

City of Hillsboro
Highland County, Ohio
Regular Audit
For the Year Ended December 31, 2018



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

We have reviewed the *Independent Auditor's Report* of the City of Hillsboro, Highland County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2018 through December 31, 2018. 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.

The Auditor of State is conducting an investigation. As of the date of this report, the investigation is ongoing. Dependent on the results of the investigation, results may be reported at a later date.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

January 9, 2020

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City of Hillsboro
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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, 2018, 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, 2018, 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 fiscal year 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The 2018 financial statements have been restated due to this implementation and a restatement of loans receivable. We did not modify our opinion regarding this matter.

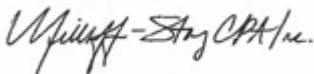
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the net pension liability, net OPEB liability and employer contributions schedules on pages 75 through 82 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 December 2, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

December 2, 2019

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(Unaudited)

The discussion and analysis of the City of Hillsboro's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2018. 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 2018 are as follows:

- In total, net position increased \$1,389,138. Net position of governmental activities increased \$1,143,520. Net position of business-type activities increased \$245,618.
- Governmental activities general revenues accounted for \$4,531,552 in revenue or 67 percent of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,276,603 or 33 percent of total governmental activities revenues of \$6,808,155. Business-type activities general revenues accounted for \$55,978 in revenue or 1 percent of all business-type activities revenues. Program specific revenues accounted for \$3,799,465 or 99 percent of total business-type activities revenues of \$3,855,443.
- The City had \$5,664,635 in expenses related to governmental activities; \$2,276,603 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,609,825 in expenses related to business-type activities; \$3,609,825 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 2018?" 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, 2018
(Unaudited)

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents; however, fund financial statements focus on the City's most significant funds. The City of Hillsboro's major funds are the General Fund, the Street Fund, the Tax Increment 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, 2018
(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 2018 compared to the prior year:

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
Assets						
Current and Other Assets	\$ 4,369,397	\$ 4,116,421	\$ 5,148,771	\$ 5,021,573	\$ 9,518,168	\$ 9,137,994
Capital Assets, Net	18,298,250	16,763,882	30,336,423	30,597,975	48,634,673	47,361,857
Total Assets	22,667,647	20,880,303	35,485,194	35,619,548	58,152,841	56,499,851
Deferred Outflows of Resources						
Deferred Charge on Refunding	121,902	182,854	-	-	121,902	182,854
Pensions	691,946	1,089,897	243,554	605,470	935,500	1,695,367
OPEB	303,800	15,947	72,995	9,596	376,795	25,543
Total Deferred Outflows of Resources	1,117,648	1,288,698	316,549	615,066	1,434,197	1,903,764
Liabilities						
Current and Other Liabilities	517,753	541,805	96,758	158,220	614,511	700,025
Long-Term Liabilities:						
Due Within One Year	351,754	271,360	837,647	809,400	1,189,401	1,080,760
Due in More Than One Year						
Net Pension Liability	3,263,367	3,837,321	1,102,206	1,538,027	4,365,573	5,375,348
Net OPEB Liability	2,652,439	2,320,633	736,332	633,240	3,388,771	2,953,873
Other Amounts	2,345,897	2,325,924	11,162,397	11,821,158	13,508,294	14,147,082
Total Liabilities	9,131,210	9,297,043	13,935,340	14,960,045	23,066,550	24,257,088
Deferred Inflows of Resources						
Property Taxes not Levied to						
Finance Current Year Operations	333,457	305,500	-	-	333,457	305,500
Pensions	585,476	132,585	305,099	16,349	890,575	148,934
OPEB	157,759	-	57,466	-	215,225	-
Total Deferred Inflows of Resources	1,076,692	438,085	362,565	16,349	1,439,257	454,434
Net Position						
Net Investment in						
Capital Assets	15,774,691	14,111,954	18,411,432	18,035,241	34,186,123	32,147,195
Restricted	1,719,060	1,335,955	-	-	1,719,060	1,335,955
Unrestricted (Deficit)	(3,916,358)	(3,014,036)	3,092,406	3,222,979	(823,952)	208,943
Total Net Position	\$ 13,577,393	\$ 12,433,873	\$ 21,503,838	\$ 21,258,220	\$ 35,081,231	\$ 33,692,093

*As restated. See Note 17 of the notes to the basic financial statements for additional information.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(Unaudited)

The net pension liability (NPL) is a large liability reported by the City at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For fiscal year 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

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

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

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

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

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

City of Hillsboro
Management's Discussion and Analysis
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(Unaudited)

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

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation, in addition to one correcting restatement, also had the effect of restating net position at December 31, 2017, from \$36,696,658 to \$33,692,093. See note 17 for more information on this restatement.

Total governmental activities net position increased \$1,143,520 primarily due to an increase in capital assets, which was partially offset by an increase in long term liabilities. The decrease to current liabilities is due to a decrease in accounts payable. Business-type activities net position increased \$245,618, primarily due to the decrease in the net pension liability, which was partially offset by an increase in net OPEB liability.

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 decreased \$165,833 primarily as a result of the decrease to the net pension liability, which was partially offset by an increase to the net OPEB liability. Total liabilities of business-type activities decreased \$1,024,705 as a result of debt payments and a decrease in the net pension liability, which was partially offset by an increase in net OPEB liability.

City of Hillsboro
Management's Discussion and Analysis
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(Unaudited)

Table 2 shows the changes in net position for the year 2018 compared to the prior year.

Table 2
Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 473,090	\$ 524,793	\$ 3,799,465	\$ 3,655,195	\$ 4,272,555	\$ 4,179,988
Operating Grants and Contributions	413,802	280,558	-	-	413,802	280,558
Capital Grants and Contributions	1,389,711	832,168	-	-	1,389,711	832,168
Total Program Revenues	2,276,603	1,637,519	3,799,465	3,655,195	6,076,068	5,292,714
General Revenues:						
Property & Income Taxes	4,239,979	4,197,573	-	-	4,239,979	4,197,573
Unrestricted Investment Earnings	33,536	32,885	1,783	4,857	35,319	37,742
Grants and Contributions Not Restricted to Specific Programs	119,572	113,401	-	-	119,572	113,401
Other	138,465	112,199	54,195	50,902	192,660	163,101
Total General Revenues	4,531,552	4,456,058	55,978	55,759	4,587,530	4,511,817
Total Revenues	6,808,155	6,093,577	3,855,443	3,710,954	10,663,598	9,804,531
Program Expenses						
General Government -						
Legislative and Executive	1,380,089	1,617,940	-	-	1,380,089	1,617,940
Judicial	447,620	420,804	-	-	447,620	420,804
Security of Persons and Property	2,708,702	2,579,465	-	-	2,708,702	2,579,465
Public Health	19,633	7,786	-	-	19,633	7,786
Leisure Time Activities	95,194	66,593	-	-	95,194	66,593
Community Environment	45,384	41,237	-	-	45,384	41,237
Transportation	846,420	1,426,433	-	-	846,420	1,426,433
Interest and Fiscal Charges	121,593	130,001	-	-	121,593	130,001
Water Fund	-	-	1,644,346	1,642,701	1,644,346	1,642,701
Storm Sewer Maintenance and Repair	-	-	-	14,462	-	14,462
Sewer Fund	-	-	1,965,479	2,080,447	1,965,479	2,080,447
Total Expenses	5,664,635	6,290,259	3,609,825	3,737,610	9,274,460	10,027,869
Special Item	-	-	-	-	-	-
Increase (Decrease) in Net Position	1,143,520	(196,682)	245,618	(26,656)	1,389,138	(223,338)
Beginning Net Position	12,433,893	N/A	21,258,220	N/A	33,692,113	N/A
Ending Net Position	\$ 13,577,413	\$ 12,433,873	\$ 21,503,838	\$ 21,258,220	\$ 35,081,251	\$ 33,692,093

*As restated due to GASB 75, see Note 17 for additional information

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(Unaudited)

Governmental Activities

Governmental activities net position increased \$1,143,520 or 9% during 2018. Capital Grants and Contributions increased due to a road construction project through the Ohio Department of Transportation and another project through a CDBG critical infrastructure grant in 2018. Legislative and executive expenses decreased primarily due to changes in pension actuarial calculations and the demolition of the colony theatre in 2017. Security of persons and property increased primarily due to an increase of expenses for police and fire protections services. Transportation expenses decreased primarily to repair and maintenance items in 2017.

General revenues primarily consist of property and income tax revenue of \$4,239,979, which is 94% of total general revenues in 2018. General government expenses include legislative and executive and judicial programs, totaled \$1,827,709 which is 32% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 48% 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 \$1,588,544 and had operating expenses of \$1,440,788, and interest expense of \$203,558. The wastewater treatment plant generated operating revenues of \$2,143,921 and had operating expenses of \$1,898,448, and interest expense of \$67,031. Operating revenues remained consistent between the two years for both the water and sewer funds. Contractual service expenses in the Water Fund increased in 2018 due to increased maintenance and repairs in 2018. The City's goal is to cover the costs of operations as well as to build the cash balance in these funds. The City is also generating funds for additional capital expansion to ensure continued capacity and capacity improvements for future growth and development.

The City's Funds

Information about the City's major funds starts on page 15. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$8,324,716 and expenditures and other financing uses of \$8,033,440. The net change in fund balance for the year was most significant in the Street Fund with an increase of \$377,497. The majority of the increase in fund balance is due a transfer from the General Fund as well as proceeds from an OPWC Loan. The General Fund had a decrease of fund balance of \$180,171. The General Fund transferred \$1,052,000 to other funds during 2018.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2018
(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 2018, 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 \$4,693,392 which were \$72,030 below final budgeted revenues and other financing sources of \$4,765,422. The City's actual revenues and other financing sources were \$26,859 greater than the final budgeted revenues and other financing sources due primarily to higher than expected taxes. Original budgeted expenditures and other financing uses were \$5,484,612, while final budget amounts were \$5,451,100.

