

City of Hillsboro  
Highland County, Ohio  
Regular Audit  
For the Year Ended December 31, 2015



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# Dave Yost • Auditor of State

City Council  
City of Hillsboro  
130 N. High Street  
Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of the City of Hillsboro, Highland County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

March 28, 2017

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**City of Hillsboro**  
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*For the Year Ended December 31, 2015*

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**Independent Auditor's Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Highland County (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Highland County, as of December 31, 2015, 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.

***Emphasis of Matter***

As discussed in note 17 to the financial statements, during 2015, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68." We did not modify our opinion regarding these matters.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the net pension liability and employer contributions schedules on pages 62 through 65 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

November 18, 2016

**City of Hillsboro**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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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, 2015. 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 2015 are as follows:

- In total, net position increased \$4,816,781. Net position of governmental activities increased \$4,291,173. Net position of business-type activities increased \$525,608.
- Governmental activities general revenues accounted for \$4,371,881 in revenue or 46 percent of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$5,091,963 or 54 percent of total governmental activities revenues of \$9,463,844. Business-type activities general revenues accounted for \$94,653 in revenue or 2 percent of all business-type activities revenues. Program specific revenues accounted for \$4,101,902 or 98 percent of total business-type activities revenues of \$4,196,555.
- The City had \$5,172,671 in expenses related to governmental activities; \$5,091,963 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,670,947 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 2015?" The statement of net position and the statement of activities answer this question. These statements include all assets, liabilities and deferred inflows and outflows of resources using the accrual basis of accounting similar to the accounting basis used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

**City of Hillsboro**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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

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

### **Reporting the City's Most Significant Funds**

#### Fund Financial Statements

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

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

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

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

**City of Hillsboro**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(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 2015 compared to the prior year:

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	2014*	2015	2014*	2015	2014
<b>Assets</b>						
Current and Other Assets	\$ 4,781,681	\$ 4,407,666	\$ 4,301,527	\$ 4,482,377	\$ 9,083,208	\$ 8,890,043
Capital Assets, Net	16,526,281	11,876,286	32,055,357	31,522,449	48,581,638	43,398,735
<b>Total Assets</b>	<b>21,307,962</b>	<b>16,283,952</b>	<b>36,356,884</b>	<b>36,004,826</b>	<b>57,664,846</b>	<b>52,288,778</b>
<b>Deferred Outflows of Resources</b>						
Pensions	398,090	259,316	150,758	105,501	548,848	364,817
<b>Liabilities</b>						
Current and Other Liabilities	993,680	191,595	192,719	176,187	1,186,399	367,782
Long-Term Liabilities:						
Due Within One Year	232,932	283,119	611,253	349,937	844,185	633,056
Due in More Than One Year						
Net Pension Liability	2,704,048	2,578,825	837,432	818,517	3,541,480	3,397,342
Other Amounts	2,549,637	2,601,320	13,445,464	13,885,232	15,995,101	16,486,552
<b>Total Liabilities</b>	<b>6,480,297</b>	<b>5,654,859</b>	<b>15,086,868</b>	<b>15,229,873</b>	<b>21,567,165</b>	<b>20,884,732</b>
<b>Deferred Inflows of Resources</b>						
Property Taxes not Levied to Finance Current Year Operations	306,400	277,498	-	-	306,400	277,498
Pensions	17,271	-	14,712	-	31,983	-
<b>Total Deferred Inflows of Resources</b>	<b>323,671</b>	<b>277,498</b>	<b>14,712</b>	<b>-</b>	<b>338,383</b>	<b>277,498</b>
<b>Net Position</b>						
Net Investment in Capital Assets	13,124,979	9,195,561	18,037,914	17,797,794	31,162,893	26,993,355
Restricted	2,366,161	2,068,875	-	-	2,366,161	2,068,875
Unrestricted (Deficit)	(589,056)	(653,525)	3,368,148	3,082,660	2,779,092	2,429,135
<b>Total Net Position</b>	<b>\$ 14,902,084</b>	<b>\$ 10,610,911</b>	<b>\$ 21,406,062</b>	<b>\$ 20,880,454</b>	<b>\$ 36,308,146</b>	<b>\$ 31,491,365</b>

\* As restated, see Note 17 for additional information.

Total governmental activities assets increased \$5,024,010 primarily due to an increase in capital assets and due from other governments. These increases are primarily related to road projects financed in part through the Ohio Department of Transportation and the Ohio Public Works Commission. Business-type activities assets increased \$352,058, primarily due to increases in capital assets and equity in pooled cash and cash equivalents. Deferred outflows of resources increased due primarily to increases in pension payments in 2015 which are recognized as deferred outflows of resources. Deferred inflows of resources increased due to the implementation of GASB 68 which increased deferred inflows of resources related to pensions.

**City of Hillsboro**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 84% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Net investment in capital assets for the City as a whole increased primarily due to road projects through the Ohio Department of Transportation and reduction of debt balances, which is partially offset by depreciation expense.

Total liabilities for governmental activities increased \$825,438 as a result of amounts due to other governments, which primarily related to a road project administered by the Ohio Department of Transportation. Total liabilities of business-type activities decreased \$143,005 as a result of debt payments.

During 2015, the City adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. 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 the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability.

In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

**City of Hillsboro**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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

As a result of implementing GASB 68 and GASB 71, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position for governmental activities at December 31 2014, from \$12,930,420 to \$10,610,911 and for business-type activities at December 31, 2014, from \$21,593,470 to \$20,880,454

Table 2 shows the changes in net position for the year 2015 compared to the prior year.

Table 2  
Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2015	2014	2015	2014	2015	2014
<b>Revenue</b>						
Program Revenues:						
Charges for Services and Sales	\$ 531,785	\$ 493,556	\$ 3,821,163	\$ 3,877,797	\$ 4,352,948	\$ 4,371,353
Operating Grants and Contributions	266,402	263,443	-	-	266,402	263,443
Capital Grants and Contributions	4,293,776	-	280,739	294,344	4,574,515	294,344
Total Program Revenues	5,091,963	756,999	4,101,902	4,172,141	9,193,865	4,929,140
General Revenues:						
Property & Income Taxes	4,213,963	3,946,440	-	-	4,213,963	3,946,440
Unrestricted Investment Earnings	31,096	13,292	3,862	2,626	34,958	15,918
Grants and Contributions Not Restricted to Specific Programs	83,672	142,489	-	-	83,672	142,489
Gain on Sale of Capital Assets	2,159	-	28,015	-	30,174	-
Other	40,991	57,639	62,776	66,739	103,767	124,378
Total General Revenues	4,371,881	4,159,860	94,653	69,365	4,466,534	4,229,225
Total Revenues	9,463,844	4,916,859	4,196,555	4,241,506	13,660,399	9,158,365
<b>Program Expenses</b>						
General Government -						
Legislative and Executive	1,064,384	971,318	-	-	1,064,384	971,318
Judicial	383,323	358,260	-	-	383,323	358,260
Security of Persons and Property	2,380,406	2,602,832	-	-	2,380,406	2,602,832
Public Health	19,850	19,485	-	-	19,850	19,485
Leisure Time Activities	104,746	64,096	-	-	104,746	64,096
Community Environment	316,249	191,503	-	-	316,249	191,503
Transportation	778,148	799,160	-	-	778,148	799,160
Interest and Fiscal Charges	125,565	132,377	-	-	125,565	132,377
Water Fund	-	-	1,506,294	1,577,118	1,506,294	1,577,118
Sewer Fund	-	-	2,164,653	1,745,065	2,164,653	1,745,065
Total Expenses	5,172,671	5,139,031	3,670,947	3,322,183	8,843,618	8,461,214
Special Item	-	(128,085)	-	-	-	(128,085)
Increase (Decrease) in Net Position	4,291,173	(350,257)	525,608	919,323	4,816,781	569,066
Beginning Net Position	10,610,911	N/A	20,880,454	N/A	31,491,365	N/A
Ending Net Position	\$ 14,902,084	\$ 10,610,911	\$ 21,406,062	\$ 20,880,454	\$ 36,308,146	\$ 31,491,365

**City of Hillsboro**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses for governmental activities still include pension expense of \$259,316 governmental activities and \$105,501 for business-type activities computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 governmental activities statements report pension expense of \$275,206 and the 2015 business type activities report pension expense of \$91,431. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

	Governmental Activities	Business-Type Activities
Total 2015 program expenses under GASB 68	\$5,172,671	\$3,670,947
Pension expense under GASB 68	(275,206)	(91,431)
2015 contractually required contribution	271,465	106,075
Adjusted 2015 program expenses	5,168,930	3,685,591
Total 2014 program expenses under GASB 27	5,139,031	3,322,183
Increase in program expenses not related to pension	\$29,899	\$363,408

**Governmental Activities**

Governmental activities net position increased \$4,291,173 or 40% during 2015, mainly due to increases in capital grant monies administered by the Ohio Department of Transportation for a road project. Charges for Services and Sales increased primarily due to an increase in Licenses and Permits. Grants and Contributions not Restricted to Specific Programs decreased primarily due to the elimination of estate taxes. Property and Income Taxes increased primarily due to an increase in income tax revenues. Security of persons and property expenses decreased due to less monies expended for fire contracts. Community environment expenses increased due to additional community development block grant monies.

