1% - Direct	262,739	-	14,423	248,316	-
2020 - OWDA Loan - 0.67% - Direct	95,826	-	3,876	91,950	-
2020 - OWDA Loan - 0.67% - Direct	763,933	209,919	35,322	938,530	-
2007 - OPWC Loan - 0% - Direct	65,000	-	15,000	50,000	10,000
2014 - OPWC Loan - 0% - Direct	304,618	-	26,110	278,508	17,407
2015 - OPWC Loan - 0% - Direct	166,576	-	16,658	149,918	11,105
2019 - OPWC Loan - 0% - Direct	293,245	-	83,784	209,461	41,892
2021 - Installment Loan - Truck - 3.452%	-	46,879	-	46,879	8,750
Capital Lease	75,996	-	45,546	30,450	30,450
Net Pension Liability	583,552	-	102,692	480,860	-
Net OPEB Liability	391,997	-	391,997	-	-
Total Sewer Fund	7,932,513	256,798	1,236,003	6,953,308	625,217
Storm Water Fund					
2020 - OWDA Loan - 0% - Direct	47,131	-	2,824	44,307	-
2021 - Installment Loan - Truck - 3.452%	-	46,879	-	46,879	8,750
Net Pension Liability	110,298	58,355	-	168,653	-
Net OPEB Liability	74,092	-	74,092	-	-
Capital Lease	13,086	-	6,438	6,648	6,648
Total Storm Water Fund	244,607	105,234	83,354	266,487	15,398
Total Business-Type Activities	\$ 14,117,384	\$ 3,323,550	\$ 4,495,769	\$ 12,945,165	\$ 945,329

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 had been pledged to repay these debts. These bonds were paid off during 2020 through the issuance of 2020 various purpose general obligation refunding bonds.

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 2019 OPWC loan was issued at a zero percent interest rate for sewer improvements. The Sewer Fund is being used to repay these loans.

For fiscal year 2021, there was one OWDA loan issued in 2019 at an interest rate of 1% to pay for sewer improvements. This loan will be repaid from the sewer fund. This loan was not finalized as of year-end and is not included in the amortization schedule.

There were two OWDA loans issued in 2020 at an interest rate of .67% to pay for sewer improvements. These loans will be repaid from the sewer fund. There were additional loan draws of \$209,919 for one of these loans during fiscal year 2021. These loans were not finalized as of year-end and are not included in the amortization schedule.

There was one OWDA loan issued in 2020 at an interest rate of 0% to pay for the costs of storm sewer maintenance. The loan paid for storm sewer improvements. The 2020 OWDA loan was partially repaid in the amount of \$938,990 through a principal forgiveness program which left a balance outstanding of \$47,131 as of December 31, 2020. There were additional principal payments made by the City of \$2,824 during fiscal year 2021. This loan was not finalized as of year-end and is not included in the amortization schedule.

There was one OWDA loan issued in 2021 at an interest rate of 1.6% to pay for the costs of water improvements. This loan was not finalized as of year-end and is not included in the amortization schedule.

The 2018 and 2019 OPWC loans were issued at a zero percent interest rate for street improvements. These loans will be repaid from the Street Fund.

In connection with the general obligation refunding and improvement 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 \$5,513,786. The net revenue available for these bonds was \$1,084,281 and principal and interest paid was \$330,033. The coverage ratio for these bonds was 3.29 for the year ended December 31, 2021. The remaining principal and interest to be paid on the OWDA loans which have been finalized was \$4,642,515. The net revenue available for these loans was \$1,518,162 and principal and interest paid was \$548,636. The coverage ratio for the loans was 2.77 for the year ended December 31, 2021.

14. LONG-TERM DEBT OBLIGATIONS (Continued)

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 was 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 had been pledged to repay these debts. These bonds were paid off during fiscal year 2021 through the issuance of general obligation refunding bonds.

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 are being received in and the debt is being repaid from a General Obligation Bond Retirement Fund.

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 was deferred and was being amortized over the shorter of the refunded or refunding debt. The refunded debt was fully paid off in 2020 so the deferred charge was fully amortized in fiscal year 2020.