The General Fund's actual expenditures were \$392,168 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 2018 the City had \$48,634,673 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2018 and 2017 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 580,307	\$ 580,307	\$ 10,460	\$ 10,460	\$ 590,767	\$ 590,767
Land Improvements	699,816	692,075	70,150	82,679	769,966	774,754
Buildings and Improvements	2,948,323	3,029,555	25,794,309	26,289,955	28,742,632	29,319,510
Furniture and Equipment	463,307	375,130	502,688	359,426	965,995	734,556
Vehicles	307,120	301,990	558,181	564,408	865,301	866,398
Infrastructure/Water & Sewer Lines	12,753,255	11,251,215	2,973,392	3,193,135	15,726,647	14,444,350
Construction in Progress	546,122	533,610	427,243	97,912	973,365	631,522
Totals	\$ 18,298,250	\$ 16,763,882	\$ 30,336,423	\$ 30,597,975	\$ 48,634,673	\$ 47,361,857

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, 2018
(Unaudited)

Debt

At December 31, 2018, the City of Hillsboro had \$14,448,550 in bonds, loans, and leases outstanding, \$1,159,788 was due within one year.

Table 4
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
O.W.D.A. Loan	\$ -	\$ -	\$ 5,966,293	\$ 6,401,201	\$ 5,966,293	\$ 6,401,201
Capital Lease	145,634	75,683	320,736	282,060	466,370	357,743
OPWC Loan	222,925	-	593,962	632,473	816,887	632,473
Improvement Revenue Bonds	-	-	2,464,000	2,512,000	2,464,000	2,512,000
GO Refunding and Improvement Bonds	1,890,000	1,970,000	2,580,000	2,735,000	4,470,000	4,705,000
General Obligation Bonds	265,000	390,000	-	-	265,000	390,000
Total	\$ 2,523,559	\$ 2,435,683	\$ 11,924,991	\$ 12,562,734	\$ 14,448,550	\$ 14,998,417

The City's overall legal debt margin was \$9,713,180 at December 31, 2018.

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

The Future

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

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

Contacting the City's Finance Department

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

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City of Hillsboro
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-Type Activities	Totals
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,233,820	\$ 4,601,204	\$ 6,835,024
Cash and Cash Equivalents with Fiscal Agent	264,632	-	264,632
Receivables:			
Taxes	1,190,169	-	1,190,169
Accounts	84,223	547,567	631,790
Due from Other Governments	324,434	-	324,434
Loans Receivable	187,119	-	187,119
Non-Depreciable Capital Assets	1,126,429	437,703	1,564,132
Depreciable Capital Assets, Net	17,171,821	29,898,720	47,070,541
Assets Held for Resale	85,000	-	85,000
<i>Total Assets</i>	<u>22,667,647</u>	<u>35,485,194</u>	<u>58,152,841</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred Charge on Debt Refunding	121,902	-	121,902
Pension	691,946	243,554	935,500
OPEB	303,800	72,995	376,795
<i>Total Deferred Outflows of Resources</i>	<u>1,117,648</u>	<u>316,549</u>	<u>1,434,197</u>
LIABILITIES:			
Accounts Payable	48,259	36,538	84,797
Accrued Wages and Benefits	52,441	27,512	79,953
Due to Other Governments	412,872	399	413,271
Accrued Interest Payable	4,181	32,309	36,490
Long-Term Liabilities:			
Due Within One Year	351,754	837,647	1,189,401
Due in More than One Year:			
Net Pension Liability (See Note 9)	3,263,367	1,102,206	4,365,573
Net OPEB Liability (See Note 10)	2,652,439	736,332	3,388,771
Other Amounts Due in More than One Year	2,345,897	11,162,397	13,508,294
<i>Total Liabilities</i>	<u>9,131,210</u>	<u>13,935,340</u>	<u>23,066,550</u>
DEFERRED INFLOWS OF RESOURCES:			
Property Taxes not Levied to Finance Current Year Operations	333,457	-	333,457
Pension	585,476	305,099	890,575
OPEB	157,759	57,466	215,225
<i>Total Deferred Inflows of Resources</i>	<u>1,076,692</u>	<u>362,565</u>	<u>1,439,257</u>
NET POSITION:			
Net Investment in Capital Assets	15,774,691	18,411,432	34,186,123
Restricted for:			
Capital Projects	242,094	-	242,094
Street	319,910	-	319,910
Recreation	256,335	-	256,335
Revolving Loan	369,457	-	369,457
Parking Meter	159,340	-	159,340
Other Purposes	371,924	-	371,924
Unrestricted (Deficit)	<u>(3,916,358)</u>	<u>3,092,406</u>	<u>(823,952)</u>
<i>Total Net Position</i>	<u>\$ 13,577,393</u>	<u>\$ 21,503,838</u>	<u>\$ 35,081,231</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:						
General Government:						
Legislative and Executive	\$ 1,380,089	\$ 104,695	\$ 10,650	\$ -	\$ (1,264,744)	\$ (1,264,744)
Judicial	447,620	57,919	80,106	-	(309,595)	(309,595)
Security of Persons and Property	2,708,702	250,077	186,118	-	(2,272,507)	(2,272,507)
Public Health	19,633	1,494	-	-	(18,139)	(18,139)
Leisure Time Activities	95,194	21,602	47,949	-	(25,643)	(25,643)
Community Environment	45,384	2,585	6,587	-	(36,212)	(36,212)
Transportation	846,420	34,044	80,646	1,389,711	657,981	657,981
Interest and Fiscal Charges	121,593	674	1,746	-	(119,173)	(119,173)
Total Governmental Activities	5,664,635	473,090	413,802	1,389,711	(3,388,032)	(3,388,032)
Business-Type Activities:						
Sewer	1,965,479	2,143,921	-	-	-	178,442
Storm Sewer Maintenance and Repair	-	67,000	-	-	-	67,000
Water	1,644,346	1,588,544	-	-	-	(55,802)
Total Business-Type Activities	3,609,825	3,799,465	-	-	-	189,640
Total Primary Government	\$ 9,274,460	\$ 4,272,555	\$ 413,802	\$ 1,389,711	(3,388,032)	189,640
General Revenues:						
Taxes:						
Property Taxes Levied for:						
General Purposes					333,360	333,360
Special Purposes					61,164	61,164
Debt Service					30,582	30,582
Capital Projects					119,394	119,394
Income Taxes					3,695,479	3,695,479
Grants and Contributions						
Not Restricted to Specific Programs					119,572	119,572
Unrestricted Investment Earnings					33,536	35,319
Miscellaneous					138,465	192,660
Total General Revenues					4,531,552	4,587,530
Change in Net Position					1,143,520	245,618
Net Position, Beginning of the Year - As Restated					12,433,873	21,258,220
Net Position, End of the Year					\$ 13,577,393	\$ 21,503,838

See accompanying notes to the basic financial statements.

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2018

	General	Street	Tax Increment Fund	All Other Governmental Funds	Total Governmental Funds
ASSETS:					
Equity in Pooled Cash and Cash Equivalents	\$ 906,157	\$ 265,895	\$ 242,094	\$ 819,674	\$ 2,233,820
Cash and Cash Equivalents with Fiscal Agent	-	264,632	-	-	264,632
Accounts Receivable	74,350	-	-	9,873	84,223
Taxes Receivable	1,086,096	-	-	104,073	1,190,169
Due from Other Governments	54,731	194,953	-	74,750	324,434
Loans Receivable	-	-	-	187,119	187,119
Assets Held for Resale	-	-	-	85,000	85,000
<i>Total Assets</i>	<u>\$ 2,121,334</u>	<u>\$ 725,480</u>	<u>\$ 242,094</u>	<u>\$ 1,280,489</u>	<u>\$ 4,369,397</u>
LIABILITIES:					
Accounts Payable	\$ 42,071	\$ 2,670	\$ -	\$ 3,518	\$ 48,259
Accrued Wages and Benefits	47,615	3,330	-	1,496	52,441
Due to Other Governments	690	399,570	-	12,612	412,872
<i>Total Liabilities</i>	<u>90,376</u>	<u>405,570</u>	<u>-</u>	<u>17,626</u>	<u>513,572</u>
DEFERRED INFLOWS OF RESOURCES:					
Property Taxes not Levied to Finance Current Year Operations	233,419	-	-	100,038	333,457
Unavailable Revenue - Delinquent Taxes	9,411	-	-	4,035	13,446
Unavailable Revenue - Income Taxes	515,951	-	-	-	515,951
Unavailable Revenue - Grants	40,207	163,142	-	61,277	264,626
<i>Total Deferred Inflows of Resources</i>	<u>798,988</u>	<u>163,142</u>	<u>-</u>	<u>165,350</u>	<u>1,127,480</u>
FUND BALANCES:					
Nonspendable	17,786	-	-	-	17,786
Restricted	-	156,768	242,094	1,097,513	1,496,375
Assigned	661,043	-	-	-	661,043
Unassigned	553,141	-	-	-	553,141
<i>Total Fund Balances</i>	<u>1,231,970</u>	<u>156,768</u>	<u>242,094</u>	<u>1,097,513</u>	<u>2,728,345</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 2,121,334</u>	<u>\$ 725,480</u>	<u>\$ 242,094</u>	<u>\$ 1,280,489</u>	<u>\$ 4,369,397</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, 2018