General revenues primarily consist of property and income tax revenue of \$4,213,963, which is 96% of total general revenues in 2015. General government expenses include legislative and executive and judicial programs, totaled \$1,447,707 which is 28% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 46% of total expenses.

**Business-Type Activities**

The City's business-type activities are its water and sewer departments. The water and wastewater treatment plants provide services to the City's residents. The water plant generated operating revenues of \$1,622,087 and had operating expenses of \$1,275,004 and had interest expense of \$225,123. The wastewater treatment plant generated operating revenues of \$2,199,076 and had operating expenses of \$2,081,304, and interest expense of \$81,080. Operating revenues remained consistent between the two years for both the water and sewer funds. Operating expenses remained consistent between the two years for the Water and Sewer Funds. 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 14. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$10,298,863 and expenditures and other financing uses of \$11,066,821. The net change in fund balance for the year was most significant in the Street Fund with a decrease of \$601,867. The majority of the decrease in fund balance is due to an increase in capital outlay expenditures as a result of a road project. The General Fund had a slight increase of fund balance of \$54. The General Fund transferred \$1,017,188 to other funds during 2015.

**City of Hillsboro**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

**General Fund Budgeting Highlights**

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

During the course of 2015, the City amended its General Fund budget slightly. With the General Fund supporting many of the major activities such as the City's police and fire departments, as well as most general government activities, the General Fund is monitored closely to prevent possible revenue shortfalls or overspending by individual departments.

For the General Fund, original budgeted revenues and other financing sources were \$4,410,877 which were \$8,710 above final budgeted revenues and other financing sources of \$4,402,167. The City's actual revenues and other financing sources were \$18,929 less than the final budgeted revenues and other financing sources due primarily to less license and permits revenues. Original budgeted expenditures and other financing uses were \$4,754,600, while final budget amounts were \$4,784,600. The increase is due to an increase in legislative and executive.

The General Fund's actual expenditures were \$95,790 less than final budgeted expenditures mainly due to conservative budgeting by the City.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of the 2015 the City had \$48,581,638 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2015 and 2014 balances.

Table 3  
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014*	2015	2014*	2015	2014*
Land	\$ 561,543	\$ 561,543	\$ 10,460	\$ 10,460	\$ 572,003	\$ 572,003
Land Improvements	711,831	735,503	106,168	118,622	817,999	854,125
Buildings and Improvements	3,187,274	3,271,274	27,238,025	27,093,939	30,425,299	30,365,213
Furniture and Equipment	453,839	475,346	511,168	618,972	965,007	1,094,318
Vehicles	368,503	402,898	486,675	281,486	855,178	684,384
Infrastructure/Water & Sewer Lines	10,851,816	6,230,774	2,871,127	2,562,867	13,722,943	8,793,641
Construction in Progress	391,475	198,948	831,734	836,103	1,223,209	1,035,051
<b>Totals</b>	<b>\$ 16,526,281</b>	<b>\$ 11,876,286</b>	<b>\$ 32,055,357</b>	<b>\$ 31,522,449</b>	<b>\$ 48,581,638</b>	<b>\$ 43,398,735</b>

\*Certain reclassifications were made to conform to 2015 presentation with no effect on net position.

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

**City of Hillsboro**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2015  
(Unaudited)

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**Debt**

At December 31, 2015, the City of Hillsboro had \$16,584,569 in bonds, loans, and leases outstanding. \$792,105 was due within one year.

Table 4  
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
O.W.D.A. Loan	\$ -	\$ -	\$ 7,358,453	\$ 7,780,958	\$ 7,358,453	\$ 7,780,958
Capital Lease	99,373	25,725	333,060	126,254	432,433	151,979
OPWC Loan	-	-	674,683	463,135	674,683	463,135
Improvement Revenue Bonds	380,000	-	2,604,000	2,646,000	2,984,000	2,646,000
GO Refunding and Improvement Bonds	-	-	3,025,000	3,160,000	3,025,000	3,160,000
General Obligation Bonds	2,110,000	2,655,000	-	-	2,110,000	2,655,000
<b>Total</b>	<b>\$ 2,589,373</b>	<b>\$ 2,680,725</b>	<b>\$ 13,995,196</b>	<b>\$ 14,176,347</b>	<b>\$ 16,584,569</b>	<b>\$ 16,857,072</b>

The City's overall legal debt margin was \$9,368,942 at December 31, 2015.

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

**The Future**

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

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

**Contacting the City's Finance Department**

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

**City of Hillsboro**  
Statement of Net Position  
December 31, 2015

	Governmental Activities	Business-Type Activities	Totals
<b>ASSETS:</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 2,182,445	\$ 3,712,605	\$ 5,895,050
Cash and Cash Equivalents with Fiscal Agent	216,245	-	216,245
Receivables:			
Taxes	1,353,687	-	1,353,687
Accounts	32,255	588,922	621,177
Due from Other Governments	680,116	-	680,116
Loans Receivable	316,933	-	316,933
Non-Depreciable Capital Assets	953,018	842,194	1,795,212
Depreciable Capital Assets, Net	15,573,263	31,213,163	46,786,426
<i>Total Assets</i>	<u>21,307,962</u>	<u>36,356,884</u>	<u>57,664,846</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension	398,090	150,758	548,848
<b>LIABILITIES:</b>			
Accounts Payable	61,547	77,026	138,573
Contracts Payable	162,407	22,247	184,654
Accrued Wages and Benefits	73,027	38,021	111,048
Due to Other Governments	686,891	19,484	706,375
Accrued Interest Payable	9,808	35,941	45,749
Long-Term Liabilities:			
Due Within One Year	232,932	611,253	844,185
Due in More than One Year:			
Net Pension Liability (See Note 9)	2,704,048	837,432	3,541,480
Other Amounts Due in More than One Year	2,549,637	13,445,464	15,995,101
<i>Total Liabilities</i>	<u>6,480,297</u>	<u>15,086,868</u>	<u>21,567,165</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Property Taxes not Levied to Finance Current Year Operations	306,400	-	306,400
Pension	17,271	14,712	31,983
Total Deferred Inflows of Resources	<u>323,671</u>	<u>14,712</u>	<u>338,383</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	13,124,979	18,037,914	31,162,893
Restricted for:			
Debt Service	2,821	-	2,821
Capital Projects	643,681	-	643,681
Street	616,076	-	616,076
Recreation	129,476	-	129,476
Revolving Loan	504,469	-	504,469
Rehab	17,612	-	17,612
Other Purposes	452,026	-	452,026
Unrestricted (Deficit)	(589,056)	3,368,148	2,779,092
<i>Total Net Position</i>	<u>\$ 14,902,084</u>	<u>\$ 21,406,062</u>	<u>\$ 36,308,146</u>

See accompanying notes to the basic financial statements.