In 2020, the City issued \$2,650,000 in Various Purpose Limited Tax General Obligation Bonds to refund the outstanding amount of certain 2005 Water System Revenue Bonds and also to pay the cost of constructing a pedestrian bridge in a municipal park. \$2,400,000 of the bonds were for the refunding of Water Revenue Bonds and \$250,000 of the bonds were for the construction of the pedestrian bridge which is a governmental activity. There was a premium of \$167,212 received on the \$2,400,000 portion of the bonds which was recorded as a long-term liability in the Enterprise Funds. There were issuance costs of \$72,146 on this portion of the bonds which were recorded as a non-operating expense in the Enterprise Funds. The refunding resulted in an economic gain in the amount of \$542,900 and an aggregate difference between the refunding debt and the refunded debt in the amount of \$81,066. As more fully described in Note 2, the deferred charge of \$81,066 was deferred and is being amortized over the shorter of the refunded or refunding debt.

There was a premium of \$18,931 received on the \$250,000 portion of the bonds which was recorded as an other financing source in the governmental funds. There were issuance costs of \$6,868 on this portion of the bonds which were recorded as an expenditure in the governmental funds and an expense in governmental activities.

In 2021, the City issued \$2,150,000 in Water System Limited Tax General Obligation Refunding Bonds to refund the outstanding amount of certain Water related 2014 General Obligation Refunding and Improvement Bonds. There were issuance costs of \$33,288 on these bonds which were recorded as a non-operating expense in the Enterprise Funds. The refunding resulted in an economic gain in the amount of \$218,105 and an aggregate difference between the refunding debt and the refunded debt in the amount of \$36,712. As more fully described in Note 2, the deferred charge of \$36,712 was deferred and is being amortized over the shorter of the refunded or refunding debt.

During 2021, the City entered into an installment loan at an interest rate of 3.452% for a dump truck. This \$187,516 loan will be repaid equally out of the Street, Water, Sewer, and Storm Sewer Funds. The 2021 Installment Loan is secured by the pledge of the truck itself.

Compensated absences (sick leave and vacation benefits) will be paid from the General Fund, Street Special Revenue Fund, and Sewer and Water Enterprise Funds. The City pays obligations related to employee compensation from the fund benefitting from their service. Capital lease obligations will be paid from the fund that maintains custody of the related asset.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

14. LONG-TERM DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire General Obligation Refunding Bonds (Governmental Activities) and principal requirements to retire OPWC (Business-Type Activities and Governmental Activities) debt at December 31, 2021 were as follows:

	Governmental Activities				Governmental Activities	
	2020 General Obligation		OPWC	OPWC	2016 General Obligation	
	Refunding Bonds		Business	Governmental	Refunding Bonds	
	Principal	Interest	Principal	Principal	Principal	Interest
2022	\$ 10,000	\$ 6,656	\$ 80,404	\$ 59,539	230,000	30,044
2023	10,000	6,256	80,404	34,770	170,000	25,375
2024	10,000	5,856	80,404	10,000	175,000	21,924
2025	10,000	5,456	80,404	10,000	175,000	18,372
2026	10,000	5,056	80,405	10,000	730,000	37,251
2027-2031	50,000	19,280	142,560	50,000	-	-
2032-2036	75,000	9,730	125,903	50,000	-	-
2037-2041	45,000	1,912	17,403	50,000	-	-
2042-2046	-	-	-	50,000	-	-
2047-2049	-	-	-	30,002	-	-
	<u>\$ 220,000</u>	<u>\$ 60,202</u>	<u>\$ 687,887</u>	<u>\$ 354,311</u>	<u>\$ 1,480,000</u>	<u>\$ 132,966</u>

Principal and interest requirements to retire Various Purpose General Obligation Refunding Bonds for Water, Refunding Bonds for Water, and the OWDA Loans at December 31, 2021 were as follows:

	Water System				Water System	
	2020 General Obligation		Sewer System		2021 General Obligation	
	Refunding Bonds		OWDA Loan		Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 60,000	\$ 55,631	\$ 505,624	\$ 43,024	\$ 205,000	\$ 25,482
2023	65,000	61,631	510,693	37,955	207,000	22,906
2024	70,000	49,631	515,813	32,835	207,000	20,319
2025	70,000	47,431	498,096	27,721	203,000	17,756
2026	70,000	45,231	426,305	22,919	215,000	15,144
2027-2031	400,000	189,955	1,971,905	49,625	1,104,000	34,725
2032-2036	480,000	133,105	-	-	-	-
2037-2041	535,000	88,988	-	-	-	-
2042-2045	465,000	28,750	-	-	-	-
	<u>\$ 2,215,000</u>	<u>\$ 700,353</u>	<u>\$ 4,428,436</u>	<u>\$ 214,079</u>	<u>\$ 2,141,000</u>	<u>\$ 136,332</u>