Total Governmental Fund Balances		\$ 2,728,345
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.		18,298,250
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	529,397	
Intergovernmental	<u>264,626</u>	
Total		794,023
The net pension and OPEB liabilities are not due and payable in the current period: therefore, the liabilities and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	691,946	
Deferred Outflows - OPEB	303,800	
Deferred Inflows - Pension	(585,476)	
Deferred Inflows - OPEB	(157,759)	
Net Pension Liability	(3,263,367)	
Net OPEB Liability	<u>(2,652,439)</u>	
Total		(5,663,295)
Long-term liabilities, including accrued interest payable, bonds, capital lease obligations, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(4,181)	
Capital Lease Payable	(145,634)	
Deferred Charge on Debt Refunding	121,902	
Compensated Absences	(174,092)	
OPWC Loans Payable	(222,925)	
General Obligation Bonds	<u>(2,155,000)</u>	
Total		<u>(2,579,930)</u>
Net Position of Governmental Activities		<u><u>\$ 13,577,393</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, 2018

	General	Street	Tax Increment Fund	All Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 4,084,126	\$ -	\$ 119,394	\$ 91,077	\$ 4,294,597
Charges for Services	21,975	-	-	-	21,975
Licenses and Permits	64,997	-	-	4,660	69,657
Fines and Forfeitures	215,752	-	-	142,899	358,651
Intergovernmental	113,473	698,372	734,558	341,169	1,887,572
Interest	33,536	196	-	23,554	57,286
Rent	8,000	-	-	14,807	22,807
Other	104,197	9,461	-	24,763	138,421
<i>Total Revenues</i>	<u>4,646,056</u>	<u>708,029</u>	<u>853,952</u>	<u>642,929</u>	<u>6,850,966</u>
EXPENDITURES:					
Current:					
General Government:					
Legislative and Executive	1,157,893	-	23,560	13,150	1,194,603
Judicial	324,304	-	-	98,900	423,204
Security of Persons and Property	2,061,846	-	-	229,783	2,291,629
Public Health	19,633	-	-	-	19,633
Leisure Time Activities	-	-	-	59,198	59,198
Community Environment	36,675	-	-	8,133	44,808
Transportation	-	84,968	-	14,596	99,564
Capital Outlay	240,305	981,667	901,572	330,136	2,453,680
Debt Service:					
Principal Retirements	37,060	34,939	-	229,769	301,768
Interest and Fiscal Charges	129	2,090	-	59,028	61,247
<i>Total Expenditures</i>	<u>3,877,845</u>	<u>1,103,664</u>	<u>925,132</u>	<u>1,042,693</u>	<u>6,949,334</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>768,211</u>	<u>(395,635)</u>	<u>(71,180)</u>	<u>(399,764)</u>	<u>(98,368)</u>
OTHER FINANCING SOURCES AND USES:					
Transfers In	32,106	455,000	-	597,000	1,084,106
Inception of Capital Lease	71,512	70,438	-	-	141,950
Proceeds of OPWC Loan	-	247,694	-	-	247,694
Transfers Out	(1,052,000)	-	-	(32,106)	(1,084,106)
<i>Total Other Financing Sources and Uses</i>	<u>(948,382)</u>	<u>773,132</u>	<u>-</u>	<u>564,894</u>	<u>389,644</u>
<i>Net Change in Fund Balances</i>	(180,171)	377,497	(71,180)	165,130	291,276
<i>Fund Balance (Deficit) at Beginning of Year - Restated</i>	<u>1,412,141</u>	<u>(220,729)</u>	<u>313,274</u>	<u>932,383</u>	<u>2,437,069</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,231,970</u>	<u>\$ 156,768</u>	<u>\$ 242,094</u>	<u>\$ 1,097,513</u>	<u>\$ 2,728,345</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, 2018

Net Change in Fund Balances - Total Governmental Funds		\$ 291,276
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Capital Asset Additions	2,453,680	
Current Year Depreciation	<u>(919,312)</u>	
Total		1,534,368
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Taxes	(54,618)	
Intergovernmental	<u>11,807</u>	
Total		(42,811)
<p>Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.</p>		
		253,870
<p>Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.</p>		
		4,123
<p>Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.</p>		
		(530,758)
<p>Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as OPEB expense in the statement of activities.</p>		
		(205,835)
<p>Repayments of long-term debt and capital leases are expenditures in governmental funds, but the repayment reduces liabilities in the statement of net position and does not result in an expense in the statement of activities.</p>		
Bond Payments	205,000	
Amortization on deferred amount on refunding	(60,952)	
Capital Leases	71,999	
OPWC Loans	<u>24,769</u>	
Total		240,816
<p>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.</p>		
Increase in Compensated Absences	(12,491)	
Decrease in Accrued Interest Payable	<u>606</u>	
Total		(11,885)
<p>Proceeds from the issuance of OPWC Loans 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.</p>		
		(247,694)
<p>Inception of capital leases is recorded as other financing sources in the governmental funds, but is recorded as a capital lease obligation and therefore is not recorded in the statement of activities.</p>		
		<u>(141,950)</u>
Net Change in Net Position of Governmental Activities		<u><u>\$ 1,143,520</u></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
General Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 4,055,447	\$ 4,112,643	\$ 4,142,216	\$ 29,573
Charges for Services	104	500	106	(394)
Licenses and Permits	63,635	65,959	64,997	(962)
Fines and Forfeitures	214,808	219,407	219,404	(3)
Intergovernmental	103,452	105,520	105,665	145
Interest	32,833	33,536	33,536	-
Rent	7,832	8,000	8,000	-
Other	56,221	58,924	57,424	(1,500)
<i>Total Revenues</i>	<u>4,534,332</u>	<u>4,604,489</u>	<u>4,631,348</u>	<u>26,859</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,317,000	1,308,953	1,214,783	94,170
Judicial	359,721	357,523	331,801	25,722
Security of Persons and Property	2,304,597	2,290,288	2,122,843	167,445
Public Health	21,285	21,155	19,633	1,522
Community Environment	43,000	42,738	39,663	3,075
Capital Outlay	260,525	258,933	240,305	18,628
Debt Service				
Principal Retirements	37,060	37,060	37,060	-
Interest and Fiscal Charges	129	129	129	-
<i>Total Expenditures</i>	<u>4,343,317</u>	<u>4,316,779</u>	<u>4,006,217</u>	<u>310,562</u>
<i>Excess of Revenues Over Expenditures</i>	<u>191,015</u>	<u>287,710</u>	<u>625,131</u>	<u>337,421</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	40,945	41,821	41,821	-
Inception of Capital Lease	71,512	71,512	71,512	-
Advances In	46,603	47,600	47,600	-
Transfers Out	(1,141,295)	(1,134,321)	(1,052,715)	81,606
<i>Total Other Financing Sources and Uses</i>	<u>(982,235)</u>	<u>(973,388)</u>	<u>(891,782)</u>	<u>81,606</u>
<i>Net Change in Fund Balance</i>	(791,220)	(685,678)	(266,651)	419,027
<i>Fund Balance at Beginning of Year</i>	854,084	854,084	854,084	-
<i>Prior Year Encumbrances Appropriated</i>	<u>163,456</u>	<u>163,456</u>	<u>163,456</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 226,320</u>	<u>\$ 331,862</u>	<u>\$ 750,889</u>	<u>\$ 419,027</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, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 671,466	\$ 698,886	\$ 698,886	\$ -
Interest	188	196	196	-
Other	9,090	9,461	9,461	-
<i>Total Revenues</i>	<u>680,744</u>	<u>708,543</u>	<u>708,543</u>	<u>-</u>
EXPENDITURES:				
Current:				
Transportation	471,581	600,217	500,199	100,018
Capital Outlay	925,503	981,667	981,667	-
Debt Service				
Principal Retirements	32,940	34,939	34,939	-
Interest and Fiscal Charges	1,970	2,090	2,090	-
<i>Total Expenditures</i>	<u>1,431,994</u>	<u>1,618,913</u>	<u>1,518,895</u>	<u>100,018</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(751,250)</u>	<u>(910,370)</u>	<u>(810,352)</u>	<u>100,018</u>
OTHER FINANCING SOURCES:				
Proceeds from OPWC Loans	237,976	247,694	247,694	-
Transfers In	437,149	455,000	455,000	-
Inception of Capital Lease	67,674	70,438	70,438	-
<i>Total Other Financing Sources</i>	<u>742,799</u>	<u>773,132</u>	<u>773,132</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(8,451)	(137,238)	(37,220)	100,018
<i>Fund Balance at Beginning of Year</i>	106,074	106,074	106,074	-
<i>Prior Year Encumbrances Appropriated</i>	<u>76,753</u>	<u>76,753</u>	<u>76,753</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 174,376</u>	<u>\$ 45,589</u>	<u>\$ 145,607</u>	<u>\$ 100,018</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Net Position
Proprietary Funds
December 31, 2018