**City of Hillsboro**  
Statement of Activities  
For the Year Ended December 31, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 1,064,384	\$ 100,096	\$ 5,012	\$ -	\$ (959,276)		\$ (959,276)
Judicial	383,323	43,746	16,831	-	(322,746)		(322,746)
Security of Persons and Property	2,380,406	231,229	49,695	-	(2,099,482)		(2,099,482)
Public Health	19,850	1,876	-	-	(17,974)		(17,974)
Leisure Time Activities	104,746	14,989	16,871	-	(72,886)		(72,886)
Community Environment	316,249	60,802	78,047	-	(177,400)		(177,400)
Transportation	778,148	78,730	99,634	4,293,776	3,693,992		3,693,992
Interest and Fiscal Charges	125,565	317	312	-	(124,936)		(124,936)
<b>Total Governmental Activities</b>	<b>5,172,671</b>	<b>531,785</b>	<b>266,402</b>	<b>4,293,776</b>	<b>(80,708)</b>		<b>(80,708)</b>
Business-Type Activities:							
Sewer	2,164,653	2,199,076	-	170,656	-	205,079	205,079
Water	1,506,294	1,622,087	-	110,083	-	225,876	225,876
<b>Total Business-Type Activities</b>	<b>3,670,947</b>	<b>3,821,163</b>	<b>-</b>	<b>280,739</b>	<b>-</b>	<b>430,955</b>	<b>430,955</b>
<b>Total Primary Government</b>	<b>\$ 8,843,618</b>	<b>\$ 4,352,948</b>	<b>\$ 266,402</b>	<b>\$ 4,574,515</b>	<b>(80,708)</b>	<b>430,955</b>	<b>350,247</b>
General Revenues:							
Taxes:							
Property Taxes Levied for:							
General Purposes					411,774	-	411,774
Special Purposes					62,494	-	62,494
Debt Service					33,915	-	33,915
Capital Projects					116,941	-	116,941
Income Taxes					3,588,839	-	3,588,839
Grants and Contributions Not Restricted to Specific Programs					83,672		83,672
Unrestricted Investment Earnings					31,096	3,862	34,958
Gain on Sale of Capital Assets					2,159	28,015	30,174
Miscellaneous					40,991	62,776	103,767
<b>Total General Revenues</b>					<b>4,371,881</b>	<b>94,653</b>	<b>4,466,534</b>
<b>Change in Net Position</b>					<b>4,291,173</b>	<b>525,608</b>	<b>4,816,781</b>
Net Position, Beginning of the Year - Restated (See Note 17)					10,610,911	20,880,454	31,491,365
<b>Net Position, End of the Year</b>					<b>\$ 14,902,084</b>	<b>\$ 21,406,062</b>	<b>\$ 36,308,146</b>

See accompanying notes to the basic financial statements.

**City of Hillsboro**  
Balance Sheet  
Governmental Funds  
December 31, 2015

	General	Street	All Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 946,251	\$ 97,393	\$ 1,138,801	\$ 2,182,445
Cash and Cash Equivalents with Fiscal Agent	-	-	216,245	216,245
Accounts Receivable	20,860	-	11,395	32,255
Taxes Receivable	1,258,797	-	94,890	1,353,687
Due from Other Governments	60,680	536,259	83,177	680,116
Loans Receivable	-	-	316,933	316,933
<i>Total Assets</i>	<u>\$ 2,286,588</u>	<u>\$ 633,652</u>	<u>\$ 1,861,441</u>	<u>\$ 4,781,681</u>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 52,361	\$ 6,723	\$ 2,463	\$ 61,547
Contracts Payable	-	-	162,407	162,407
Accrued Wages and Benefits	62,703	5,872	4,452	73,027
Due to Other Governments	21,315	653,055	12,521	686,891
<i>Total Liabilities</i>	<u>136,379</u>	<u>665,650</u>	<u>181,843</u>	<u>983,872</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Property Taxes not Levied to Finance Current Year Operations	214,480	-	91,920	306,400
Unavailable Revenue - Delinquent Taxes	6,932	-	2,970	9,902
Unavailable Revenue - Income Taxes	703,497	-	-	703,497
Unavailable Revenue - Grants	44,047	505,946	69,417	619,410
<i>Total Deferred Inflows of Resources</i>	<u>968,956</u>	<u>505,946</u>	<u>164,307</u>	<u>1,639,209</u>
<b>FUND BALANCES:</b>				
Nonspendable	26,262	-	-	26,262
Restricted	-	-	1,515,291	1,515,291
Assigned	296,896	-	-	296,896
Unassigned (Deficit)	858,095	(537,944)	-	320,151
<i>Total Fund Balances</i>	<u>1,181,253</u>	<u>(537,944)</u>	<u>1,515,291</u>	<u>2,158,600</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 2,286,588</u>	<u>\$ 633,652</u>	<u>\$ 1,861,441</u>	<u>\$ 4,781,681</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, 2015

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<b>Total Governmental Fund Balances</b>		\$ 2,158,600
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,526,281
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	713,399	
Intergovernmental	<u>619,410</u>	
Total		1,332,809
The net pension liability is not due and payable in the current period: therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	398,090	
Deferred Inflows - Pension	(17,271)	
Net Pension Liability	<u>(2,704,048)</u>	
Total		(2,323,229)
Long-term liabilities, including accrued interest payable, bonds, capital lease obligations, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(9,808)	
Capital Lease Payable	(99,373)	
Compensated Absences	(193,196)	
General Obligation Bonds	<u>(2,490,000)</u>	
Total		<u>(2,792,377)</u>
<b>Net Position of Governmental Activities</b>		<u><u>\$ 14,902,084</u></u>

See accompanying notes to the basic financial statements.

**City of Hillsboro**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2015

	General	Street	All Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Taxes	\$ 3,928,498	\$ -	\$ 213,371	\$ 4,141,869
Charges for Services	827	-	-	827
Licenses and Permits	93,244	47,139	3,982	144,365
Fines and Forfeitures	228,283	-	135,867	364,150
Intergovernmental	76,912	4,014,417	314,044	4,405,373
Interest	21,848	479	8,769	31,096
Rent	-	-	22,443	22,443
Other	23,611	585	16,795	40,991
<i>Total Revenues</i>	<u>4,373,223</u>	<u>4,062,620</u>	<u>715,271</u>	<u>9,151,114</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>General Government:</b>				
Legislative and Executive	1,011,497	-	23,044	1,034,541
Judicial	305,774	-	64,278	370,052
Security of Persons and Property	2,008,591	-	189,787	2,198,378
Public Health	19,608	-	-	19,608
Leisure Time Activities	-	-	64,430	64,430
Community Environment	18,187	-	298,062	316,249
Transportation	-	393,988	-	393,988
Capital Outlay	58,740	4,885,948	361,965	5,306,653
<b>Debt Service:</b>				
Principal Retirements	10,631	11,123	165,000	186,754
Interest and Fiscal Charges	752	1,190	124,038	125,980
<i>Total Expenditures</i>	<u>3,433,780</u>	<u>5,292,249</u>	<u>1,290,604</u>	<u>10,016,633</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>939,443</u>	<u>(1,229,629)</u>	<u>(575,333)</u>	<u>(865,519)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In	10,000	598,000	442,188	1,050,188
Proceeds from Sale of Capital Assets	2,159	-	-	2,159
Inception of Capital Lease	65,640	29,762	-	95,402
Transfers Out	(1,017,188)	-	(33,000)	(1,050,188)
<i>Total Other Financing Sources and Uses</i>	<u>(939,389)</u>	<u>627,762</u>	<u>409,188</u>	<u>97,561</u>
<i>Net Change in Fund Balances</i>	54	(601,867)	(166,145)	(767,958)
<i>Fund Balances at Beginning of Year</i>	<u>1,181,199</u>	<u>63,923</u>	<u>1,681,436</u>	<u>2,926,558</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 1,181,253</u>	<u>\$ (537,944)</u>	<u>\$ 1,515,291</u>	<u>\$ 2,158,600</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, 2015

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**Net Change in Fund Balances - Total Governmental Funds** \$ (767,958)

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

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

Capital Asset Additions	5,306,345	
Current Year Depreciation	(632,563)	
Total		4,673,782

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. These are the amounts of the proceeds, gains and loss on the disposal of capital assets.