	Dump Truck		Dump Truck	
	Installment Loan		Installment Loan	
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2022	\$ 8,750	\$ 1,618	\$ 26,252	\$ 4,855
2023	9,053	1,316	27,158	3,949
2024	9,365	1,004	28,095	3,011
2025	9,688	681	29,065	2,042
2026	10,023	346	30,067	1,037
	<u>\$ 46,879</u>	<u>\$ 4,965</u>	<u>\$ 140,637</u>	<u>\$ 14,894</u>

The City's overall legal debt margin was \$11,865,962 at December 31, 2021.

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, 2021.

Litigation

The City is party to various legal proceedings. City management is of opinion that ultimate disposition of these claims and legal proceeding will not have a material effect, if any, on the financial condition of the City.

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

During 2021 and in previous years, the City entered into capital lease agreements for police cruisers, a jet vac/hydro excavator, a Loader, Dump Trucks, Truck, and Street Sweeper. 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 \$1,551,322 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 2021 totaled \$66,782 in the governmental funds, \$45,546 in the Water Fund, \$45,546 in the Sewer Fund and \$6,438 in the Storm Sewer Maintenance 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, 2021:

Year Ending December 31,	Capitalized Lease Obligation
2022	\$ 137,602
Total Minimum Lease Payments	137,602
Less: Amount Representing Interest	(6,436)
Present Value of Minimum Lease Payments	\$ 131,166

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

17. 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	\$28,294	\$0	\$0	\$28,294
Total Nonspendable	<u>28,294</u>	<u>0</u>	<u>0</u>	<u>28,294</u>
Restricted for				
Street Improvement	0	752,236	0	752,236
Parking Meter	0	0	200,655	200,655
Municipal Court Special Project	0	0	69,323	69,323
Alcohol Treatment	0	0	109,071	109,071
Other Purpose	0	0	151,457	151,457
Recreation	0	0	320,131	320,131
Rehab	0	0	14,223	14,223
Revolving Loan	0	0	333,376	333,376
ARPA	0	0	343,271	343,271
Debt Services Payments	0	0	328,849	328,849
Capital Improvements	<u>0</u>	<u>0</u>	<u>39,489</u>	<u>39,489</u>
Total Restricted	<u>0</u>	<u>752,236</u>	<u>1,909,845</u>	<u>2,662,081</u>
Assigned to				
Future Year Appropriations	1,307,186	0	0	1,307,186
Other Purposes	<u>377,610</u>	<u>0</u>	<u>0</u>	<u>377,610</u>
Total Assigned	<u>1,684,796</u>	<u>0</u>	<u>0</u>	<u>1,684,796</u>
Unassigned				
	<u>1,183,445</u>	<u>0</u>	<u>0</u>	<u>1,183,445</u>
Total Fund Balances	<u>\$2,896,535</u>	<u>\$752,236</u>	<u>\$1,909,845</u>	<u>\$5,558,616</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2021

18. 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	\$378,024
Street Fund	97,829
Water Fund	268,967
Sewer Fund	128,561
Storm Sewer Maintenance and Repair	
Nonmajor Enterprise Fund	118,489
Total	\$991,870

19. COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June 2021 while the national state of emergency continues. The impact on the City's future operating costs, revenues, and recovery from emergency funding (if any), either federal or state, cannot be estimated.

During 2021, the City did not receive COVID-19 funding. The City did not subgrant funds to other governments and organization nor were funds returned to any granting agency, and no funds were spent on-behalf of other governments. The City also did not receive on-behalf of grants from another government.

20. COMPONENT UNIT-HILLSBORO COMMUNITY IMPROVEMENT CORPORATION (CIC)

As more fully described in Note 1, the CIC was formed during fiscal year 2021. The basic financial statements of the CIC were prepared using the accrual basis of accounting in conformity with generally accepted accounting principles.