	Water	Sewer	Other Enterprise Fund	Total
ASSETS:				
<i>Current Assets</i>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,076,959	\$ 3,356,453	\$ 167,792	\$ 4,601,204
Accounts Receivable	225,513	322,054	-	547,567
Interfund Receivable	-	79,840	-	79,840
Total Current Assets	1,302,472	3,758,347	167,792	5,228,611
<i>Noncurrent Assets</i>				
Non-Depreciable Capital Assets	86,138	284,326	67,239	437,703
Depreciable Capital Assets, Net	7,117,824	22,780,896	-	29,898,720
Total Noncurrent Assets	7,203,962	23,065,222	67,239	30,336,423
Total Assets	\$ 8,506,434	\$ 26,823,569	\$ 235,031	\$ 35,565,034
DEFERRED OUTFLOWS OF RESOURCES:				
Pensions	107,961	135,593	-	243,554
OPEB	27,383	45,612	-	72,995
Total Deferred Outflows of Resources	135,344	181,205	-	316,549
LIABILITIES:				
<i>Current Liabilities</i>				
Accounts Payable	\$ 7,555	\$ 24,798	\$ 4,185	\$ 36,538
Accrued Wages and Benefits	13,881	13,631	-	27,512
Due to Other Governments	201	198	-	399
Accrued Interest Payable	32,309	-	-	32,309
Interfund Payable	-	-	79,840	79,840
Compensated Absences - Current Portion	1,038	1,037	-	2,075
Capital Leases Payable - Current Portion	49,398	49,398	-	98,796
OWDA Loans - Current Portion	-	488,265	-	488,265
Revenue Bonds Payable - Current Portion	50,000	-	-	50,000
OPWC Loans - Current Portion	-	38,511	-	38,511
General Obligation Refunding and Improvement Bonds - Current Portion	160,000	-	-	160,000
Total Current Liabilities	314,382	615,838	84,025	1,014,245
<i>Noncurrent Liabilities</i>				
Long Term Liabilities:				
OWDA Loans Payable - Net of Current Portion	-	5,427,100	50,928	5,478,028
Compensated Absences Payable - Net of Current Portion	28,863	44,115	-	72,978
Revenue Bonds Payable - Net of Current Portion	2,414,000	-	-	2,414,000
Capital Leases Payable - Net of Current Portion	110,970	110,970	-	221,940
OPWC Loans - Net of Current Portion	-	555,451	-	555,451
General Obligation Refunding and Improvement Bonds - Net of Current Portion	2,420,000	-	-	2,420,000
Net Pension Liability	557,004	545,202	-	1,102,206
Net OPEB Liability	372,108	364,224	-	736,332
Total Noncurrent Liabilities	5,902,945	7,047,062	50,928	13,000,935
Total Liabilities	6,217,327	7,662,900	134,953	14,015,180
DEFERRED INFLOWS OF RESOURCES:				
Pensions	152,651	152,448	-	305,099
OPEB	30,334	27,132	-	57,466
Total Deferred Inflows of Resources	182,985	179,580	-	362,565
NET POSITION:				
Net Investment in Capital Assets Unrestricted	1,999,594	16,395,527	16,311	18,411,432
	241,872	2,766,767	83,767	3,092,406
Total Net Position	\$ 2,241,466	\$ 19,162,294	\$ 100,078	\$ 21,503,838

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, 2018

	Water	Sewer	Other Enterprise Fund	Total
OPERATING REVENUES				
Charges for Services	\$ 1,580,694	\$ 2,139,221	\$ 67,000	\$ 3,786,915
Tap-In Fees	7,850	4,700	-	12,550
<i>Total Operating Revenues</i>	1,588,544	2,143,921	67,000	3,799,465
OPERATING EXPENSES				
Salaries and Wages	523,701	485,252	-	1,008,953
Fringe Benefits	320,821	301,147	-	621,968
Contractual Services	114,206	125,934	-	240,140
Materials & Supplies	152,211	147,158	-	299,369
Utilities	77,878	177,530	-	255,408
Other	14,933	196	-	15,129
Depreciation Expense	237,038	661,231	-	898,269
<i>Total Operating Expenses</i>	1,440,788	1,898,448	-	3,339,236
<i>Operating Income</i>	147,756	245,473	67,000	460,229
NONOPERATING REVENUES (EXPENSES)				
Interest	-	1,783	-	1,783
Other Non-Operating Revenues	41,043	13,152	-	54,195
Interest and Fiscal Charges	(203,558)	(67,031)	-	(270,589)
<i>Total Nonoperating Revenues (Expenses)</i>	(162,515)	(52,096)	-	(214,611)
<i>Changes in Net Position</i>	(14,759)	193,377	67,000	245,618
<i>Net Position at Beginning of Year - As Restated</i>	2,256,225	18,968,917	33,078	21,258,220
<i>Net Position at End of Year</i>	<u>\$ 2,241,466</u>	<u>\$ 19,162,294</u>	<u>\$ 100,078</u>	<u>\$ 21,503,838</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2018

	Water	Sewer	Other Enterprise Fund	Total
Increase (Decrease) in Cash and Cash Equivalents:				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 1,587,020	\$ 2,160,719	\$ 67,000	\$ 3,814,739
Cash Payments to Suppliers for Goods and Services	(377,468)	(484,769)	(6,416)	(868,653)
Cash Payments to Employees for Services and Benefits	(685,499)	(629,044)	-	(1,314,543)
<i>Net Cash Provided by Operating Activities</i>	<u>524,053</u>	<u>1,046,906</u>	<u>60,584</u>	<u>1,631,543</u>
Cash Flows from Noncapital Financing Activities:				
Other Nonoperating Receipts	41,043	13,152	-	54,195
Advances Out	-	(79,840)	(47,600)	(127,440)
Advances In	50,300	-	79,840	130,140
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>91,343</u>	<u>(66,688)</u>	<u>32,240</u>	<u>56,895</u>
Cash Flows from Capital and Related Financing Activities:				
Proceeds from OWDA Loan	-	-	63,768	63,768
Proceeds from Capital Leases	70,438	70,438	-	140,876
Payments for Capital Acquisitions	(120,200)	(449,278)	(67,239)	(636,717)
Principal Payments	(254,100)	(575,447)	(12,840)	(842,387)
Interest Payments	(203,558)	(67,031)	-	(270,589)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(507,420)</u>	<u>(1,021,318)</u>	<u>(16,311)</u>	<u>(1,545,049)</u>
Cash Flows from Investing Activities:				
Interest on Investments	-	1,783	-	1,783
<i>Net Cash Provided by Investing Activities</i>	<u>-</u>	<u>1,783</u>	<u>-</u>	<u>1,783</u>
Net Increase (Decrease) in Cash and Cash Equivalents	107,976	(39,317)	76,513	145,172
Cash and Cash Equivalents at Beginning of Year	968,983	3,395,770	91,279	4,456,032
Cash and Cash Equivalents at End of Year	<u>\$ 1,076,959</u>	<u>\$ 3,356,453</u>	<u>\$ 167,792</u>	<u>\$ 4,601,204</u>

(Continued)

City of Hillsboro
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended December 31, 2018

	Water	Sewer	Other Enterprise Fund	Total
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>				
Operating Income	\$ 147,756	\$ 245,473	\$ 67,000	\$ 460,229
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>				
Depreciation	237,038	661,231	-	898,269
Pension expense not affecting cash	99,246	115,599	-	214,845
OPEB expense not affecting cash	59,898	37,261	-	97,159
<i>Changes in Assets and Liabilities:</i>				
Decrease/(Increases) in Accounts Receivable	(1,524)	16,798	-	15,274
Decrease in Accounts Payable	(18,240)	(33,951)	(6,416)	(58,607)
Increase in Accrued Wages and Benefits	3,720	4,450	-	8,170
Increase in Compensated Absences Payable	2,591	4,638	-	7,229
Decrease in Accrued Interest Payable	(1,243)	-	-	(1,243)
Decrease in Due to Other Governments	(5,189)	(4,593)	-	(9,782)
Total Adjustments	<u>376,297</u>	<u>801,433</u>	<u>(6,416)</u>	<u>1,171,314</u>
Net Cash Provided by Operating Activities	<u>\$ 524,053</u>	<u>\$ 1,046,906</u>	<u>\$ 60,584</u>	<u>\$ 1,631,543</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2018

	<u>Agency</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 106,644
Receivables:	
Accounts	<u>137,615</u>
<i>Total Assets</i>	<u><u>\$ 244,259</u></u>
LIABILITIES :	
Due to Other Governments	\$ 81,193
Undistributed Monies	56,301
Deposits Held and Due to Others	<u>106,765</u>
<i>Total Liabilities</i>	<u><u>\$ 244,259</u></u>

See accompanying notes to the basic financial statements.

1. FINANCIAL REPORTING ENTITY

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

CITY GOVERNMENT AND REPORTING ENTITY

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

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

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

1. FINANCIAL REPORTING ENTITY (Continued)

The City has contracted with the Paint Creek Joint EMS/Fire District to provide EMS and fire protection services for the City. Paint Creek Joint EMS/Fire District is a jointly government organization made up of governments from Highland and Ross County. These entities include Madison Township, Buckskin Township, Paint Township (Ross County), Paint Township (Highland County), Jackson Township, Liberty Township, Washington Township, New Market Township, and the City of Greenfield. The City does not have representation on the District. During 2018, the City paid \$554,544 to the Paint Creek Joint EMS/Fire District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

FUND ACCOUNTING

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Tax Increment Fund - This fund is established to account for resources devoted to construction of infrastructure. The primary source of revenue is tax dollars from the increased assessed value which results from improvements to real property.

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS

Government-wide Financial Statements

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

Fund Financial Statements

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

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

BASIS OF ACCOUNTING

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Deferred Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows for the deferred charge on debt refunding and for deferred pension amounts. The deferred charge on debt refunding is reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources are reported on the government-wide statement of net position for pensions and OPEB. The deferred outflows of resources related to pensions and OPEB are explained in Note 9 and Note 10, respectively.

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 and OPEB. Property taxes for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance fiscal year 2019 operations, have also been recorded as deferred inflows of resources.