Proceeds from Sale of Capital Assets	(2,159)	
Gain on Sale of Capital Assets	2,159	
Loss on Disposal of Capital Assets	(23,766)	
Total		(23,766)

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

Taxes	72,094	
Intergovernmental	238,477	
Total		310,571

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. 271,465

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (275,206)

Proceeds from the inception of capital lease 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. (95,402)

Repayments of bond principal are expenditures in the 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. 165,000

Repayment of capital leases obligations are expenditures in the 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. 21,754

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	10,518	
Decrease in Accrued Interest Payable	415	
Total		10,933

**Net Change in Net Position of Governmental Activities** \$ 4,291,173

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, 2015

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 3,934,037	\$ 3,925,327	\$ 3,926,665	\$ 1,338
Charges for Services	1,290	1,290	834	(456)
Licenses and Permits	129,650	129,650	93,244	(36,406)
Fines and Forfeitures	223,400	223,400	226,722	3,322
Intergovernmental	78,000	78,000	79,054	1,054
Interest	2,000	2,000	21,860	19,860
Other	17,500	17,500	22,700	5,200
<i>Total Revenues</i>	<u>4,385,877</u>	<u>4,377,167</u>	<u>4,371,079</u>	<u>(6,088)</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
<b>General Government:</b>				
Legislative and Executive	1,184,887	1,214,887	1,122,042	92,845
Judicial	307,000	307,000	306,777	223
Security of Persons and Property	2,210,840	2,210,840	2,204,984	5,856
Public Health	20,000	20,000	19,608	392
Community Environment	14,685	14,685	18,211	(3,526)
<i>Total Expenditures</i>	<u>3,737,412</u>	<u>3,767,412</u>	<u>3,671,622</u>	<u>95,790</u>
<i>Excess of Revenues Over Expenditures</i>	<u>648,465</u>	<u>609,755</u>	<u>699,457</u>	<u>89,702</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In	-	-	10,000	10,000
Proceeds from Sale of Capital Assets	25,000	25,000	2,159	(22,841)
Transfers Out	(1,017,188)	(1,017,188)	(1,017,188)	-
<i>Total Other Financing Sources and Uses</i>	<u>(992,188)</u>	<u>(992,188)</u>	<u>(1,005,029)</u>	<u>(12,841)</u>
<i>Net Change in Fund Balance</i>	(343,723)	(382,433)	(305,572)	76,861
<i>Fund Balance at Beginning of Year</i>	750,583	750,583	750,583	-
<i>Prior Year Encumbrances Appropriated</i>	167,280	167,280	167,280	-
<i>Fund Balance at End of Year</i>	<u>\$ 574,140</u>	<u>\$ 535,430</u>	<u>\$ 612,291</u>	<u>\$ 76,861</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, 2015

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Licenses and Permits	\$ 47,139	\$ 47,139	\$ 47,139	\$ -
Intergovernmental	271,118	3,916,090	4,015,914	99,824
Interest	43	43	479	436
Other	-	39,741	20,163	(19,578)
<i>Total Revenues</i>	<u>318,300</u>	<u>4,003,013</u>	<u>4,083,695</u>	<u>80,682</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
Transportation	82,115	363,763	427,446	(63,683)
Capital Outlay	811,885	4,264,326	4,226,245	38,081
<i>Total Expenditures</i>	<u>894,000</u>	<u>4,628,089</u>	<u>4,653,691</u>	<u>(25,602)</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	<u>(575,700)</u>	<u>(625,076)</u>	<u>(569,996)</u>	<u>55,080</u>
<b>OTHER FINANCING SOURCES:</b>				
Transfers In	598,000	598,000	598,000	-
<i>Total Other Financing Sources</i>	<u>598,000</u>	<u>598,000</u>	<u>598,000</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	22,300	(27,076)	28,004	55,080
<i>Fund Balance at Beginning of Year</i>	27,215	27,215	27,215	-
<i>Prior Year Encumbrances Appropriated</i>	<u>31,633</u>	<u>31,633</u>	<u>31,633</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 81,148</u>	<u>\$ 31,772</u>	<u>\$ 86,852</u>	<u>\$ 55,080</u>

See accompanying notes to the basic financial statements.

**City of Hillsboro**  
Statement of Net Position  
Proprietary Funds  
December 31, 2015

	Water	Sewer	Total
<b>ASSETS:</b>			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,200,916	\$ 2,511,689	\$ 3,712,605
Accounts Receivable	241,177	347,745	588,922
<b>Total Current Assets</b>	<b>1,442,093</b>	<b>2,859,434</b>	<b>4,301,527</b>
<i>Noncurrent Assets</i>			
Non-Depreciable Capital Assets	106,089	736,105	842,194
Depreciable Capital Assets, Net	7,468,780	23,744,383	31,213,163
<b>Total Noncurrent Assets</b>	<b>7,574,869</b>	<b>24,480,488</b>	<b>32,055,357</b>
<b>Total Assets</b>	<b>\$ 9,016,962</b>	<b>\$ 27,339,922</b>	<b>\$ 36,356,884</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pensions	77,673	73,085	150,758
<b>LIABILITIES:</b>			
<i>Current Liabilities</i>			
Accounts Payable	\$ 13,597	\$ 63,429	\$ 77,026
Contracts Payable	-	22,247	22,247
Accrued Wages and Benefits	19,350	18,671	38,021
Due to Other Governments	9,897	9,587	19,484
Accrued Interest Payable	35,941	-	35,941
Compensated Absences - Current Portion	9,158	7,155	16,313
Capital Leases Payable - Current Portion	52,992	52,991	105,983
OWDA Loans - Current Portion	-	282,852	282,852
Revenue Bonds Payable - Current Portion	45,000	-	45,000
OPWC Loans - Current Portion	-	21,105	21,105
General Obligation Refunding and Improvement Bonds - Current Portion	140,000	-	140,000
<b>Total Current Liabilities</b>	<b>325,935</b>	<b>478,037</b>	<b>803,972</b>
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
OWDA Loans Payable - Net of Current Portion	-	7,075,601	7,075,601
Compensated Absences Payable - Net of Current Portion	11,915	33,293	45,208
Revenue Bonds Payable - Net of Current Portion	2,559,000	-	2,559,000
Capital Leases Payable - Net of Current Portion	113,538	113,539	227,077
OPWC Loans - Net of Current Portion	-	653,578	653,578
General Obligation Refunding and Improvement Bonds - Net of Current Portion	2,885,000	-	2,885,000
Net Pension Liability	431,459	405,973	837,432
<b>Total Noncurrent Liabilities</b>	<b>6,000,912</b>	<b>8,281,984</b>	<b>14,282,896</b>
<b>Total Liabilities</b>	<b>6,326,847</b>	<b>8,760,021</b>	<b>15,086,868</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pensions	7,580	7,132	14,712
<b>NET POSITION:</b>			
Net Investment in Capital Assets	1,779,339	16,258,575	18,037,914
Unrestricted	980,869	2,387,279	3,368,148
<b>Total Net Position</b>	<b>\$ 2,760,208</b>	<b>\$ 18,645,854</b>	<b>\$ 21,406,062</b>

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, 2015

	Water	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 1,617,057	\$ 2,197,476	\$ 3,814,533
Tap-In Fees	5,030	1,600	6,630
<i>Total Operating Revenues</i>	1,622,087	2,199,076	3,821,163
<b>OPERATING EXPENSES</b>			
Salaries and Wages	487,610	472,220	959,830
Fringe Benefits	184,918	143,333	328,251
Contractual Services	201,027	514,036	715,063
Materials & Supplies	77,670	110,708	188,378
Utilities	71,415	193,533	264,948
Other	13,603	811	14,414
Depreciation Expense	238,761	646,663	885,424
<i>Total Operating Expenses</i>	1,275,004	2,081,304	3,356,308
<i>Operating Income</i>	347,083	117,772	464,855
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gain on Sale of Capital Assets	21,856	6,159	28,015
Loss on Disposal of Capital Assets	(6,167)	(2,269)	(8,436)
Interest	-	3,862	3,862
Other Non-Operating Revenues	60,453	2,323	62,776
Interest and Fiscal Charges	(225,123)	(81,080)	(306,203)
<i>Total Nonoperating Revenues (Expenses)</i>	(148,981)	(71,005)	(219,986)
<i>Changes in Net Position Before Capital Contributions</i>	198,102	46,767	244,869
Capital Contribution - Intergovernmental	110,083	170,656	280,739
<i>Changes in Net Postion</i>	308,185	217,423	525,608
<i>Net Position at Beginning of Year - As Restated</i>	2,452,023	18,428,431	20,880,454
<i>Net Position at End of Year</i>	<u>\$ 2,760,208</u>	<u>\$ 18,645,854</u>	<u>\$ 21,406,062</u>

See accompanying notes to the basic financial statements.