As of December 31, 2021, the CIC only had assets consisting of a checking account. At December 31, 2021, the carrying amount of the CIC deposits was \$35,878 and the bank balance was \$35,878. The entire bank balance was covered by the Federal Deposit Insurance Corporation (FDIC).

The CIC did not have any liabilities as of December 31, 2021.

Additional information can be obtained from Ms. Brianne Abbott, Statutory Agent, Hillsboro Community Improvement Corporation, 130 North High Street, Hillsboro, Ohio, 45133.

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

	<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>
City's proportion of the net pension liability	0.015961%		0.015254%		0.015117%		0.016025%		0.014805%		0.014981%		0.015094%		0.015094%
City's proportionate share of the net pension liability	\$ 2,363,476	\$	3,015,056	\$	4,140,240	\$	2,514,012	\$	3,361,074	\$	2,594,898	\$	1,820,505	\$	1,779,386
City's covered payroll	\$ 2,278,164	\$	2,042,207	\$	1,232,950	\$	2,189,700	\$	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 payroll	103.74%		147.64%		335.80%		114.81%		170.00%		135.03%		95.25%		86.63%
Plan fiduciary net position as a percentage of the total pension liability	86.88%		82.17%		74.70%		84.66%		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.

See the accompanying notes to the required supplementary information.

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 Eight Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.0301911%	0.0298322%	0.0328730%	0.0301680%	0.0318010%	0.0342040%	0.0332208%	0.0332208%
City's proportionate share of the net pension liability	\$ 2,058,154	\$ 2,009,656	\$ 2,683,304	\$ 1,851,561	\$ 2,014,274	\$ 2,200,367	\$ 1,763,398	\$ 1,656,393
City's covered payroll	\$ 814,153	\$ 794,853	\$ 825,974	\$ 732,111	\$ 759,853	\$ 773,379	\$ 712,989	\$ 1,506,581
City's proportionate share of the net pension liability as a percentage of its covered payroll	252.80%	252.83%	324.87%	252.91%	265.09%	284.51%	247.32%	109.94%
Plan fiduciary net position as a percentage of the total pension liability	70.65%	69.89%	63.07%	70.91%	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

See the accompanying notes to the required supplementary information.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 333,957	\$ 318,943	\$ 285,909	\$ 172,613	\$ 284,661	\$ 237,256	\$ 230,598	\$ 229,350	\$ 267,027	\$ 280,522
Contributions in relation to the contractually required contribution	<u>(333,957)</u>	<u>(318,943)</u>	<u>(285,909)</u>	<u>(172,613)</u>	<u>(284,661)</u>	<u>(237,256)</u>	<u>(230,598)</u>	<u>(229,350)</u>	<u>(267,027)</u>	<u>(280,522)</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 payroll	\$ 2,385,407	\$ 2,278,164	\$ 2,042,207	\$ 1,232,950	\$ 2,189,700	\$ 1,977,133	\$ 1,921,650	\$ 1,911,250	\$ 2,054,054	\$ 2,805,220
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%	10.00%

See the accompanying notes to the required supplementary information.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 156,664	\$ 154,689	\$ 151,022	\$ 156,935	\$ 139,101	\$ 144,372	\$ 146,942	\$ 135,468	\$ 239,245	\$ 326,127
Contributions in relation to the contractually required contribution	<u>(156,664)</u>	<u>(154,689)</u>	<u>(151,022)</u>	<u>(156,935)</u>	<u>(139,101)</u>	<u>(144,372)</u>	<u>(146,942)</u>	<u>(135,468)</u>	<u>(239,245)</u>	<u>(326,127)</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 payroll	\$ 824,547	\$ 814,153	\$ 794,853	\$ 825,974	\$ 732,111	\$ 759,853	\$ 773,379	\$ 712,989	\$ 1,506,581	\$ 2,557,859
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	19.00%	15.88%	12.75%

See the accompanying notes to the required supplementary information.