The difference between deferred inflows on the statement of net position and the balance sheet is due to delinquent property taxes, income taxes, and intergovernmental grants not received during the available period. These were reported as revenues on the statement of activities and not recorded as deferred inflows on the statement of net position. Deferred inflows of resources related to pensions and OPEB are only reported on the government-wide statement of net position and the statement of net position for proprietary funds. (See Note 9 and Note 10).

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

BUDGETS AND BUDGETARY ACCOUNTING

All funds, except 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

CASH AND INVESTMENTS

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

During 2018, investments were limited to Federal Home Loan Bank securities, negotiable certificates of deposit, and money market funds.

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

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

The City had \$264,632 on deposit with the Ohio Department of Transportation to be used for upcoming road projects. This balance is shown as cash and cash equivalents with fiscal agent in the accompanying financial statements.

CAPITAL ASSETS

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

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

ASSETS HELD FOR RESALE

Assets held for resale represent a property purchased by the City which it intends to sell at a future date. This property is valued based upon the fair value of the property plus any costs of maintenance, rehabilitation, or demolition of structures on the property.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

INTERFUND ASSETS AND LIABILITIES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as "Internal Balances" in the statement of net position when reported. The City had no Internal Balances to report at December 31, 2018.

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, 2018.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND BALANCE

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

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

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

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

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

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

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

NET POSITION

Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings and the effect of deferred outflows and inflows related to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for other purposes represents balances of state and federal grants and other restricted purposes in Special Revenue funds. The City’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Of the City’s \$1,719,060 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/OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

3. DEPOSITS AND INVESTMENTS

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Auditor or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits:

Custodial credit risk is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. Except as noted below, at year end, the City's bank balance of \$5,328,769 was either covered by FDIC or collateralized in the manner described below.

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

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

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

At December 31, 2018, one the City's financial institutions still maintained its own collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

3. DEPOSITS AND INVESTMENTS (Continued)

Investments:

Investment type	Fair Value	Less than 1 Year	1-3 Years
Money Market Funds	\$ 583,739	\$ 583,739	\$ -
Negotiable Certificates of Deposit	492,991	-	492,991
Federal Home Loan Bank Bonds	796,260	-	796,260
	<u>\$ 1,872,990</u>	<u>\$ 583,739</u>	<u>\$ 1,289,251</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the City's recurring fair value measurements as of December 31, 2018. All investments of the City are valued using quoted market prices (Level 1 inputs).

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

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

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. The City does have an investment policy. Of the City's investments, as of December 31, 2018, 31.2% are in money market funds, 26.3% are in negotiable certificates of deposit, and 42.5% 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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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	\$ (180,171)	\$ 377,497
Revenue Accruals	54,791	514
Expenditure Accruals	(1,434)	(294,943)
Prospective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(2,353)	-
Encumbrances	(137,484)	(120,288)
Budgetary Basis	\$ (266,651)	\$ (37,220)

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

5. PROPERTY TAX

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

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

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

Accrued property taxes receivable represent delinquent taxes outstanding and real and public utility taxes which were measurable and unpaid as of December 31, 2018. 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 2018 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, 2018, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2018 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$108,368,280
Public Utility Personal Property	<u>4,662,010</u>
Total Property Taxes	<u>\$113,030,290</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

6. LOCAL INCOME TAX

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

7. INTERFUND TRANSACTIONS

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

Transfers made during the year ended December 31, 2018, were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ 32,106	\$ (1,052,000)
Street	455,000	-
Non-Major Special Revenue Funds		
Police Pension	138,000	-
Fire Pension	-	(32,106)
Recreation	150,000	-
Victim's Rights Office	6,000	-
Total Non-Major Special Revenue Funds	294,000	(32,106)
Non-Major General Bond Retirement Fund	303,000	-
Total All Funds	<u>\$ 1,084,106</u>	<u>\$ (1,084,106)</u>

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

Advances were made from the Sewer Fund to the Storm Sewer Maintenance and Repair Fund in the amount of \$79,840. This advance is expected to be repaid in 2019.

8. RECEIVABLES

Receivables at December 31, 2018 consisted of taxes, accounts (billings for user charged services including unbilled utility services), interfund, loans, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services and loans receivable.

Loans receivable represents low interest loans for development projects and home improvements granted to eligible City residents and businesses under the Community Development Program. These loans are generally to be repaid over a three to twenty year period. The City has recorded an allowance for doubtful account of \$67,916 related to this loan receivable balance.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

8. RECEIVABLES (Continued)

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

<u>General</u>	
Local Government	\$43,572
Homestead & Rollback	11,159
 <u>Street Fund</u>	
Gasoline Tax	95,433
ODOT Hobart Smith	99,520
 <u>Non-Major Special Revenue</u>	
State Highway Fund	
Gasoline Tax	7,737
Victim's Rights Office	
VOCA Grant	61,727
Police Pension Fund	
Homestead & Rollback	1,762
Fire Pension Fund	
Homestead & Rollback	1,762
 <u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,762</u>
Total Governmental Activities	<u>\$324,434</u>

9. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

9. DEFINED BENEFIT PENSION PLANS (Continued)

Net Pension Liability (Continued)

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

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

	State and Local
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2018 Actual Contribution Rates	
Employer:	
Pension	14.0 %
Post-employment Health Care Benefits	0.0
Total Employer	14.0 %
 Employee	 10.0 %

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

The City’s contractually required contribution was \$172,613 for 2018. Of this amount, \$0 is reported as an intergovernmental payable.

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

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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.

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

	Police	Firefighters
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City’s contractually required contribution to OPF was \$156,935 for 2018. Of this amount \$12,268 is reported as an intergovernmental payable.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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, 2017, 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, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. 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:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability - Current Year	0.0160250%	0.0301680%	
Proportionate Share of the Net Pension Liability - Prior Year	<u>0.0148050%</u>	<u>0.0318010%</u>	
Change in Proportionate Share Proportion of the Net Pension Liability	<u>0.0012200%</u>	<u>-0.0016330%</u>	
Liability	\$2,514,012	\$1,851,561	\$4,365,573
Pension Expense	\$601,746	\$219,535	\$821,281

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$2,567	\$28,099	\$30,666
Changes of assumptions	300,441	80,682	381,123
Changes in employer proportion	171,618	22,545	194,163
City contributions subsequent to the measurement date	172,613	156,935	329,548
Total deferred outflows of resources	<u>\$647,239</u>	<u>\$288,261</u>	<u>\$935,500</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$49,544	\$3,349	\$52,893
Net difference between projected and actual earnings on pension plan investments	\$539,725	\$64,050	\$603,775
Changes in employer proportion	46,749	187,158	233,907
Total deferred inflows of resources	<u>\$636,018</u>	<u>\$254,557</u>	<u>\$890,575</u>

\$329,548 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Fiscal Year Ending December 31:			
2019	\$ 288,280	\$ 17,371	\$ 305,651
2020	9,776	531	10,307
2021	(237,667)	(65,808)	(303,475)
2022	(221,781)	(58,964)	(280,745)
2023	-	(15,599)	(15,599)
Thereafter	-	(762)	(762)
	<u>\$ (161,392)</u>	<u>\$ (123,231)</u>	<u>\$ (284,623)</u>

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

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	December 31, 2017
Experience study	5 year period ended December 31, 2015
Actuarial cost method	Individual entry age
Actuarial assumptions:	
Investment rate of return	7.50 percent
Wage inflation	3.25 percent
Projected salary increases	3.25 to 10.75 percent (including wage inflation of 3.25%)
Cost-of-living adjustments	Pre 1/7/2013 retirees: 3.00 percent, simple Post 1/7/2013 retirees: 3.00 percent, simple through 2018, then 2.15% simple

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

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82% for 2017.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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 2017 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 %	2.20 %
Domestic equities	19.00	6.37
Real estate	10.00	5.26
Private equity	10.00	8.97
International equities	20.00	7.88
Other investments	18.00	5.26
Total	<u>100.00 %</u>	<u>5.66 %</u>

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

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$4,464,245	\$2,514,012	\$888,106

Changes between Measurement Date and Report Date In October 2018, the OPERS Board adopted a change in investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change will be effective for the 2018 valuation. The exact amount of the impact to the City's net pension liability is not known.

Actuarial Assumptions – OPF

OP&F's total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2017, are presented below:

Valuation date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8.00 percent
Projected salary increases	3.75 percent to 10.5 percent
Payroll growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of living adjustments	3 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

9. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions – OPF (Continued)

For the January 1, 2017, valuation, mortality for non-disabled participants is based on the RP- 2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent. The most recent experience study of five years was completed in December 31, 2016.

<u>Age</u>	<u>Fire</u>
67 or less	68%
68 - 77	87%
78 and up	120%

For the January 1, 2017, valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Fire</u>
59 or less	35%
60 - 69	45%
70 - 79	70%
80 and up	90%

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, 2017 are summarized below:

Asset Class	Target Allocation	10 Year Expected Real Rate of Return**	30 Year Expected Real Rate of Return**
Cash and Cash Equivalents	0.00 %	0.00 %	0.00 %
Domestic Equity	16.00	4.46	5.21
Non-US Equity	16.00	4.66	5.40
Core Fixed Income *	20.00	1.67	2.37
Global Inflation Protected *	20.00	0.49	2.33
High Yield	15.00	3.33	4.48
Real Estate	12.00	4.71	5.65
Private Markets	8.00	7.31	7.99
Timber	5.00	6.87	6.87
Master Limited Partnerships	8.00	6.92	7.36
Total	120.00 %		

* levered 2x

** Numbers are net of expected inflation

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

9. DEFINED BENEFIT PENSION PLANS (Continued)

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

Discount Rate

The total pension liability was calculated using the discount rate of 8.00 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.0 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 (7.0 percent), or one percentage point higher (9.0 percent) than the current rate.

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City's proportionate share of the net pension liability	\$2,566,729	\$1,851,561	\$1,268,250

10. DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including OPEB.

10. DEFINED BENEFIT OPEB PLANS (Continued)

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. 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 75. See OPERS' CAFR referenced below for additional information.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

10. DEFINED BENEFIT OPEB PLANS (Continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$0 for 2018.

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

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement 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 Government Accounting Standards Board (GASB) Statement No. 75.

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

City of Hillsboro
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For the Year Ended December 31, 2018

10. DEFINED BENEFIT OPEB PLANS (Continued)

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

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 health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contractually required contribution to OP&F was \$4,123 for 2018. Of this amount, \$322 is reported as an intergovernmental payable.

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

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS	OP&F	Total
Proportionate Share of the Net OPEB Liability - Prior Year	0.0143000%	0.0318010%	
Proportionate Share of the Net OPEB Liability - Current Year	0.0154660%	0.0301680%	
Change in Proportionate Share	0.0011660%	-0.0016330%	
Proportion of the Net OPEB Liability	\$1,679,494	\$1,709,277	\$3,388,771
OPEB Expense	\$178,873	\$124,121	\$302,994

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

10. DEFINED BENEFIT OPEB PLANS (Continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources:			
Differences between expected and actual economic experience	\$ 1,308	\$ -	\$ 1,308
Changes of assumptions	122,285	166,789	289,074
Changes in proportion	82,290	-	82,290
Contributions subsequent to the measurement date	-	4,123	4,123
Total	\$ 205,883	\$ 170,912	\$ 376,795

	OPERS	OP&F	Total
Deferred Inflows of Resources:			
Differences between expected and actual economic experience	\$ 125,111	\$ 8,621	\$ 133,732
Differences between projected and actual investment earnings	-	11,251	11,251
Changes in proportion	2,614	67,628	70,242
Total	\$ 127,725	\$ 87,500	\$ 215,225

\$4,123 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	OP&F	Total
Fiscal Year Ending December 31:			
2019	\$ 65,907	\$ 10,424	\$ 76,331
2020	65,907	10,424	76,331
2021	(22,379)	10,424	(11,955)
2022	(31,277)	10,425	(20,852)
2023	-	13,237	13,237
Thereafter	-	24,355	24,355
	\$ 78,158	\$ 79,289	\$ 157,447

City of Hillsboro
Notes to the Basic Financial Statements
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10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

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

The most recent experience study was completed for the five-year period ended December 31, 2015. The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OPERS (continued)

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	100.00 %	4.98 %

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

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

The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$2,231,280	\$1,679,494	\$1,233,104

City of Hillsboro
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10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OPERS (continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
City's proportionate share of the net OPEB liability	\$1,606,917	\$1,679,494	\$1,754,463

Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OP&F (continued)

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

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

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

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

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

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted 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 OP&F's target asset allocation as of December 31, 2017, are summarized below:

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OP&F (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00 %	

Note: Assumptions are geometric.

* levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the 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 OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return of 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	\$2,136,616	\$1,709,277	\$1,380,457

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

10. DEFINED BENEFIT OPEB PLANS (Continued)

Actuarial Assumptions – OP&F (continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	\$1,327,797	\$1,709,277	\$2,223,382

Changes between Measurement Date and Report Date

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City’s NOL is not known.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

11. RISK MANAGEMENT

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

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2018, PEP retained \$500,000 for casualty claims and \$250,000 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, 2018.

Assets	\$49,921,998
Liabilities	<u>(14,676,199)</u>
Net Position	<u>\$35,245,799</u>

At December 31, 2018 the liabilities above include approximately \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$11.8 million of unpaid claims to be billed. The Pool's membership increased to 538 members in 2018. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2018, the City's share of these unpaid claims collectible in future years is approximately \$44,000.

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

2018 Contributions to PEP

\$71,003

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018:

	Beginning Balance 12/31/2017	Additions	Deletions	Ending Balance 12/31/2018
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 580,307	\$ -	\$ -	\$ 580,307
Construction in Progress	533,610	1,388,901	(1,376,389)	546,122
Total Capital Assets, Not Being Depreciated	<u>1,113,917</u>	<u>1,388,901</u>	<u>(1,376,389)</u>	<u>1,126,429</u>
Capital Assets Being Depreciated				
Land Improvements	2,060,874	51,345	-	2,112,219
Buildings and Improvements	4,049,203	-	-	4,049,203
Furniture and Equipment	1,914,643	173,196	-	2,087,839
Vehicles	2,070,496	88,086	-	2,158,582
Infrastructure	17,692,207	2,128,541	-	19,820,748
Total Capital Assets Being Depreciated	<u>27,787,423</u>	<u>2,441,168</u>	<u>-</u>	<u>30,228,591</u>
Less Accumulated Depreciation				
Land Improvements	(1,368,799)	(43,604)	-	(1,412,403)
Buildings and Improvements	(1,019,648)	(81,232)	-	(1,100,880)
Furniture and Equipment	(1,539,513)	(85,019)	-	(1,624,532)
Vehicles	(1,768,506)	(82,956)	-	(1,851,462)
Infrastructure	(6,440,992)	(626,501)	-	(7,067,493)
Total Accumulated Depreciation	<u>(12,137,458)</u>	<u>(919,312)</u>	<u>-</u>	<u>(13,056,770)</u>
Total Capital Assets Being Depreciated, Net	<u>15,649,965</u>	<u>1,521,856</u>	<u>-</u>	<u>17,171,821</u>
Governmental Activities Capital Assets, Net	<u>\$ 16,763,882</u>	<u>\$ 2,910,757</u>	<u>\$ (1,376,389)</u>	<u>\$ 18,298,250</u>

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$19,749
Security of Persons & Property	147,699
Community Environment	576
Leisure Time Activities	35,996
Transportation	<u>715,292</u>
Total Depreciation Expense	<u>\$919,312</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2018:

	Beginning Balance 12/31/2017	Additions	Deletions	Ending Balance 12/31/2018
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,460	\$ -	\$ -	\$ 10,460
Construction in Progress	97,912	329,331	-	427,243
Total Capital Assets, Not Being Depreciated	108,372	329,331	-	437,703
Capital Assets Being Depreciated				
Land Improvements	348,671	-	-	348,671
Buildings and Improvements	34,411,437	5,250	-	34,416,687
Furniture and Equipment	1,416,770	224,856	-	1,641,626
Vehicles	949,591	33,148	-	982,739
Infrastructure	5,470,610	44,132	-	5,514,742
Total Capital Assets Being Depreciated	42,597,079	307,386	-	42,904,465
Less Accumulated Depreciation				
Land Improvements	(265,992)	(12,529)	-	(278,521)
Buildings and Improvements	(8,121,482)	(500,896)	-	(8,622,378)
Furniture and Equipment	(1,057,344)	(81,594)	-	(1,138,938)
Vehicles	(385,183)	(39,375)	-	(424,558)
Infrastructure	(2,277,475)	(263,875)	-	(2,541,350)
Total Accumulated Depreciation	(12,107,476)	(898,269)	-	(13,005,745)
Total Capital Assets Being Depreciated, Net	30,489,603	(590,883)	-	29,898,720
Business Type Activities Capital Assets, Net	\$30,597,975	\$ (261,552)	\$ -	\$ 30,336,423

14. LONG-TERM OBLIGATIONS

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

	Outstanding 12/31/2017*	Issued	Retired	Outstanding 12/31/2018	Due In One Year
<u>Governmental Activities</u>					
Compensated Absences	\$ 161,601	\$ 228,899	\$ 216,408	\$ 174,092	\$ 27,538
2018 - 0% OPWC Loan	-	247,694	24,769	222,925	49,538
2009 - Various Purpose General Obligation Bonds	390,000	-	125,000	265,000	130,000
2016 - Refunding Various Purpose General Obligation Bonds	1,970,000	-	80,000	1,890,000	90,000
Capital Lease	75,683	141,950	71,999	145,634	54,678
Net Pension Liability	3,837,321	-	573,954	3,263,367	-
Net OPEB Liability	2,320,633	331,806	-	2,652,439	-
Total Governmental Activities	\$ 8,755,238	\$ 950,349	\$ 1,092,130	\$ 8,613,457	\$ 351,754

* As restated for GASB 75, see Note 17 for additional information.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

14. LONG-TERM OBLIGATIONS (Continued)

	Outstanding 12/31/2017*	Issued	Retired	Outstanding 12/31/2018	Due In One Year
<u>Business-Type Activities</u>					
Compensated Absences	\$ 67,824	\$ 136,102	\$ 128,873	\$ 75,053	\$ 2,075
Water					
2014 General Obligation Refunding and Improvement Bonds 3.53%	2,215,000	-	125,000	2,090,000	130,000
2014 General Obligation Refunding and Improvement Bonds 3.53%	520,000	-	30,000	490,000	30,000
2005 - Water System Improvement Revenue Bonds - 4.25%	475,000	-	9,000	466,000	9,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,037,000	-	39,000	1,998,000	41,000
Capital Lease	141,030	70,438	51,100	160,368	49,398
Net Pension Liability	814,388	-	257,384	557,004	-
Net OPEB Liability	320,010	52,098	-	372,108	-
Total Water Fund	6,522,428	122,536	511,484	6,133,480	259,398
Sewer					
2004 - OWDA Loan - 1%	153,514	-	21,280	132,234	21,386
2005 - OWDA Loan - 1%	587,908	-	70,948	516,960	71,303
2010 - OWDA Loan - 1%	5,659,779	-	393,608	5,266,171	395,576
2007 - OPWC Loan - 0%	90,000	-	10,000	80,000	10,000
2014 - OPWC Loan - 0%	348,135	-	17,406	330,729	17,406
2015 - OPWC Loan - 0%	194,338	-	11,105	183,233	11,105
Capital Lease	141,030	70,438	51,100	160,368	49,398
Net Pension Liability	723,639	-	178,437	545,202	-
Net OPEB Liability	313,230	50,994	-	364,224	-
Total Sewer Fund	8,211,573	121,432	753,884	7,579,121	576,174
Storm Water Fund					
2018 - OWDA Loan - 1%	-	14,332	4,080	10,252	-
2018 - OWDA Loan - 0%	-	49,436	8,760	40,676	-
Total Storm Water Fund	-	63,768	12,840	50,928	-
Total Business-Type Activities	\$ 14,801,825	\$ 443,838	\$ 1,407,081	\$ 13,838,582	\$ 837,647

* As restated for GASB 75, see Note 17 for additional information.

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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

14. LONG-TERM OBLIGATIONS (Continued)

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

There were two OWDA loans issued in 2018 at an interest rate of 1% and 0% to pay for the costs of storm sewer maintenance. No amortization schedules were provided for these loans.

The 2018 OPWC loan was issued at a zero percent interest rate for street improvements. This loan will be repaid from the Street Fund.

The 2014 OPWC loan was issued at a zero percent interest rate for street improvements. This loan is being paid from the Street Fund.

In connection with the general obligation refunding and improvement bonds, the mortgage revenue bonds and OWDA loans, the City has pledged future customer revenues of the Water and Sewer Funds, respectively, net of specified operating expenses, to repay these bonds and loans. The bonds and loans are payable, through final maturities, from net revenues applicable to the Water and Sewer Funds, respectively. Total principal and interest remaining to be paid on the bonds is \$7,405,074. The net revenue available for these bonds was \$384,794 and principal and interest paid was \$403,570. The coverage ratio for these bonds was 0.95 for the year ended December 31, 2018. The remaining principal and interest to be paid on the OWDA loans was \$6,288,429. The net revenue available for these loans was \$906,704 and principal and interest paid was \$561,476. The coverage ratio for the loans was 1.61 for the year ended December 31, 2018.

The 2009 Various Purpose General Obligation Bonds were issued in the amount of \$2,730,000 for the purpose of constructing a new fire station. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Property tax monies will be received in and the debt is being repaid from a General Obligation Bond Retirement Fund. \$1,470,000 of these bonds were refunded during 2017.

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, 2018

14. LONG-TERM DEBT OBLIGATIONS (Continued)

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

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

The City placed \$1,993,806 with an escrow agent so \$280,000 of the 2007 Street Improvement Bonds were redeemed on December 1, 2017 and \$1,470,000 of the 2009 Various Purpose General Obligation Bonds can be redeemed on June 1, 2020. The City has not recorded these balances on their financial statements as the debt is considered advance refunded; however, the outstanding balance on these advance refunded bonds is \$1,470,000, as of December 31, 2018.

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

Principal and interest requirements to retire Refunding and General Obligation Bonds (Governmental Activities) and principal requirements to retire OPWC (Business-Type Activities and Governmental Activities) debt at December 31, 2018 were as follows:

	General Obligation Bonds		OPWC Business	OPWC Governmental	General Obligation Refunding Bonds	
	Principal	Interest	Principal	Principal	Principal	Interest
2019	\$ 130,000	\$ 12,393	\$ 38,511	\$ 49,538	\$ 90,000	\$ 38,367
2020	135,000	6,413	38,512	49,538	90,000	36,540
2021	-	-	38,512	49,538	230,000	34,713
2022	-	-	38,512	49,538	230,000	30,044
2023	-	-	38,512	24,773	170,000	25,375
2024-2028	-	-	172,560	-	895,000	73,790
2029-2033	-	-	142,560	-	185,000	3,756
2034-2037	-	-	86,283	-	-	-
	<u>\$ 265,000</u>	<u>\$ 18,806</u>	<u>\$ 593,962</u>	<u>\$ 222,925</u>	<u>\$ 1,890,000</u>	<u>\$ 242,585</u>

Principal and interest requirements to retire Mortgage Revenue Bonds, Refunding Bonds, and the OWDA Loan at December 31, 2018 were as follows:

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

14. LONG-TERM DEBT OBLIGATIONS (Continued)

	Water System Improvement Bonds		OWDA Loan		Refunding and Improvement Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 50,000	\$ 104,720	\$ 488,265	\$ 57,931	\$ 160,000	\$ 88,250
2020	53,000	102,876	495,637	53,011	165,000	82,514
2021	55,000	100,343	500,606	48,043	175,000	76,513
2022	56,000	98,005	505,624	43,024	180,000	70,247
2023	61,000	95,625	510,693	37,955	185,000	63,805
2024-2028	338,000	438,144	2,305,678	116,449	1,015,000	215,771
2029-2033	415,000	359,737	1,108,862	16,651	700,000	37,595
2034-2038	513,000	263,432	-	-	-	-
2039-2043	632,000	144,764	-	-	-	-
2044-2045	291,000	18,734	-	-	-	-
	<u>\$ 2,464,000</u>	<u>\$ 1,726,380</u>	<u>\$ 5,915,365</u>	<u>\$ 373,064</u>	<u>\$ 2,580,000</u>	<u>\$ 634,695</u>

The City's overall legal debt margin was \$9,713,180 at December 31, 2018.

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, 2018.

Litigation

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

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

During 2018 and in previous years, the City entered into capital lease agreements for police cruisers, a jet vac/hydro excavator, a tractor, computer equipment, a vac truck, a bucket truck, and radio read meters. The leases meet the criteria of a capital lease as defined by Governmental Accounting Standards Board No. 62, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the General Fund and as reductions of capital lease obligations in the Water and Sewer Funds. These expenditures are reflected as program/object expenditures on a budgetary basis in the General Fund.

The capital assets acquired by the leases have been capitalized in the statement of net position for governmental activities and business-type activities in the amount of \$1,326,608 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 2018 totaled \$71,999 in the governmental funds, \$51,100 in the Water Fund and \$51,100 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, 2018:

Year Ending December 31,	Capitalized Lease Obligation
2019	\$ 171,311
2020	162,271
2021	104,766
2022	64,377
Total Minimum Lease Payments	502,725
Less: Amount Representing Interest	(36,355)
Present Value of Minimum Lease Payments	\$ 466,370

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City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

17. NEW ACCOUNTING PRINCIPLES AND RESTATEMENT OF BEGINNING FUND BALANCE AND NET POSITION

For the fiscal year ended December 31, 2018, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 85, *Omnibus 2017*.

GASB Statement No. 75 (GASB 75) establishes accounting and financial reporting requirements for governmental employers who have other post-employment benefits (OPEB) plans.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB Statement No. 85 did not have an effect on the financial statements of the City.

After a review of the City's loan receivable balance related to its revolving loan fund program, it was determined that not all of the receivables related to this program were deemed collectible. The receivable balance was reduced by \$8,319 and an allowance for doubtful account amount of \$67,916 was established for the remaining loans receivable. This reduced the fund balance of All Other Governmental Fund by \$76,235 and also reduced the net position of Governmental Activities by \$76,235 as of December 31, 2017.

The implementation of GASB Statement No. 75 and the correction of the loan receivable balance had the following effect on the financial statements of the City and certain additional disclosures have been made in the notes to the basic financial statements.

	<u>All Other Governmental Funds</u>	
Fund balance, December 31, 2017 - As previously stated	\$1,008,618	
Correction of Loan Receivable Balance	<u>(76,235)</u>	
Fund balance, December 31, 2017 - As restated	<u>\$932,383</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position, December 31, 2017 - As previously stated	\$14,814,794	\$21,881,864
City's Share of Beginning Plan Net OPEB Liability	(2,320,633)	(633,240)
City's Share of 2017 Employer Contributions	15,947	9,596
Correction of Loan Receivable Balance	<u>(76,235)</u>	<u>0</u>
Net position, December 31, 2017 - As restated	<u>\$12,433,873</u>	<u>\$21,258,220</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>
Net position, December 31, 2017 - As previously stated	\$2,571,386	\$19,277,400
City's Share of Beginning Plan Net OPEB Liability	(320,010)	(313,230)
City's Share of 2017 Employer Contributions	4,849	4,747
Net position, December 31, 2017 - As restated	<u>\$2,256,225</u>	<u>\$18,968,917</u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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	Tax Increment Fund	All Other Governmental	Total Governmental Funds
Nonspendable					
Unclaimed Monies	\$17,786	\$0	\$0	\$0	\$17,786
Total Nonspendable	<u>17,786</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,786</u>
Restricted for					
Street Improvement	0	156,768	0	0	156,768
Parking Meter	0	0	0	159,340	159,340
Municipal Court Special Project	0	0	0	7,212	7,212
Alcohol Treatment	0	0	0	81,610	81,610
Other Purpose	0	0	0	207,250	207,250
Recreation	0	0	0	256,335	256,335
Rehab	0	0	0	13,647	13,647
Revolving Loan	0	0	0	369,457	369,457
Debt Services Payments	0	0	0	2,662	2,662
Capital Improvements	0	0	242,094	0	242,094
Total Restricted	<u>0</u>	<u>156,768</u>	<u>242,094</u>	<u>1,097,513</u>	<u>1,496,375</u>
Assigned to					
Future Year Appropriations	540,608	0	0	0	540,608
Other Purposes	120,435	0	0	0	120,435
Total Assigned	<u>661,043</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>661,043</u>
Unassigned	<u>553,141</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>553,141</u>
Total Fund Balances	<u><u>\$1,231,970</u></u>	<u><u>\$156,768</u></u>	<u><u>\$242,094</u></u>	<u><u>\$1,097,513</u></u>	<u><u>\$2,728,345</u></u>

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2018

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	\$137,484
Street Fund	120,288
Tax Increment Fund	7,687
Water Fund	56,127
Sewer Fund	414,431
Storm Sewer Maintenance and Repair	
Nonmajor Enterprise Fund	101,401
Total	<u><u>\$837,418</u></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 Five Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total plan pension liability	\$ 102,273,912,351	\$ 99,811,932,954	\$ 91,534,580,978	\$ 89,017,348,266	\$ 86,407,229,435
Plan net position	<u>86,585,851,024</u>	<u>77,109,633,485</u>	<u>74,213,320,352</u>	<u>76,956,230,642</u>	<u>74,618,532,269</u>
Net pension liability	15,688,061,327	22,702,299,469	17,321,260,626	12,061,117,624	11,788,697,166
City's proportion of the net pension liability	0.016025%	0.014805%	0.014981%	0.015094%	0.015094%
City's proportionate share of the net pension liability	\$ 2,514,012	\$ 3,361,074	\$ 2,594,898	\$ 1,820,505	\$ 1,779,386
City's covered-employee payroll	\$ 2,189,700	\$ 1,977,133	\$ 1,921,650	\$ 1,911,250	\$ 2,054,054
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	114.81%	170.00%	135.03%	95.25%	86.63%
Plan fiduciary net position as a percentage of the total pension liability	84.66%	77.25%	81.08%	86.45%	86.36%

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

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 Five Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total plan pension liability	\$ 21,101,065,550	\$ 20,016,288,888	\$ 19,357,013,332	\$ 18,761,561,462	\$ 18,152,090,344
Plan net position	<u>14,963,614,004</u>	<u>13,682,389,240</u>	<u>12,923,943,156</u>	<u>13,453,447,836</u>	<u>13,166,077,870</u>
Net pension liability	6,137,451,546	6,333,899,648	6,433,070,176	5,308,113,626	4,986,012,474
City's proportion of the net pension liability	0.0301680%	0.0318010%	0.0342040%	0.0332208%	0.0332208%
City's proportionate share of the net pension liability	\$ 1,851,561	\$ 2,014,274	\$ 2,200,367	\$ 1,763,398	\$ 1,656,393
City's covered-employee payroll	\$ 732,111	\$ 759,853	\$ 773,379	\$ 712,989	\$ 1,506,581
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	252.91%	265.09%	284.51%	247.32%	109.94%
Plan fiduciary net position as a percentage of the total pension liability	70.91%	68.36%	66.77%	71.71%	72.53%

Note: Information prior to 2014 is not available.
Amounts presented as of the City's measurement date 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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 172,613	\$ 284,661	\$ 237,256	\$ 230,598	\$ 229,350	\$ 267,027	\$ 280,522	\$ 282,981	\$ 282,460	\$ 278,663
Contributions in relation to the contractually required contribution	<u>(172,613)</u>	<u>(284,661)</u>	<u>(237,256)</u>	<u>(230,598)</u>	<u>(229,350)</u>	<u>(267,027)</u>	<u>(280,522)</u>	<u>(282,981)</u>	<u>(282,460)</u>	<u>(278,663)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,232,950	\$ 2,189,700	\$ 1,977,133	\$ 1,921,650	\$ 1,911,250	\$ 2,054,054	\$ 2,805,220	\$ 2,829,810	\$ 3,138,444	\$ 3,278,388
Contributions as a percentage of covered employee payroll	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%	10.00%	10.00%	9.00%	8.50%

Changes to Benefit Terms: There were no changes in benefit terms affecting the OPERS plan for the plan year ended December 31, 2017.

Changes of Assumptions (OPERS): During the plan year ended December 31, 2017, there were changes to several assumptions for OPERS. The wage inflation dropped from 3.75 percent to 3.25 percent. The projected salary increase range changed from 4.25-10.05 percent to 3.25-10.75 percent. The mortality tables used changed from RP-2000 to RP-2014.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 156,935	\$ 139,101	\$ 144,372	\$ 146,942	\$ 135,468	\$ 239,245	\$ 326,127	\$ 347,467	\$ 362,331	\$ 440,732
Contributions in relation to the contractually required contribution	<u>(156,935)</u>	<u>(139,101)</u>	<u>(144,372)</u>	<u>(146,942)</u>	<u>(135,468)</u>	<u>(239,245)</u>	<u>(326,127)</u>	<u>(347,467)</u>	<u>(362,331)</u>	<u>(440,732)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 825,974	\$ 732,111	\$ 759,853	\$ 773,379	\$ 712,989	\$ 1,506,581	\$ 2,557,859	\$ 2,725,231	\$ 2,841,812	\$ 3,456,722
Contributions as a percentage of covered employee payroll	19.00%	19.00%	19.00%	19.00%	19.00%	15.88%	12.75%	12.75%	12.75%	12.75%

Changes to Benefit Terms: There were no changes in benefit terms affecting the OPF plan for the plan year ended December 31, 2017.

Changes of Assumptions (OPF): During the plan year ended December 31, 2017, there were changes to several assumptions for OPF. The wage inflation dropped from 3.75 percent to 3.25 percent. The projected salary increase range changed from 4.25 to 11 percent to 3.75-10.50 percent. The mortality tables used changed from RP-2000 to RP-2014. The investment rate of return changed from 8.25 percent to 8.25 percent.

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

	<u>2018</u>	<u>2017</u>
Total plan OPEB liability	\$ 23,678,097,060	\$ 21,980,827,536
Plan net position	<u>12,818,833,665</u>	<u>11,880,487,863</u>
Net OPEB liability	10,859,263,395	10,100,339,673
City's proportion of the net OPEB liability	0.01546600%	0.01430000%
City's proportionate share of the net OPEB liability	\$ 1,679,494	\$ 1,444,350
City's covered-employee payroll	\$ 2,189,700	\$ 1,977,133
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	76.70%	73.05%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%	54.05%

(1) Information prior to 2017 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 OPEB Liability
Ohio Police and Fire Pension System
Last Two Years (1)

	<u>2018</u>	<u>2017</u>
Total plan OPEB liability	\$ 6,597,947,735	\$ 5,648,428,827
Plan net position	<u>932,087,789</u>	<u>901,653,715</u>
Net OPEB liability	5,665,859,946	4,746,775,112
City's proportion of the net OPEB liability	0.03016800%	0.03180100%
City's proportionate share of the net OPEB liability	\$ 1,709,277	\$ 1,509,522
City's covered-employee payroll	\$ 732,111	\$ 759,853
City's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	233.47%	198.66%
Plan fiduciary net position as a percentage of the total OPEB liability	14.13%	15.96%

(1) Information prior to 2017 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 OPEB Contributions
Ohio Public Employees Retirement System
Last Three Years (1)

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

(1) Information prior to 2016 is not available.

Notes to Required Supplementary Information - OPEB

Changes to Benefit Terms: There were no changes in benefit terms affecting the OPERS plan for the plan year ended December 31, 2017.

Changes of Assumptions (OPERS): The single discount rate changed from 4.23% to 3.85% for the plan year ended December 31, 2017.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 4,123	\$ 3,655	\$ 3,793
Contributions in relation to the contractually required contribution	<u>(4,123)</u>	<u>(3,655)</u>	<u>(3,793)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City covered-employee payroll	\$ 825,974	\$ 732,111	\$ 759,853
Contributions as a percentage of covered-employee payroll	0.50%	0.50%	0.50%

(1) Information prior to 2016 is not available.

Notes to Required Supplementary Information - OPEB

Changes to Benefit Terms: There were no changes in benefit terms affecting the OPERS plan for the plan year ended December 31, 2017.

Changes of Assumptions (OPERS): The single discount rate changed from 3.79% to 3.24% for the plan year ended December 31, 2017.

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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 2, 2019, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" and restated beginning net position as a result of this implementation and a restatement of loans receivable.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001, that we consider to be a material weakness.

City of Hillsboro, Ohio

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

Page 2

Compliance and Other Matters

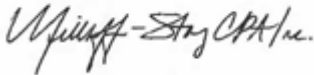
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City's Response to Findings

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

Purpose of this Report

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



Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

December 2, 2019

City of Hillsboro
Schedule of Findings and Responses
For the Year Ended December 31, 2018

Finding 2018-001 – Material Weakness – Budget Information Within Accounting System

Proper and timely recording of budgetary information in the accounting system is pertinent to a properly functioning control environment. Officials of the City rely on information recorded within the accounting system to make spending and budgeting decisions. During testing we noted that several funds' final appropriations in the accounting system did not match the final approved appropriations. The City should implement the appropriate procedures, such as periodic reconciliations of budgetary information within the accounting system to formally approved budgets, to ensure that budgetary information is properly presented.

Client Response:
Noted.

City of Hillsboro
Schedule of Prior Audit Findings
For the Year Ended December 31, 2018

Finding Number	Finding Summary	Status	Additional Information
Finding 2017-001	Material Weakness – Budget Information Within Accounting System	Not Corrected	Reissued as Finding 2018-001

OHIO AUDITOR OF STATE KEITH FABER



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
JANUARY 23, 2020**