**City of Hillsboro**  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2015

	Water	Sewer	Total
<b><i>Increase (Decrease) in Cash and Cash Equivalents:</i></b>			
<b><i>Cash Flows from Operating Activities:</i></b>			
Cash Received from Customers	\$ 1,609,486	\$ 2,161,293	\$ 3,770,779
Cash Payments to Suppliers for Goods and Services	(356,559)	(797,429)	(1,153,988)
Cash Payments to Employees for Services and Benefits	(687,501)	(621,794)	(1,309,295)
<i>Net Cash Provided by Operating Activities</i>	<u>565,426</u>	<u>742,070</u>	<u>1,307,496</u>
<b><i>Cash Flows from Noncapital Financing Activities:</i></b>			
Other Nonoperating Receipts	-	2,323	2,323
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>-</u>	<u>2,323</u>	<u>2,323</u>
<b><i>Cash Flows from Capital and Related Financing Activities:</i></b>			
Receipts from Capital Grants	110,083	170,656	280,739
Proceeds from Capital Leases	144,756	144,756	289,512
Proceeds from OPWC Loans	-	222,101	222,101
Proceeds from OWDA Loans	-	40,887	40,887
Proceeds from Sale of Capital Assets	73,071	92,463	165,534
Other Receipts	60,603	-	60,603
Payments for Capital Acquisitions	(718,322)	(842,967)	(1,561,289)
Principal Payments	(218,353)	(515,298)	(733,651)
Interest Payments	(217,076)	(92,275)	(309,351)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(765,238)</u>	<u>(779,677)</u>	<u>(1,544,915)</u>
<b><i>Cash Flows from Investing Activities:</i></b>			
Interest on Investments	-	3,862	3,862
<i>Net Cash Provided by Investing Activities</i>	<u>-</u>	<u>3,862</u>	<u>3,862</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(199,812)	(31,422)	(231,234)
Cash and Cash Equivalents at Beginning of Year	<u>1,400,728</u>	<u>2,543,111</u>	<u>3,943,839</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,200,916</u>	<u>\$ 2,511,689</u>	<u>\$ 3,712,605</u>

(Continued)

**City of Hillsboro**  
Statement of Cash Flows (Continued)  
Proprietary Funds  
For the Year Ended December 31, 2015

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b><i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i></b>			
Operating Income	\$ 347,083	\$ 117,772	\$ 464,855
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>			
Depreciation	238,761	646,663	885,424
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(12,601)	(37,783)	(50,384)
(Increase)/Decrease in Accounts Payable	(1,041)	8,575	7,534
Increase in Deferred Outflows - Pensions	(23,317)	(21,940)	(45,257)
Increase in Contracts Payable	-	13,084	13,084
Increase in Accrued Wages and Benefits	1,581	1,995	3,576
Decrease in Compensated Absences Payable	1,579	1,120	2,699
Decrease in Accrued Interest Payable	(244)	-	(244)
Increase in Net Pension Liability	9,745	9,170	18,915
Increase in Deferred Inflows - Pensions	7,580	7,132	14,712
Decrease in Due to Other Governments	(3,700)	(3,718)	(7,418)
Total Adjustments	<u>218,343</u>	<u>624,298</u>	<u>842,641</u>
Net Cash Provided by Operating Activities	<u>\$ 565,426</u>	<u>\$ 742,070</u>	<u>\$ 1,307,496</u>

See accompanying notes to the basic financial statements.

**City of Hillsboro**  
Statement of Fiduciary Assets and Liabilities  
Agency Fund  
December 31, 2015

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	<u>Agency</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 109,584
Receivables:	
Accounts	<u>167,049</u>
<i>Total Assets</i>	<u><u>\$ 276,633</u></u>
LIABILITIES :	
Due to Other Governments	\$ 98,559
Undistributed Monies	68,369
Deposits Held and Due to Others	<u>109,705</u>
<i>Total Liabilities</i>	<u><u>\$ 276,633</u></u>

See accompanying notes to the basic financial statements.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015

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**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 county seat of Highland County. On January 1, 1952, Hillsboro was first organized as a city under the laws of the State of Ohio.

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

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

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

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

The City has contracted with the Paint Creek Joint EMS/Fire District to provide EMS and fire protection services for the City. During 2015, the City paid approximately \$416,000 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.

**FUND ACCOUNTING**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS**

Government-wide Financial Statements

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

Fund Financial Statements

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

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

**BASIS OF ACCOUNTING**

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

***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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for pensions. The deferred outflows of resources related to pensions are explained in Note 9.

The City reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the City these amounts consist of income taxes, delinquent property taxes, and intergovernmental receivables which are not collected in the available period and pensions. Property taxes for which there is an enforceable legal claim as of December 31, 2015, but which were levied to finance fiscal year 2016 operations, have also been recorded as deferred inflows of resources.

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

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

**BUDGETS AND BUDGETARY ACCOUNTING**

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

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

**CASH AND INVESTMENTS**

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

During 2015, investments were limited to Federal Home Loan Bank securities and U.S. Treasury money market funds.

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

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

The City had \$216,245 on deposit with Highland County to be used for a joint sidewalk project with the County. This balance is shown as cash and cash equivalents with fiscal agent in the accompanying financial statements.

**CAPITAL ASSETS**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market 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, 2015

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**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"; however, there were no internal balances at December 31, 2015.

**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, 2015.

**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 judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**FUND BALANCE**

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

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the City Council.

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

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

**NET POSITION**

Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings and the effect of deferred outflows and inflows related to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for other purposes represents balances of state and federal grants and other restricted purposes in Special Revenue funds. The City’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Of the City’s \$2,366,161 of restricted net position, none was restricted by enabling legislation.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**OPERATING REVENUES AND EXPENSES**

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

**INTERFUND TRANSACTIONS**

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

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

**ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**PENSIONS**

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

**3. DEPOSITS AND INVESTMENTS**

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

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

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.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
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**3. DEPOSITS AND INVESTMENTS (Continued)**

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that 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 that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (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;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code.

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.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
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**3. DEPOSITS AND INVESTMENTS (Continued)**

***Deposits:***

Custodial credit risk is the risk that, in the event of a bank failure, the City’s deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The City’s policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

The City’s bank balance of \$5,620,679 is either covered by FDIC or collateralized by the financial institutions’ public entity deposit pools in the manner as described above.

***Investments:***

Investment type	Fair Value	Maturities 6 months or less	13 to 18 months
U.S. Government Money			
Market Mutual Funds	\$ 274,710	\$ 274,710	\$ -
Federal Home Loan Bank Bonds	300,126	-	300,126
	\$ 574,836	\$ 274,710	\$ 300,126

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 and government securities. The City’s money market account was rated AAAM by Standard & Poor’s. The Federal Home Loan Bank Bonds were rated Aaa by Moody’s and AA+ by Standard & Poor’s.

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, 2015, 47.8% are in money market funds and 52.2% are in federal home loan bank bonds.

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

**City of Hillsboro**  
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For The Year Ended December 31, 2015

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**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	\$ 54	\$ (601,867)
Revenue Accruals	(67,138)	(8,687)
Expenditure Accruals	69,857	649,099
Prospective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(646)	-
Encumbrances	(307,699)	(10,541)
Budgetary Basis	\$ (305,572)	\$ 28,004

**City of Hillsboro**  
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**5. PROPERTY TAX**

Property taxes include amounts levied against all real and public utility property located in the County. 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 County 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 County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the City its share of the taxes collected. The City records receipt of these taxes in various funds.