City of Hillsboro
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net OPEB Liability (Asset)
Ohio Public Employees Retirement System
Last Five Years (1)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's proportion of the net OPEB liability (asset)	0.01517000%	0.01466300%	0.01457200%	0.01546600%	0.01430000%
City's proportionate share of the net OPEB liability (asset)	\$ (270,266)	\$ 2,025,341	\$ 1,899,845	\$ 1,679,494	\$ 1,444,350
City's covered payroll	\$ 2,278,164	\$ 2,042,207	\$ 1,232,950	\$ 2,189,700	\$ 1,977,133
City's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	-11.86%	99.17%	154.09%	76.70%	73.05%
Plan fiduciary net position as a percentage of the total OPEB liability	115.57%	47.80%	46.33%	54.14%	54.05%

(1) Information prior to 2017 is not available.

See the accompanying notes to the required supplementary information.

City of Hillsboro
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net OPEB Liability
Ohio Police and Fire Pension System
Last Five Years (1)

	<u>2021</u>		<u>2020</u>		<u>2019</u>		<u>2018</u>		<u>2017</u>
City's proportion of the net OPEB liability	0.03019110%		0.02983200%		0.03287300%		0.03016800%		0.03180100%
City's proportionate share of the net OPEB liability	\$ 319,880	\$	294,674	\$	299,359	\$	1,709,277	\$	1,509,522
City's covered payroll	\$ 814,153	\$	794,853	\$	825,974	\$	732,111	\$	759,853
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	39.29%		37.07%		36.24%		233.47%		198.66%
Plan fiduciary net position as a percentage of the total OPEB liability	45.42%		47.08%		46.57%		14.13%		15.96%

(1) Information prior to 2017 is not available.

See the accompanying notes to the required supplementary information.

City of Hillsboro
Required Supplementary Information
Schedule of the City's OPEB Contributions
Ohio Public Employees Retirement System
Last Six Years (1)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ 21,888	\$ 39,557
Contributions in relation to the contractually required contribution	-	-	-	-	(21,888)	(39,557)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered payroll	\$ 2,385,407	\$ 2,278,164	\$ 2,042,207	\$ 1,232,950	\$ 2,189,700	\$ 1,977,133
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	1.00%	2.00%

(1) Information prior to 2016 is not available.

See the accompanying notes to the required supplementary information.

City of Hillsboro
Required Supplementary Information
Schedule of the City's OPEB Contributions
Ohio Police and Fire Pension System
Last Six Years (1)

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 4,116	\$ 4,064	\$ 3,968	\$ 4,123	\$ 3,655	\$ 3,793
Contributions in relation to the contractually required contribution	<u>(4,116)</u>	<u>(4,064)</u>	<u>(3,968)</u>	<u>(4,123)</u>	<u>(3,655)</u>	<u>(3,793)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered payroll	\$ 824,547	\$ 814,153	\$ 794,853	\$ 825,974	\$ 732,111	\$ 759,853
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%

(1) Information prior to 2016 is not available.

See the accompanying notes to the required supplementary information.

City Hillsboro, Ohio

Notes to the Required Supplementary Information

For the Year Ended December 31, 2021

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) 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 2019, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 7.50% to 7.20%. For 2020, the cost-of-living assumption changed from 3% to 1.4%. For 2021, the cost-of-living assumption changed from 1.4%, simple through 2020 to 0.5 % simple through 2021.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2017-2021 except as follows. On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and non-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for non-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are reflected in 2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 4.23% down to 3.85%. For 2019, the following were the most significant changes of assumptions that affect the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.85% up to 3.96%, (b) The investment rate of return was decreased from 6.50% percent down to 6.00%, (c) the municipal bond rate was increased from 3.31% up to 3.71% and (d) the health care cost trend rate was increased from 7.50%, initial/3.25%, ultimate in 2028 up to 10.00%, initial/3.25% ultimate in 2029. For 2020, the following were the most significant changes of assumptions that affect the total OPEB liability since the prior measurement date: (a) the discount rate was decreased from 3.96% to 3.16%, (b) the municipal bond rate was decreased from 3.71% to 2.75% and (c) the health care cost trend rate was increased from 10%, initial/3.25%, ultimate in 2029 to 10%, initial/3.50% ultimate in 2030. For 2021, the following were the most significant changes of assumptions that affect the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.16 % to 6.00%, (b) the municipal bond rate decreased from 2.75% to 2.00%, (c) the health care cost trend rate was decreased from 10.5%, initial/3.5%, ultimate in 2030 to 8.5%, initial/3.5% ultimate in 2035.