Accrued property taxes receivable represent delinquent taxes outstanding and real and public utility taxes which were measurable and unpaid as of December 31, 2015. 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 2015 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, 2015, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2015 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$107,776,440
Public Utility Personal Property	<u>5,165,860</u>
Total Property Taxes	<u>\$112,942,300</u>

**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.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

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**7. INTERFUND TRANSACTIONS (Continued)**

Transfers made during the year ended December 31, 2015, were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ 10,000	\$ 1,017,188
Street	598,000	-
Non-Major Special Revenue Funds		
Police Pension	137,000	-
Fire Pension	-	33,000
Recreation	54,588	-
Total Non-Major Special Revenue Funds	191,588	33,000
Non-Major General Bond Retirement Fund	250,600	-
Total All Funds	<u>\$ 1,050,188</u>	<u>\$ 1,050,188</u>

**8. RECEIVABLES**

Receivables at December 31, 2015 consisted of taxes, accounts (billings for user charged services including unbilled utility services), loans, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services.

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

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

<u>General</u>	
Local Government	\$49,899
Homestead & Rollback	10,781
<u>Street Fund</u>	
Gasoline Tax	88,239
ODOT Hobart Smith	349,520
ODNR Pedestrian Bridge	98,500
<u>Non-Major Special Revenue</u>	
State Highway Fund	
Gasoline Tax	7,374
Municipal Motor Vehicle Fund	
Permissive Tax	7,050
Victim's Rights Office	
VOCA Grant	59,647
Rehab	
CHIP Grant	4,000
Police Pension Fund	
Homestead & Rollback	1,702
Fire Pension Fund	
Homestead & Rollback	1,702

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

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**8. RECEIVABLES (Continued)**

<u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,702</u>
Total Governmental Activities	<u>\$680,116</u>

**9. DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

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

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

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

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

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

	<u>State and Local</u>	<u>Public Safety</u>	<u>Law Enforcement</u>
<b>2015 Statutory Maximum Contribution Rates</b>			
Employer	14.0 %	18.1 %	18.1 %
Employee	10.0 %	*	**
<b>2015 Actual Contribution Rates</b>			
Employer:			
Pension	12.0 %	16.1 %	16.1 %
Post-employment Health Care Benefits	<u>2.0</u>	<u>2.0</u>	<u>2.0</u>
Total Employer	<u>14.0 %</u>	<u>18.1 %</u>	<u>18.1 %</u>
Employee	<u>10.0 %</u>	<u>12.0 %</u>	<u>13.0 %</u>

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

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

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

The City’s contractually required contribution was \$230,598 for 2015. Of this amount, \$71,040 is reported as an intergovernmental payable.

**9. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

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

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

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

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

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

**City of Hillsboro**  
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For The Year Ended December 31, 2015

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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

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

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

	Police	Firefighters
<b>2015 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %
 <b>2015 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
 Total Employer	19.50 %	24.00 %
 Employee:		
January 1, 2015 through July 1, 2015	11.50 %	11.50 %
July 2, 2015 through December 31, 2015	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$146,942 for 2015. Of this amount \$31,450 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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2014, and was determined by rolling forward the total pension liability as of January 1, 2014, to December 31, 2014. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS	OP&F	Total
Proportionate Share of the Net Pension Liability	\$1,820,505	\$1,720,975	\$3,541,480
Proportion of the Net Pension Liability	0.015094%	0.0332208%	
Pension Expense	\$198,764	\$167,873	\$366,637

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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

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

At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS	OP&F	Total
<b>Deferred Outflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$97,136	\$74,172	\$171,308
City contributions subsequent to the measurement date	230,598	146,942	377,540
Total Deferred Outflows of Resources	<u>\$327,734</u>	<u>\$221,114</u>	<u>\$548,848</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	<u>\$31,983</u>	<u>\$0</u>	<u>\$31,983</u>

\$377,540 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. 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
Year Ending December 31:			
2016	\$16,288	\$18,543	\$34,831
2017	16,288	18,543	34,831
2018	16,288	18,543	34,831
2019	16,289	18,543	34,832
Total	<u>\$65,153</u>	<u>\$74,172</u>	<u>\$139,325</u>

***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.

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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

*Actuarial Assumptions - OPERS (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. The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

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

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

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

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 6.95 percent for 2014.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

*Actuarial Assumptions - OPERS (Continued)*

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2014 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	19.90	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	19.10	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.28 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
City's proportionate share of the net pension liability	\$3,349,208	\$1,820,505	\$532,969

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

*Actuarial Assumptions – OPF*

OPF's total pension liability as of December 31, 2014 is based on the results of an actuarial valuation date of January 1, 2014, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2014, are presented below:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

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

The most recent experience study was completed January 1, 2012.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

*Actuarial Assumptions – OPF (Continued)*

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2014 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	(0.25) %
Domestic Equity	16.00	4.47
Non-US Equity	16.00	4.47
Core Fixed Income *	20.00	1.62
Global Inflation Protected *	20.00	1.33
High Yield	15.00	3.39
Real Estate	12.00	3.93
Private Markets	8.00	6.98
Timber	5.00	4.92
Master Limited Partnerships	8.00	7.03
Total	<u>120.00 %</u>	

\* levered 2x

OPF’s Board of Trustees has incorporated the “risk parity” concept into OPF’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 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 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
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**9. DEFINED BENEFIT PENSION PLANS (Continued)**

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

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$2,380,370	\$1,720,975	\$1,162,670

**10. POSTEMPLOYMENT BENEFITS**

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

**Plan Description** - OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains two cost-sharing multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2014 CAFR for details.

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

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

**10. POSTEMPLOYMENT BENEFITS (Continued)**

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

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, State and Local employers contributed at a rate of 14.0% of earnable salary and Public Safety and Law Enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%.

The City's actual contributions for 2015, 2014, and 2013, which were used to fund OPEB were \$23,042, \$37,894, and \$106,811, respectively.

**Ohio Police and Fire Pension Fund**

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

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

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 healthcare 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. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website [www.op-f.org](http://www.op-f.org).

**10. POSTEMPLOYMENT BENEFITS (Continued)**

**Ohio Police and Fire Pension Fund (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, 19.50% of covered payroll for police, for 2015, 2014, and 2013, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 2014 through December 31, 2015. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F board of trustees also is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for 2015 that were used to fund postemployment benefits were \$2,163 for Police. For 2014 and 2013, the contributions were \$3,818 and \$40,683, respectively.

**11. RISK MANAGEMENT**

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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

**City of Hillsboro**  
Notes to the Basic Financial Statements  
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**11. RISK MANAGEMENT (Continued)**

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2015, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2014 and 2015.

	<u>2014</u>	<u>2015</u>
Assets	\$35,402,177	\$38,307,677
Liabilities	<u>(12,363,257)</u>	<u>(12,759,127)</u>
Net Position	<u>\$23,038,920</u>	<u>\$25,548,550</u>

At December 31, 2014 and 2015, respectively, the liabilities above include approximately 11.1 million and \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$10.8 million and \$11.0 million of unpaid claims to be billed. The Pool's membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the City's share of these unpaid claims collectible in future years is approximately \$42,000

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

Contributions to PEP

	<u>2014</u>	<u>2015</u>
	\$84,807	\$66,916

**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 ING Deferred Compensation Program, Ohio Deferred Compensation, or Security Benefits which were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis.

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

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

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

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**13. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2015:

	Beginning Balance 12/31/2014*	Additions	Deletions	Ending Balance 12/31/2015
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 561,543	\$ -	\$ -	\$ 561,543
Construction in Progress	198,948	321,659	(129,132)	391,475
Total Capital Assets, Not Being Depreciated	<u>760,491</u>	<u>321,659</u>	<u>(129,132)</u>	<u>953,018</u>
Capital Assets Being Depreciated				
Land Improvements	1,986,261	14,400	-	2,000,661
Buildings and Improvements	4,089,587	-	-	4,089,587
Furniture and Equipment	1,845,314	99,029	(38,066)	1,906,277
Vehicles	2,090,613	66,840	(123,134)	2,034,319
Infrastructure	11,634,530	4,933,549	-	16,568,079
Total Capital Assets Being Depreciated	<u>21,646,305</u>	<u>5,113,818</u>	<u>(161,200)</u>	<u>26,598,923</u>
Less Accumulated Depreciation				
Land Improvements	(1,250,758)	(38,072)	-	(1,288,830)
Buildings and Improvements	(818,313)	(84,000)	-	(902,313)
Furniture and Equipment	(1,369,968)	(96,749)	14,279	(1,452,438)
Vehicles	(1,687,715)	(101,235)	123,134	(1,665,816)
Infrastructure	(5,403,756)	(312,507)	-	(5,716,263)
Total Accumulated Depreciation	<u>(10,530,510)</u>	<u>(632,563)</u>	<u>137,413</u>	<u>(11,025,660)</u>
Total Capital Assets Being Depreciated, Net	<u>11,115,795</u>	<u>4,481,255</u>	<u>(23,787)</u>	<u>15,573,263</u>
Governmental Activities Capital Assets, Net	<u>\$11,876,286</u>	<u>\$ 4,802,914</u>	<u>\$ (152,919)</u>	<u>\$ 16,526,281</u>

\*Beginning balances reclassified. This had no effect on beginning net position.

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$36,426
Security of Persons & Property	175,835
Public Health	242
Leisure Time Activities	40,316
Transportation	<u>379,744</u>
Total Depreciation Expense	<u>\$632,563</u>

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

**13. CAPITAL ASSETS (Continued)**

Capital asset activity for the year ended December 31, 2015:

	Beginning Balance 12/31/2014*	Additions	Deletions	Ending Balance 12/31/2015
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,460	\$ -	\$ -	\$ 10,460
Construction in Progress	836,103	998,333	(1,002,702)	831,734
Total Capital Assets, Not Being Depreciated	<u>846,563</u>	<u>998,333</u>	<u>(1,002,702)</u>	<u>842,194</u>
Capital Assets Being Depreciated				
Land Improvements	347,177	-	-	347,177
Buildings and Improvements	33,862,856	641,752	-	34,504,608
Furniture and Equipment	1,508,926	-	(47,747)	1,461,179
Vehicles	638,759	364,130	(203,042)	799,847
Infrastructure	4,176,016	559,776	-	4,735,792
Total Capital Assets Being Depreciated	<u>40,533,734</u>	<u>1,565,658</u>	<u>(250,789)</u>	<u>41,848,603</u>
Less Accumulated Depreciation				
Land Improvements	(228,555)	(12,454)	-	(241,009)
Buildings and Improvements	(6,768,917)	(497,666)	-	(7,266,583)
Furniture and Equipment	(889,954)	(86,673)	26,616	(950,011)
Vehicles	(357,273)	(37,115)	81,216	(313,172)
Infrastructure	(1,613,149)	(251,516)	-	(1,864,665)
Total Accumulated Depreciation	<u>(9,857,848)</u>	<u>(885,424)</u>	<u>107,832</u>	<u>(10,635,440)</u>
Total Capital Assets Being Depreciated, Net	<u>30,675,886</u>	<u>680,234</u>	<u>(142,957)</u>	<u>31,213,163</u>
Business Type Activities Capital Assets, Net	<u>\$31,522,449</u>	<u>\$ 1,678,567</u>	<u>\$ (1,145,659)</u>	<u>\$ 32,055,357</u>

\*Beginning balances reclassified. This had no effect on beginning net position.

**City of Hillsboro**  
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**14. LONG-TERM OBLIGATIONS**

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

	Outstanding 12/31/2014*	Issued	Retired	Outstanding 12/31/2015	Due In One Year
<b>Governmental Activities</b>					
Compensated Absences	\$ 203,714	\$ 233,294	\$ 243,812	\$ 193,196	\$ 35,767
2007 - 6.0% Street Improvement Bonds	425,000	-	45,000	380,000	50,000
2009 - Various Purpose General Obligation Bonds	2,230,000	-	120,000	2,110,000	125,000
Capital Lease	25,725	95,402	21,754	99,373	22,165
Net Pension Liability	2,578,825	125,223	-	2,704,048	-
Total Governmental Activities	<u>\$ 5,463,264</u>	<u>\$ 453,919</u>	<u>\$ 430,566</u>	<u>\$ 5,486,617</u>	<u>\$ 232,932</u>
<b>Business-Type Activities</b>					
Compensated Absences	\$ 58,822	\$ 141,643	\$ 138,944	\$ 61,521	\$ 16,313
<b>Water</b>					
2014 General Obligation Refunding and Improvement Bonds 3.53%	2,560,000	-	110,000	2,450,000	115,000
2014 General Obligation Refunding and Improvement Bonds 3.53%	600,000	-	25,000	575,000	25,000
2005 - Water System Improvement Revenue Bonds - 4.25%	501,000	-	8,000	493,000	9,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,145,000	-	34,000	2,111,000	36,000
Capital Lease	63,127	144,756	41,353	166,530	52,992
Net Pension Liability	421,714	9,745	-	431,459	-
Total Water Fund	<u>6,290,841</u>	<u>154,501</u>	<u>218,353</u>	<u>6,226,989</u>	<u>237,992</u>
<b>Sewer</b>					
2004 - OWDA Loan - 1%	216,095	-	20,653	195,442	20,859
2005 - OWDA Loan - 1%	796,555	-	68,857	727,698	69,558
2010 - OWDA Loan - 1%	6,768,308	40,887	373,882	6,435,313	192,435
2007 - OPWC Loan - 0%	115,000	-	5,000	110,000	10,000
2014 - OPWC Loan - 0%	348,135	-	-	348,135	-
2015 - OPWC Loan - 0%	-	222,101	5,553	216,548	11,105
Capital Lease	63,127	144,756	41,353	166,530	52,991
Net Pension Liability	396,803	9,170	-	405,973	-
Total Sewer Fund	<u>8,704,023</u>	<u>416,914</u>	<u>515,298</u>	<u>8,605,639</u>	<u>356,948</u>
Total Business-Type Activities	<u>\$ 15,053,686</u>	<u>\$ 713,058</u>	<u>\$ 872,595</u>	<u>\$ 14,894,149</u>	<u>\$ 611,253</u>

\*As Restated – See Note 17

**City of Hillsboro**  
Notes to the Basic Financial Statements  
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**14. LONG-TERM OBLIGATIONS (Continued)**

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

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

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

The 2014 OPWC loan was still open as of December 31, 2015 and no amortization schedule was established for this loan.

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 \$8,613,881. The net revenue available for these bonds was \$585,844 and principal and interest paid was \$154,455. The coverage ratio for these bonds was 3.79 for the year ended December 31, 2015. The remaining principal to be paid on the OWDA loans was \$7,358,556 and \$575,887 in interest for those loans with established amortization schedules. The net revenue available for these loans was \$764,435 and principal and interest paid was \$525,167. The coverage ratio for the loans was 1.46 for the year ended December 31, 2015.

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

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

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

**14. LONG-TERM DEBT OBLIGATIONS (Continued)**

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

Principal and interest requirements to retire General Obligation Bonds (Governmental Activities) and principal requirements to retire OPWC (Business-Type Activities) debt at December 31, 2015 were as follows:

	General Obligation Bonds		OPWC
	Principal	Interest	Principal
2016	\$125,000	\$116,928	\$21,105
2017	225,000	111,552	21,105
2018	125,000	101,452	21,105
2019	235,000	95,702	21,105
2020	135,000	85,312	21,105
2021-2025	460,000	324,136	105,525
2026-2030	1,185,000	140,162	65,525
2031-2035	-	-	49,973
<b>Total</b>	<b>\$2,490,000</b>	<b>\$975,244</b>	<b>\$326,548</b>

Principal and interest requirements to retire Mortgage Revenue Bonds and the OWDA Loan at December 31, 2015 were as follows:

	Water System Improvement Bonds		OWDA Loan		Refunding and Improvement Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$45,000	\$110,973	\$282,852	\$41,184	\$140,000	\$104,312
2017	47,000	108,758	479,087	69,562	150,000	99,193
2018	48,000	106,760	483,889	64,760	155,000	93,810
2019	50,000	104,720	488,740	59,909	160,000	88,250
2020	53,000	102,876	493,639	55,009	165,000	82,514
2021-2025	299,000	477,658	2,520,495	199,870	920,000	318,230
2026-2030	366,000	408,565	2,163,875	82,245	1,095,000	141,465
2031-2035	453,000	323,654	445,876	3,348	240,000	4,236
2036-2040	557,000	219,028	-	-	-	-
2041-2045	686,000	89,879	-	-	-	-
<b>Total</b>	<b>\$2,604,000</b>	<b>\$2,052,871</b>	<b>\$7,358,453</b>	<b>\$575,887</b>	<b>\$3,025,000</b>	<b>\$932,010</b>

The amortization schedules for OPWC loans does not match the outstanding debt amounts listed due to the 2014 OPWC loans which have not been finalized.

The City's overall legal debt margin was \$9,368,942 at December 31, 2015.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

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**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, 2015.

Litigation

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

**16. CAPITALIZED LEASES - LESSEE DISCLOSURE**

During fiscal year 2015, the City entered into capital lease agreements for police cruisers, a jet vac/hydro excavator, and a tractor. During previous years, the City entered into a capital lease for computer equipment, a vac truck, police cruisers, a bucket truck, and radio read meters. The leases meet the criteria of a capital lease as defined by Governmental Accounting Standards Board No. 62, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the General Fund and as reductions of capital lease obligations in the Water and Sewer Funds. These expenditures are reflected as program/object expenditures on a budgetary basis in the General Fund.

The capital assets acquired by the leases have been capitalized in the statement of net position for governmental activities and business-type activities in the amount of \$876,631 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 2015 totaled \$21,754 in the governmental funds, \$41,353 in the Water Fund and \$41,353 in the Sewer Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2015.

Year Ending December 31,	Capitalized Lease Obligation
2016	\$ 153,927
2017	87,016
2018	67,045
2019	55,789
2020	46,196
2021-2022	54,908
Total Minimum Lease Payments	464,881
Less: Amount Representing Interest	(32,448)
Present Value of Minimum Lease Payments	\$ 432,433

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

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**17. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION**

For 2015, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68." GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2014:

	Governmental Activities	Business -Type Activities
Net position December 31, 2014	\$12,930,420	\$21,593,470
Adjustments:		
Net Pension Liability	(2,578,825)	(818,517)
Deferred Outflow - Payments Subsequent to Measurement Date	259,316	105,501
Restated Net Position December 31, 2014	\$10,610,911	\$20,880,454

	Water	Sewer	Total Enterprise
Net position December 31, 2014	\$2,819,381	\$18,774,089	\$21,593,470
Adjustments:			
Net Pension Liability	(421,714)	(396,803)	(818,517)
Deferred Outflow - Payments Subsequent to Measurement Date	54,356	51,145	105,501
Restated Net Position December 31, 2014	\$2,452,023	\$18,428,431	\$20,880,454

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**City of Hillsboro**  
Notes to the Basic Financial Statements  
For The Year Ended December 31, 2015

**18. FUND BALANCES**

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

Fund Balances	General	Street	All Other Governmental	Total Governmental Funds
<b>Nonspendable</b>				
Unclaimed Monies	\$26,262	\$0	\$0	\$26,262
Total Nonspendable	<u>26,262</u>	<u>0</u>	<u>0</u>	<u>26,262</u>
<b>Restricted for</b>				
Street Improvement	0	0	6,973	6,973
Municipal Court Special Project	0	0	54,276	54,276
Alcohol Treatment	0	0	51,588	51,588
Other Purpose	0	0	273,494	273,494
Recreation	0	0	129,476	129,476
Rehab	0	0	13,612	13,612
Revolving Loan	0	0	504,469	504,469
Debt Services Payments	0	0	129	129
Capital Improvements	0	0	481,274	481,274
Total Restricted	<u>0</u>	<u>0</u>	<u>1,515,291</u>	<u>1,515,291</u>
<b>Assigned to</b>				
Other Purposes	296,896	0	0	296,896
<b>Unassigned (Deficit)</b>				
	<u>858,095</u>	<u>(537,944)</u>	<u>0</u>	<u>320,151</u>
Total Fund Balances	<u>\$1,181,253</u>	<u>(\$537,944)</u>	<u>\$1,515,291</u>	<u>\$2,158,600</u>

**19. SIGNIFICANT COMMITMENTS**

***Encumbrances***

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

Major Funds:	
General Fund	\$307,699
Street Fund	10,541
Water Fund	19,596
Sewer Fund	82,971
Nonmajor Governmental Fund:	
Recreation Fund	121,539
Total	<u>\$542,346</u>

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

	<u>2014</u>	<u>2013</u>
Total plan pension liability	\$ 89,017,348,266	\$ 86,407,229,435
Plan net position	<u>76,956,230,642</u>	<u>74,618,532,269</u>
Net pension liability	12,061,117,624	11,788,697,166
City's proportion of the net pension liability	0.015094%	0.015094%
City's proportionate share of the net pension liability	\$ 1,820,505	\$ 1,779,386
City's covered-employee payroll	\$ 1,911,250	\$ 2,054,054
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	95.30%	86.60%
Plan fiduciary net position as a percentage of the total pension liability	86.50%	86.40%

Note: Information prior to 2013 is not available.  
Amounts presented as of the City's measurement date, which is the prior fiscal year.

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

	<u>2014</u>	<u>2013</u>
Total plan pension liability	\$ 18,633,864,837	\$ 18,036,391,574
Plan net position	<u>13,453,447,836</u>	<u>13,166,077,870</u>
Net pension liability	5,180,417,001	4,870,313,704
City's proportion of the net pension liability	0.03322080%	0.03322080%
City's proportionate share of the net pension liability	\$ 1,720,975	\$ 1,617,957
City's covered-employee payroll	\$ 712,989	\$ 1,506,581
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	241.40%	107.40%
Plan fiduciary net position as a percentage of the total pension liability	72.20%	73.00%

Note: Information prior to 2013 is not available.  
Amounts presented as of the City's measurement date, which is the prior fiscal year.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 230,598	\$ 229,350	\$ 267,027	\$ 280,522	\$ 282,981	\$ 282,460	\$ 278,663	\$ 234,276	\$ 255,668	\$ 240,488
Contributions in relation to the contractually required contribution	<u>(230,598)</u>	<u>(229,350)</u>	<u>(267,027)</u>	<u>(280,522)</u>	<u>(282,981)</u>	<u>(282,460)</u>	<u>(278,663)</u>	<u>(234,276)</u>	<u>(255,668)</u>	<u>(240,488)</u>
Contribution deficiency (excess)	<u>\$ -</u>									
City's covered-employee payroll	\$1,921,650	\$1,911,250	\$2,054,054	\$2,805,220	\$2,829,810	\$3,138,444	\$3,278,388	\$3,346,800	\$3,061,892	\$2,614,000
Contributions as a percentage of covered employee payroll	12.00%	12.00%	13.00%	10.00%	10.00%	9.00%	8.50%	7.00%	8.35%	9.20%

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 146,942	\$ 135,468	\$ 239,245	\$ 326,127	\$ 347,467	\$ 362,331	\$ 440,732	\$ 384,022	\$ 411,199	\$ 351,638
Contributions in relation to the contractually required contribution	<u>(146,942)</u>	<u>(135,468)</u>	<u>(239,245)</u>	<u>(326,127)</u>	<u>(347,467)</u>	<u>(362,331)</u>	<u>(440,732)</u>	<u>(384,022)</u>	<u>(411,199)</u>	<u>(351,638)</u>
Contribution deficiency (excess)	<u>\$ -</u>									
District's covered-employee payroll	\$ 773,379	\$ 712,989	\$ 1,506,581	\$ 2,557,859	\$ 2,725,231	\$ 2,841,812	\$ 3,456,722	\$ 3,011,937	\$ 3,225,090	\$ 2,992,664
Contributions as a percentage of covered employee payroll	19.00%	19.00%	15.88%	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	11.75%

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hillsboro, Highland County (the City) as of and for the year ended December 31, 2015, 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 18, 2016, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27," and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68."

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



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

November 18, 2016



# Dave Yost • Auditor of State

**CITY OF HILLSBORO**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 11, 2017**