City Hillsboro, Ohio

Notes to the Required Supplementary Information For the Year Ended December 31, 2021

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2021.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2016. For 2019, 2020 and 2021, there have been no OP&F pension plan amendments adopted or changes in assumptions between the measurement date and the report date that would have impacted the actuarial valuation of the pension plan as of the measurement date.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018. For 2019, see below regarding changes to stipend-based model. For 2020 and 2021, there were no changes in benefit terms from the amounts reported for 2019.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent. For 2019, the changes of assumptions were: (a) beginning January 1, 2019 OP&F changed its retiree health care model and the current self-insured health care plan is no longer offered. In its place will be a stipend-based health care model. OP&F has contracted with a vendor who will assist eligible retirees in choosing health care plans from their marketplace (both Medicare-eligible and pre-Medicare populations). A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. As a result of changing from the current health care model to the stipend-based health care model, management expects that it will be able to provide stipends to eligible participants for the next 15 years (b) beginning in 2020 the Board approved a change to the Deferred Retirement Option Plan. The minimum interest rate accruing will be 2.5% (c) the single discount rate changed from 3.24 percent to 4.66 percent. For 2020, the single discount rate decreased from 4.66 percent to 3.56 percent. For 2021, the single discount rate decreased from 3.56% to 2.96%.

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 discretely presented component unit and remaining fund information of the City of Hillsboro, Highland County (the City) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 10, 2022, wherein we noted the financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City.

Report on 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) as a basis for designing 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 certain deficiencies in internal controls, described in the accompanying schedule of findings and responses as items 2021-001 and 2021-002, that we consider to be material weaknesses.

City of Hillsboro, Ohio

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*

Page 2

Report on Compliance and Other Matters

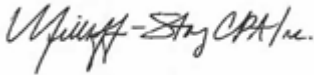
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.



Millhuff-Stang, CPA, Inc.
Wheelersburg, Ohio

November 10, 2022

City of Hillsboro
Schedule of Findings and Responses
For the Year Ended December 31, 2021

Finding 2021-001 – Material Weakness – Budget Information Within Accounting System

Accurate and complete reporting 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 that several funds' estimated receipts in the accounting system did not match the final certificate of estimated resources. It was also noted that appropriations plus approved adjustments did not agree to the system appropriation totals. 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:

Resulted from errors on Certificate of Estimated Resources. Will more closely check for accuracy and have City Treasurer assist with process.

Finding 2021-002 – Material Weakness – Financial Reporting

A monitoring system by the City should be in place to prevent or detect misstatements for the fair presentation of the City's financial statements, and which would also include assurance that changes in accounting pronouncements are properly implemented, as applicable.

Various errors were identified in the financial statements, most of which were the result of errors in year-end processes during the conversion of the cash basis financial records to financial statements presented in accordance with generally accepted accounting principles. Of these variances, the City's 2021 refunding debt was not properly recorded or disclosed during the compilation process. The City also misclassified expenditures within the General Fund. These amounts were material and required correction within the financial statements. The remaining variances were deemed to be immaterial and correction was waived by the audit team and management. These variances included unrecorded liabilities, understated income taxes receivable and related unavailable revenue, misclassified intergovernmental revenue, misclassified net position balances, and overstated ending cash balance for the municipal court.

Additionally, errors were identified within budgetary figures on the budgetary statements. Material errors were corrected in the budgetary statement of the General Fund and Street Fund.

The City should review its control processes to ensure that transactions are properly recorded during the year. The City should also correspond with its compilation consultant to ensure that errors are discussed and a corrective action plan is put in place for subsequent engagements.

Client Response:

We will work more closely with the compiler and report refunded debt in a timely manner. We will establish more frequent meetings to review numbers.

City of Hillsboro
Schedule of Prior Audit Findings
For the Year Ended December 31, 2021

Finding Number	Finding Summary	Status	Additional Information
Finding 2020-001	Material Weakness – Budget Information Within Accounting System	Not Corrected	Reissued as Finding 2021-001
Finding 2020-002	Material Weakness – Financial Reporting	Not Corrected	Reissued as Finding 2021-002
Finding 2020-003	Material Noncompliance – Expenditures in Excess of Appropriations	Corrected	

OHIO AUDITOR OF STATE KEITH FABER



CITY OF HILLSBORO

HIGHLAND COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 2/14/2023

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov