

City of Hillsboro

Highland County

Single Audit

January 1, 2004 through December 31, 2004

Fiscal Year Audited Under GAGAS: 2004

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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**Auditor of State  
Betty Montgomery**

Members of 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 Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

October 31, 2005

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**City of Hillsboro**  
*Basic Financial Statements*  
For the Fiscal Year Ended December 31, 2004

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# BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

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Ohio Society of Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

City of Hillsboro  
Highland County  
130 North High Street  
Hillsboro, Ohio 45133

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, Ohio, (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Revolving Loan Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2005, 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, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.



Balestra, Harr & Scherer CPAs, Inc.  
August 23, 2005



**City of Hillsboro**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*(Unaudited)*

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The discussion and analysis of the City of Hillsboro's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. 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 2004 are as follows:

- In total, net assets increased \$1,866,792. Net assets of governmental activities increased \$301,664. Net assets of business-type activities increased \$1,565,128.
- Governmental Activities general revenues accounted for \$4,497,727 in revenue or 73 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,703,340 or 27 percent of total revenues of \$6,201,067. Business-type activities general revenues accounted for \$256,085 in revenue or 7 percent of all revenues. Program specific revenues accounted for \$3,651,905 or 93 percent of total revenues of \$3,907,990.
- The City had \$5,899,403 in expenses related to governmental activities; \$1,703,340 of these expenses was offset by program specific charges for services, grants or contributions. The City had \$2,342,862 in expenses related to business-type activities; the entire amount was offset by program specific charges for services, grants or 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 assets 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. Major 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.

**City of Hillsboro**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*(Unaudited)*

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## **Reporting the City as a Whole**

### Statement of Net Assets 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 2004?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting system 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 assets and the changes in those assets. The change in assets 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, non financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

In the statement of net assets 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 (sanitation, wastewater treatment, storm water utility 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. The City also charges fees to recoup the cost of disposal of solid waste, leaf and brush removal and also a fee to provide for improvements to the City's storm water removal system.

## **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 Revolving Loan special revenue 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 assets 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.

**City of Hillsboro**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*(Unaudited)*

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**The City as a Whole**

The statement of net assets reviews the City as a whole. The following table is a summary of the City's net assets for 2004. Since this is the first year the City of Hillsboro has prepared financial statements following GASB Statement 34, comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 1  
Net Assets

	Governmental Activities	Business- Type Activities	Total
	<u>2004</u>	<u>2004</u>	<u>2004</u>
<b>Assets</b>			
Current and Other Assets	\$5,057,275	\$2,512,525	\$7,569,800
Capital Assets, Net	<u>9,810,324</u>	<u>12,732,063</u>	<u>22,542,387</u>
Total Assets	<u>14,867,599</u>	<u>15,244,588</u>	<u>30,112,187</u>
<b>Liabilities</b>			
Other Liabilities	694,085	4,241,210	4,935,295
Long-Term Liabilities	<u>470,742</u>	<u>4,655,108</u>	<u>5,125,850</u>
Total Liabilities	<u>1,164,827</u>	<u>8,896,318</u>	<u>10,061,145</u>
<b>Net Assets</b>			
Invested in Capital Assets			
Net of Debt	9,624,164	5,170,930	14,795,094
Restricted	2,220,087	0	2,220,087
Unrestricted	<u>1,858,521</u>	<u>1,177,340</u>	<u>3,035,861</u>
Total Net Assets	<u>\$13,702,772</u>	<u>\$6,348,270</u>	<u>\$20,051,042</u>

Total governmental activities assets increased \$301,664 while business-type activities increase \$1,565,128.

**City of Hillsboro**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*(Unaudited)*

Table 2 shows the changes in net assets for the year ended December 31, 2004. Since this is the first year the City of Hillsboro has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

	Governmental Activities 2004	Business Type Activities 2004	Total 2004
<b>Revenue</b>			
Program Revenues:			
Charges for Services and Sales	\$979,673	\$2,616,741	\$3,596,414
Operating Grants and Contributions	723,667	0	723,667
Capital Grants and Contributions	0	1,035,164	1,035,164
<b>Total Program Revenues</b>	<b>1,703,340</b>	<b>3,651,905</b>	<b>5,355,245</b>
General Revenue:			
Property & Income Taxes	4,241,361	0	4,241,361
Unrestricted Investment Earnings	56,039	9,715	65,754
Other	200,327	246,370	446,697
<b>Total General Revenues</b>	<b>4,497,727</b>	<b>256,085</b>	<b>4,753,812</b>
<b>Total Revenues</b>	<b>6,201,067</b>	<b>3,907,990</b>	<b>10,109,057</b>
<b>Program Expenses</b>			
General Government -			
Legislative and Executive	1,282,510	0	1,282,510
Judicial	247,434	0	247,434
Security of Persons and Property	3,209,061	0	3,209,061
Public Health	45,070	0	45,070
Leisure Time Activities	125,813	0	125,813
Community Environment	444,741	0	444,741
Transportation	531,169	0	531,169
Interest and Fiscal Charges	13,605	0	13,605
Water Fund	0	1,090,363	1,090,363
Sewer Fund	0	1,252,499	1,252,499
<b>Total Expenses</b>	<b>5,899,403</b>	<b>2,342,862</b>	<b>8,242,265</b>
<b>Increase in Net Assets</b>	<b>301,664</b>	<b>1,565,128</b>	<b>1,866,792</b>
<b>Beginning Net Assets</b>	<b>13,401,108</b>	<b>4,783,142</b>	<b>18,184,250</b>
<b>Ending Net Assets</b>	<b>\$13,702,772</b>	<b>\$6,348,270</b>	<b>\$20,051,042</b>

**City of Hillsboro**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*(Unaudited)*

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**Governmental Activities**

Several revenue sources fund governmental activities, with income taxes generally being the biggest contributor. General revenues from grants and entitlements, such as local government funds, are also a large revenue generator. With the combination of property tax, income tax and intergovernmental receipts comprising approximately 94% of all general revenues in the governmental activities, the City monitors each of these revenue sources very closely for fluctuations.

Security of persons and property and general government are the major activities of the City, generating 80% 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 wastewater treatment plant generated operating revenues of \$1,451,613 and had operating expenses of \$1,252,499. The water plant generated operating revenues of \$2,200,292 and had operating expenses of \$1,090,363. The City's goal is to cover the costs of operations as well as build a 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**

The City's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds on the modified accrual basis of accounting had total revenues of \$5,891,741 and expenditures of \$5,445,277.

**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. The most significant budgeted fund is the General Fund.

During the course of 2004, the City amended its General Fund budget numerous times. 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 over spending by individual departments.

For the General Fund, original budgeted revenues were \$4,305,460 and final budgeted revenues were \$4,459,460. Original budgeted expenditures were \$4,737,950 and final budgeted expenditures were \$4,861,955. Actual ending fund balance was \$413,677 over final budget amounts.

**City of Hillsboro**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*(Unaudited)*

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**Capital Assets and Debt Administration**

**Capital Assets**

At the end of the 2004 the City had \$22,542,387 invested in land, construction in progress, buildings, equipment, vehicles, and infrastructure. Table 4 shows 2004 balances.

	Governmental Activities	Business- Type Activities	Total
	2004	2004	2004
Land	\$373,192	\$0	\$373,192
Land Improvements	1,149,605	118,519	1,268,124
Buildings and Improvements	1,278,157	3,395,114	4,673,271
Furniture and Equipment	529,785	253,611	783,396
Vehicles	359,112	47,556	406,668
Infrastructure	6,120,473	3,105,630	9,226,103
Construction in Progress	0	5,811,633	5,811,633
<b>Totals</b>	<b>\$9,810,324</b>	<b>\$12,732,063</b>	<b>\$22,542,387</b>

The decrease noted in governmental funds was due primarily to current year depreciation. The increase to the business-type activities is due to construction projects tied to a sewer relining project.

See Note 14 for additional information on the City's capital assets.

**Debt**

At December 31, 2004, the City of Hillsboro had \$4,787,293 in bonds, loans, and leases outstanding, \$427,950 due within one year.

Table 5  
 Outstanding Debt, at Year End

	Governmental Activities	Business- Type Activities	Total
	2004	2004	2004
O.W.D.A. Loan	\$ -	\$ 161,133	\$ 161,133
Capital Lease	41,160	0	41,160
Mortgage Revenue Bonds	0	4,440,000	4,440,000
Bonds	145,000	0	145,000
<b>Total</b>	<b>\$186,160</b>	<b>\$4,601,133</b>	<b>\$4,787,293</b>

The City's overall legal debt margin was \$1,182,462 at December 31, 2004.

See Note 15 for additional information about the City's debt.

**City of Hillsboro**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2004*  
*(Unaudited)*

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**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 should always 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 Rose Ryan, City Auditor, 130 North High Street, Hillsboro, Ohio 45133, (937) 393-5791.

**City of Hillsboro**  
*Statement of Net Assets*  
*December 31, 2004*

	Governmental Activities	Business-Type Activities	Totals
<b><u>ASSETS</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$1,837,144	\$851,006	\$2,688,150
Investments	4,296	0	4,296
Cash and Cash Equivalents in Segregated Accounts	0	410,426	410,426
Receivables:			
Taxes	1,665,312	0	1,665,312
Accounts	191,822	538,737	730,559
Due From Other Governments	483,273	400,588	883,861
Loans Receivable	875,428	0	875,428
Deferred Expense on Refunding	0	71,741	71,741
Restricted Assets:			
Cash and Cash Equivalents	0	240,027	240,027
Non-Depreciable Capital Assets	373,192	5,811,633	6,184,825
Depreciable Capital Assets	9,437,132	6,920,430	16,357,562
 Total Assets	 <u>\$14,867,599</u>	 <u>\$15,244,588</u>	 <u>\$30,112,187</u>
 <b><u>Liabilities</u></b>			
Accounts Payable	\$60,844	\$94,898	\$155,742
Contracts Payable	0	347,424	347,424
Accrued Wages and Benefits	83,086	14,250	97,336
Due to Other Governments	226,710	38,459	265,169
Deferred Revenue	323,445	400,588	724,033
Retainage Payable	0	240,027	240,027
Accrued Interest Payable	0	145,564	145,564
Notes Payable	0	2,960,000	2,960,000
Long-Term Liabilities			
Due Within One Year	81,665	369,793	451,458
Due in More than One Year	389,077	4,285,315	4,674,392
 Total Liabilities	 <u>1,164,827</u>	 <u>8,896,318</u>	 <u>10,061,145</u>
 <b><u>Net Assets</u></b>			
Invested in Capital Assets, Net of Related Debt	9,624,164	5,170,930	14,795,094
Restricted for:			
Debt Service	271,937	0	271,937
Other Purposes	1,948,150	0	1,948,150
Unrestricted	1,858,521	1,177,340	3,035,861
 Total Net Assets	 <u>\$13,702,772</u>	 <u>\$6,348,270</u>	 <u>\$20,051,042</u>

See accompanying notes to the basic financial statements



*City of Hillsboro*  
*Statement of Activities*  
For the Year Ended December 31, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government:							
Legislative and Executive	\$1,282,510	\$121,740	\$63,298	\$0	(\$1,097,472)		(\$1,097,472)
Judicial	247,434	264,786	0	0	17,352		17,352
Security of Persons and Property	3,209,061	536,074	133,647	0	(2,539,340)		(2,539,340)
Public Health	45,070	3,864	9,185	0	(32,021)		(32,021)
Leisure Time Activities	125,813	4,918	51,890	0	(69,005)		(69,005)
Community Environment	444,741	25,391	220,527	0	(198,823)		(198,823)
Transportation	531,169	22,746	239,991	0	(268,432)		(268,432)
Interest and Fiscal Charges	13,605	154	5,129	0	(8,322)		(8,322)
Total Governmental Activities	<u>5,899,403</u>	<u>979,673</u>	<u>723,667</u>	<u>0</u>	<u>(4,196,063)</u>		<u>(4,196,063)</u>
Business-Type activities:							
Sewer	1,252,499	1,451,613	0	0	0	199,114	199,114
Water	1,090,363	1,165,128	0	1,035,164	0	1,109,929	1,109,929
Total Business-Type Activities	<u>2,342,862</u>	<u>2,616,741</u>	<u>0</u>	<u>1,035,164</u>	<u>0</u>	<u>1,309,043</u>	<u>1,309,043</u>
Total Government	<u>\$8,242,265</u>	<u>\$3,596,414</u>	<u>\$723,667</u>	<u>\$1,035,164</u>	<u>(\$4,196,063)</u>	<u>\$1,309,043</u>	<u>(\$2,887,020)</u>
General revenues:							
Taxes:							
Property taxes levied for:							
General Purposes					999,818	0	999,818
Special Purposes					81,856	0	81,856
Debt Service					84,512	0	84,512
Income taxes					3,075,175	0	3,075,175
Unrestricted Investment Earnings					56,039	9,715	65,754
Miscellaneous					200,327	246,370	446,697
Total general revenues					<u>4,497,727</u>	<u>256,085</u>	<u>4,753,812</u>
Change in net assets					301,664	1,565,128	1,866,792
Net assets - January 1, 2004 (Restated - See Note 3)					<u>13,401,108</u>	<u>4,783,142</u>	<u>18,184,250</u>
Net assets - December 31, 2004					<u>\$13,702,772</u>	<u>\$6,348,270</u>	<u>\$20,051,042</u>

See accompanying notes to the basic financial statements

**City of Hillsboro**  
*Balance Sheet*  
**Governmental Funds**  
*December 31, 2004*

	General	Revolving Loan	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$712,170	\$296,838	\$828,136	\$1,837,144
Investments	4,296	0	0	4,296
Receivables:				
Taxes	1,414,431	0	250,881	1,665,312
Accounts	191,822	0	0	191,822
Interfund	350,000	0	0	350,000
Due from Other Governments	164,818	0	318,455	483,273
Loans Receivable	0	789,138	86,290	875,428
<i>Total Assets</i>	<u>\$2,837,537</u>	<u>\$1,085,976</u>	<u>\$1,483,762</u>	<u>\$5,407,275</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$21,963	\$24,870	\$14,011	\$60,844
Accrued Wages and Benefits	76,144	0	6,942	83,086
Interfund Payable	0	0	350,000	350,000
Due to Other Governments	117,331	0	109,379	226,710
Deferred Revenue	818,476	0	494,428	1,312,904
<i>Total Liabilities</i>	<u>1,033,914</u>	<u>24,870</u>	<u>974,760</u>	<u>2,033,544</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	121,536	2,402	29,905	153,843
Reserved for Loans	0	789,138	86,290	875,428
Unreserved, Undesignated, Reported in:				
General Fund	1,682,087	0	3,796	1,685,883
Special Revenue Funds	0	269,566	439,985	709,551
Debt Service Funds	0	0	222,528	222,528
Capital Projects Funds	0	0	(273,502)	(273,502)
<i>Total Fund Balances</i>	<u>1,803,623</u>	<u>1,061,106</u>	<u>509,002</u>	<u>3,373,731</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,837,537</u>	<u>\$1,085,976</u>	<u>\$1,483,762</u>	<u>\$5,407,275</u>

See accompanying notes to the basic financial statements

**City of Hillsboro**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2004*

**Total Governmental Fund Balances** \$ 3,373,731

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 9,810,324

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

Taxes	631,969	
Intergovernmental	357,490	
	631,969	

Total		989,459
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Long-Term Liabilities, including 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.

Capital Lease Payable	(41,160)	
Compensated Absences	(284,582)	
General Obligation Bonds	(145,000)	
	(470,742)	

Total		(470,742)
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**Net Assets of Governmental Activities** \$ 13,702,772

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, 2004*

	General	Revolving Loan	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$3,721,488	\$0	\$262,528	\$3,984,016
Intergovernmental	45,486	0	626,200	671,686
Interest	46,877	5,788	3,374	56,039
Charges for Services	449,777	0	0	449,777
Fees, License and Permits	27,867	0	65,176	93,043
Fines and Forfeitures	233,897	0	178,638	412,535
Rent	12,650	0	11,668	24,318
Other	36,023	34,840	129,464	200,327
<i>Total Revenues</i>	<u>4,574,065</u>	<u>40,628</u>	<u>1,277,048</u>	<u>5,891,741</u>
<b>Expenditures</b>				
Current:				
General Government:				
Legislative and Executive	909,817	0	158,312	1,068,129
Judicial	245,714	0	0	245,714
Security of Persons and Property	2,661,864	0	374,355	3,036,219
Public Health	22,285	0	17,774	40,059
Leisure Time Activities	0	0	95,833	95,833
Community Environment	34,654	48,382	361,705	444,741
Transportation	0	0	443,372	443,372
Debt Service:				
Principal	0	0	57,605	57,605
Interest and Fiscal Charges	0	0	13,605	13,605
<i>Total Expenditures</i>	<u>3,874,334</u>	<u>48,382</u>	<u>1,522,561</u>	<u>5,445,277</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>699,731</u>	<u>(7,754)</u>	<u>(245,513)</u>	<u>446,464</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	580,000	580,000
Transfers Out	(580,000)	0	0	(580,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(580,000)</u>	<u>0</u>	<u>580,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	119,731	(7,754)	334,487	446,464
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>1,683,892</u>	<u>1,068,860</u>	<u>174,515</u>	<u>2,927,267</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,803,623</u></u>	<u><u>\$1,061,106</u></u>	<u><u>\$509,002</u></u>	<u><u>\$3,373,731</u></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, 2004*

**Net Change in Fund Balances - Total Governmental Funds** \$ 446,464

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

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

Capital Asset Additions	141,985	
Current Year Depreciation	(454,604)	
Total	(312,619)	(312,619)

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

Loss on Disposal of Capital Assets	(160,996)	
Total	(160,996)	(160,996)

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

Taxes	257,345	
Intergovernmental	51,981	
Total	309,326	309,326

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

45,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

12,605

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.

Increase in Compensated Absences	(38,116)	
Total	(38,116)	(38,116)

**Net Change in Net Assets of Governmental Activities** \$ 301,664

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, 2004*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property and Other Local Taxes	\$552,335	\$572,460	\$631,074	\$58,614
Income Taxes	2,903,330	3,010,000	3,075,175	65,175
Charges for Services	376,210	390,000	413,691	23,691
Licenses and Permits	11,349	11,750	27,867	16,117
Fines and Forfeitures	255,570	265,000	233,897	(31,103)
Intergovernmental	22,278	23,250	33,291	10,041
Interest	58,008	60,000	46,877	(13,123)
Rent	8,827	9,000	12,650	3,650
Other	15,553	16,000	35,123	19,123
<b>Total Revenues</b>	<b>4,203,460</b>	<b>4,357,460</b>	<b>4,509,645</b>	<b>152,185</b>
<b>EXPENDITURES:</b>				
Current:				
General Government:				
Legislative and Executive	1,140,500	1,146,408	940,755	205,653
Judicial System	336,400	333,508	253,911	79,597
Security of Persons and Property	2,604,350	2,713,325	2,753,761	(40,436)
Public Health	25,000	23,755	22,285	1,470
Community and Economic Development	51,700	64,959	47,751	17,208
<b>Total Expenditures</b>	<b>4,157,950</b>	<b>4,281,955</b>	<b>4,018,463</b>	<b>263,492</b>
Excess of Revenues Over(Under) Expenditures	45,510	75,505	491,182	415,677
<b>OTHER FINANCING SOURCES AND USES:</b>				
Proceeds from Sale of Capital Assets	2,000	2,000	0	(2,000)
Advances In	100,000	100,000	100,000	0
Transfers Out	(580,000)	(580,000)	(580,000)	0
<b>Total Other Financing Sources and Uses</b>	<b>(478,000)</b>	<b>(478,000)</b>	<b>(480,000)</b>	<b>(2,000)</b>
Net Change in Fund Balance	(432,490)	(402,495)	11,182	413,677
Fund Balance at Beginning of Year	433,331	433,331	433,331	0
Fund Balance (Deficit) at End of Year	\$841	\$30,836	\$444,513	\$413,677

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

**City of Hillsboro**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual*

*Revolving Loan Fund*  
*For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Total Revenues and Other	200,000	200,000	157,003	(42,997)
Total Expenditures and Other	310,000	310,030	74,964	235,066
Net Change in Fund Balance	(110,000)	(110,030)	82,039	192,069
Fund Balance at Beginning of Year	190,707	190,707	190,707	0
Fund Balance at End of Year	<u>\$80,707</u>	<u>\$80,677</u>	<u>\$272,746</u>	<u>\$192,069</u>

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

**City of Hillsboro**  
**Statement of Net Assets**  
**Proprietary Funds**

*as of December 31, 2004*

	Water	Sewer	Total
<b>ASSETS:</b>			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$402,276	\$448,730	\$851,006
Cash in Segregated Accounts	0	410,426	410,426
Accounts Receivable	161,912	376,825	538,737
Deferred Expense on Refunding	0	71,741	71,741
Due from Other Governments	400,588	0	400,588
Total Current Assets	<u>964,776</u>	<u>1,307,722</u>	<u>2,272,498</u>
<i>Noncurrent Assets</i>			
Restricted Cash and Cash Equivalents	240,027	0	240,027
Non-Depreciable Capital Assets	5,475,462	336,171	5,811,633
Depreciable Capital Assets, net	<u>2,694,487</u>	<u>4,225,943</u>	<u>6,920,430</u>
Total Noncurrent Assets	<u>8,409,976</u>	<u>4,562,114</u>	<u>12,972,090</u>
Total Assets	<u><u>9,374,752</u></u>	<u><u>5,869,836</u></u>	<u><u>15,244,588</u></u>
<b>LIABILITIES:</b>			
<i>Current Liabilities</i>			
Accounts Payable	75,424	19,474	94,898
Accrued Wages and Benefits	6,836	7,414	14,250
Contracts Payable	126,293	221,131	347,424
Intergovernmental Payable	18,685	19,774	38,459
Accrued Interest Payable	45,121	100,443	145,564
Retainage Payable	240,027	0	240,027
Deferred Revenue	400,588	0	400,588
Notes Payable	<u>2,960,000</u>	<u>0</u>	<u>2,960,000</u>
Total Current Liabilities	3,872,974	368,236	4,241,210
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
OWDA Loans Payable	0	161,133	161,133
Compensated Absences Payable	30,045	23,930	53,975
Revenue Bonds Payable	3,285,333	1,055,000	4,340,333
Unamortized Charge - Refunding Bonds	<u>99,667</u>	<u>0</u>	<u>99,667</u>
Total Noncurrent Liabilities	<u>3,415,045</u>	<u>1,240,063</u>	<u>4,655,108</u>
Total Liabilities	<u>7,288,019</u>	<u>1,608,299</u>	<u>8,896,318</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	1,824,949	3,345,981	5,170,930
Unrestricted	<u>261,784</u>	<u>915,556</u>	<u>1,177,340</u>
Total Net Assets	<u><u>\$2,086,733</u></u>	<u><u>\$4,261,537</u></u>	<u><u>\$6,348,270</u></u>

See accompanying notes to the basic financial statements



**City of Hillsboro**  
*Statement of Revenues, Expenses and  
 Changes in Net Assets  
 Proprietary Funds*

*For the Year Ended December 31, 2004*

	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$1,165,128	\$1,451,613	\$2,616,741
Total Operating Revenues	1,165,128	1,451,613	2,616,741
Operating Expenses			
Salaries and Wages	385,273	407,194	792,467
Fringe Benefits	116,528	109,081	225,609
Contractual Services	111,742	191,404	303,146
Purchased Services	45,225	40,491	85,716
Materials & Supplies	2,040	36,040	38,080
Other	1,248	8,879	10,127
Amortized Expense	0	24,336	24,336
Depreciation Expense	121,811	281,004	402,815
Total Operating Expenses	783,867	1,098,429	1,882,296
Operating Income	381,261	353,184	734,445
Nonoperating Revenues (Expenses)			
Interest	382	9,333	9,715
Intergovernmental Grants	1,035,164	0	1,035,164
Other Revenues	241,366	5,004	246,370
Loss on Sale of Capital Assets	(36,745)	(37,053)	(73,798)
Other Expenses	0	(5,681)	(5,681)
Interest & Fiscal Charges	(269,751)	(111,336)	(381,087)
Total Nonoperating Revenues (Expenses)	970,416	(139,733)	830,683
Changes in Net Assets	1,351,677	213,451	1,565,128
Net Assets			
at Beginning of Year (Restated - See Note 3)	735,056	4,048,086	4,783,142
Net Assets			
at End of Year	\$2,086,733	\$4,261,537	\$6,348,270

See accompanying notes to the basic financial statements

**City of Hillsboro**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended December 31, 2004**

	Water	Sewer	Total
<b>Increase (Decrease) in Cash and Cash Equivalents:</b>			
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Customers	\$1,168,979	\$1,259,855	\$2,428,834
Cash Payments to Suppliers for Goods and Services	(264,654)	(263,363)	(528,017)
Cash Payments to Employees for Services and Benefits	(507,019)	(515,274)	(1,022,293)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>397,306</b>	<b>481,218</b>	<b>878,524</b>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Other non-operating expenses	0	(5,681)	(5,681)
Other non-operating revenues	241,366	5,004	246,370
<b>Net Cash Provided by (Used for) Noncapital Financing Activities</b>	<b>241,366</b>	<b>(677)</b>	<b>240,689</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Proceeds from Sale of Bonds	3,385,000	0	3,385,000
Proceeds from Sale of Notes	2,960,000	0	2,960,000
Proceeds from OWDA Loan	0	161,133	161,133
Proceeds from Sale of Capital Assets	553	245	798
Capital Grants	1,035,164	0	1,035,164
Payments for Capital Acquisitions	(1,435,798)	(445,487)	(1,881,285)
Principal Payments	(6,241,500)	(235,000)	(6,476,500)
Interest Payments	(423,291)	(45,488)	(468,779)
<b>Net Cash Used for Capital and Related Financing Activities</b>	<b>(719,872)</b>	<b>(564,597)</b>	<b>(1,284,469)</b>
<b>Cash Flows from Investing Activities:</b>			
Interest on Investments	382	9,333	9,715
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>382</b>	<b>9,333</b>	<b>9,715</b>
Net Increase/(Decrease) in Cash and Cash Equivalents	(80,818)	(74,723)	(155,541)
Cash and Cash Equivalents at Beginning of Year	723,121	933,879	1,657,000
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$642,303</b>	<b>\$859,156</b>	<b>\$1,501,459</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>			
Operating Income	\$381,261	\$353,184	\$734,445
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>			
Depreciation	121,811	281,004	402,815
Amortization	0	24,336	24,336
<b>Changes in Assets and Liabilities:</b>			
(Increase)/Decrease in Accounts Receivable	3,851	(191,758)	(187,907)
(Increase)/Decrease in Prepaid Items	9,897	11,601	21,498
(Increase)/Decrease in Materials and Supplies Inventory	0	14,589	14,589
Increase/(Decrease) in Accounts Payable	60,426	11,191	71,617
Increase/(Decrease) in Contracts Payable	(174,722)	0	(174,722)
Increase/(Decrease) in Accrued Wages and Benefits	(1,108)	1,958	850
Increase/(Decrease) in Compensated Absences Payable	3,715	(19,288)	(15,573)
Increase/(Decrease) in Due to Other Governments	(7,825)	(5,599)	(13,424)
<b>Total Adjustments</b>	<b>16,045</b>	<b>128,034</b>	<b>144,079</b>
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$397,306</b>	<b>\$481,218</b>	<b>\$878,524</b>

See accompanying notes to the basic financial statements

*City of Hillsboro*

*Statement of Fiduciary Assets and Liabilities*

Agency Funds

As of December 31, 2004

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	<u>Agency</u>
<b>ASSETS</b>	
Cash and Cash Equivalents in Segregated Accounts	\$77,802
Receivables:	
Accounts	<u>677,056</u>
Total Assets	<u><u>754,858</u></u>
 <b>LIABILITIES</b>	
Due to Other Governments	49,977
Undistributed Monies	627,079
Deposits Held and Due to Others	<u>77,802</u>
Total Liabilities	<u><u>\$754,858</u></u>

See accompanying notes to the basic financial statements

## CITY OF HILLSBORO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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#### 1. FINANCIAL REPORTING ENTITY

The financial statements of the City of Hillsboro have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard - setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more 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 was named in honor of Lord Hillsborough, was founded in 1807 by David Hayes and was named the county seat of Highland County. On January 1, 1952, Hillsboro was first organized as a city under the laws of the State of Ohio.

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

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

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

**CITY OF HILLSBORO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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**1. FINANCIAL REPORTING ENTITY (Continued)**

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.

**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 assets 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 assets 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 assets 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 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.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

FUND ACCOUNTING

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

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities are accounted for through governmental funds. The City maintains records showing revenues, actual and accrued expenditures and encumbrances to assure legal and accounting compliance and to assure that budgetary authority is not exceeded. The difference between governmental fund assets and liabilities 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. 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 fund is charged with all costs of operating the government for which a separate fund has not been established.

*Revolving Loan Fund* - This fund is established to account for monies received from repayments of loans, and interest received from these loans made to business of the community, with monies received through grants.

The other governmental funds of the City account for grants and other resources 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 assets, 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.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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

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.

#### MEASUREMENT FOCUS

##### Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

##### 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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the source (i.e., revenues and other financial 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. Government fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of government 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 and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. 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. Government 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 basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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

## CITY OF HILLSBORO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants 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: property taxes available as an advance, interest, and grants.

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected with the available period are also reflected as deferred revenue.

**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

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds are legally required to be budgeted and appropriated. For the General fund, Council appropriations are budgeted for fund and function level. For all other funds, Council appropriations are budgeted to the fund level. Any budgetary modifications at this level may only be made by resolution of the members of Council. The City follows these procedures in establishing the budgetary data reported in the financial statements.



## CITY OF HILLSBORO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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

**Tax Budget:** By July 15, the Auditor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

**Estimated Resources:** The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources.

The revised budget then serves as the basis for the annual appropriation measure. Further amendments may be made during the year if the Council determines that revenue to be collected will be greater than or less than prior estimates and the budget commission finds the revised estimate to be reasonable. The amounts set forth in the financial statements represents estimates from the original and final amended certificate issued in 2004.

**Appropriations:** A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. Supplemental appropriations may be adopted by Council. Amounts shown in the financial statements represent the appropriated budgeted amounts and all supplemental appropriations. One supplemental appropriation was adopted during 2004 by Council.

**Budgeted Level of Expenditure:** Administrative control is maintained through the establishment of budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. The appropriations allocations may be made by the City Auditor as long as the allocations are within Council=s appropriated amount.

**Encumbrances:** As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve the portion of the applicable appropriation and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance and subsequent year expenditures for governmental funds.

**Lapsing of Appropriations:** At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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

##### 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 and is presented as Equity in Pooled Cash and Cash Equivalent on the balance sheet.

During the year 2004, investments were limited to repurchase agreements, money market accounts, and donated common stock.

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 combined 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.

During the year 2004, the City held retainage monies for the construction of the water plant expansion project. Retainage amounts at December 31, 2004 have been restricted and are presented as Restricted Cash: Cash and Cash Equivalents on the balance sheet.

##### 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 assets 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 assets 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 fixed assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of streets, bridges, storm and sanitary sewer lines and water lines. Improvements are capitalized. Interest incurred during the construction of fund capital assets is also capitalized.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	30 years
Land Improvements	20 years
Furniture	10 years
Machinery and Equipment	10-20 years
Vehicles	8 years
Water/Sewer Lines	65 years
Infrastructure	10-40 years

**INTERFUND ASSETS AND LIABILITIES**

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

**COMPENSATED ABSENCES**

In 1996, the City implemented the provisions of GASB Statement No. 16, *Accounting for 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 employee=s wage rates at year end. This item is discussed in Note 13 to the Basic Financial Statements.

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

On 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.

**CITY OF HILLSBORO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

**ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS**

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statement solely to the extent that they are due for payment during the current year. Notes, capital leases, and bonds are recognized as liabilities on the fund financial statements when due.

**RESERVES OF FUND EQUITY**

The City records reservations for those portions of fund balance which are legally segregated for specific future use or which do not represent available, spendable resources and, therefore, are not available for expenditure. Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and for loans, which represent community development monies loaned to local businesses and homeowners.

**NET ASSETS**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are 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 assets are available.

**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.

**INTERFUND TRANSACTIONS**

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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 inter-fund transfers. Inter-fund 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.

**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.

**3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES/NET ASSETS**

For the calendar year 2004, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements." GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The implementation of these Statements requires certain adjustments be recorded to the December 31, 2003 fund balances of major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

The City also corrected an accounting error made in previous years for an unrecorded lease payable.

For the calendar year 2004, the City has also implemented Governmental Accounting Standards Board (GASB) Statement No.39, "Determining Whether Certain Organizations are Component Units" and GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences."

GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. This statement had no effect on the City for fiscal year 2004.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the city not being able to present budgetary comparisons for the general and each major special revenue fund. This statement had no effect on the City for fiscal year 2004.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES/NET ASSETS**

	<u>General</u>	<u>Revolving Loan</u>	<u>Non-Major</u>	<u>Governmental Activities</u>
Fund Balances, December 31, 2003	\$1,661,325	\$1,068,860	\$207,878	\$2,938,063
Fund Reclassification	13,090	0	(13,090)	0
Elimination of Inventory	(27,450)	0	(23,798)	(51,248)
Interpretation 6 Adjustments	<u>36,927</u>	<u>0</u>	<u>3,525</u>	<u>40,452</u>
Restated Fund Balances, December 31, 2003	<u>\$1,683,892</u>	<u>\$1,068,860</u>	<u>\$174,515</u>	2,927,267
Adjustments to comply with GASB 34:				
Compensated Absences				(246,466)
Capital Assets				10,283,939
Deferred Revenue				680,133
Capital Leases				(53,765)
Long Term Bonds				<u>(190,000)</u>
Restated Net Assets, December 31, 2003				<u>\$13,401,108</u>
			<u>Business-Type Activities</u>	
Fund Equity December 31, 2003	<u>\$752,215</u>	<u>\$4,058,113</u>	<u>\$4,810,328</u>	
Correction of Error	4,236	4,562	8,798	
Elimination of Inventory	<u>(21,395)</u>	<u>(14,589)</u>	<u>(35,984)</u>	
Restated Net Assets, December 31, 2003	<u>\$735,056</u>	<u>\$4,048,086</u>	<u>\$4,783,142</u>	

**4. EQUITY IN POOLED CASH 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 with drawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the two year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys 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 deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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 Treasurer 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.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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**4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio, its political subdivision, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed 5 percent of the County's total average portfolio; and
10. Bankers acceptances for a period not to exceed two hundred seventy days and in an amount not to exceed 10 percent of the County's total average portfolio.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

**Deposits:** At year end, the carrying amount of the City’s deposits was \$1,772,270 and the bank balance was \$1,390,744. Of the bank balance:

1. \$577,803 was covered by federal depository insurance; and
2. \$812,941 was collateralized by pooled or pledged collateral. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City held to a successful claim by the FDIC.

**Investments:** The City’s investments are required to be categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the City’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City’s name. The City’s investment in Money Markets is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category			Carrying Amount	Fair Value
	1	2	3		
<b>Investments:</b>					
Money Market	N/A	N/A	N/A	\$ 399,616	\$ 399,616
Stocks	\$ 0	\$ 4,296	\$ 0	4,296	4,296
Repurchase Agreements	0	0	1,244,519	1,244,519	1,244,519
Total					
Investments	\$ 0	\$ 4,296	\$ 1,244,519	\$ 1,648,431	\$ 1,648,431

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*.

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

**GASB 3 to GASB 9 Reconciliation**

	Cash & Cash Equivalents	Investments
GASB 9 Balances	\$ 3,416,405	\$4,296
Repurchase Agreements	(1,244,519)	1,244,519
Money Market	(399,616)	399,616
GASB 3	\$ 1,772,270	\$ 1,648,431



**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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**5. 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 Balances - Budget and Actual (Budget Basis), for the General Fund and the Revolving Loan Major Special Revenue Fund 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 reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis for the General Fund and the Revolving Loan Major Special Revenue Fund.

Net Change in Fund Balance		
	General	Revolving Loan
GAAP Basis	\$119,731	\$(7,754)
Adjustments:		
Revenue Accrual	615,580	116,375
Expenditure Accrual	(597,343)	(26,552)
Encumbrances	(126,786)	(30)
Budget Basis	\$11,182	\$82,039

**6. PROPERTY TAX**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the County. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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**6. PROPERTY TAX (Continued)**

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to itself 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, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2004. 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 2004 operations. The receivable and the portion of the tax levies prepaid by year end into the undivided general tax agency fund are therefore offset by a credit to deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2004, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$102,337,280
Public Utility Personal Property	3,783,460
Tangible Personal Property	<u>26,884,388</u>
Total Property Taxes	<u>\$133,005,128</u>

**7. 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.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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**8. RECEIVABLES**

Receivables at December 31, 2004 consisted of taxes, accounts (billings for user charged services including unbilled utility services), and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services.

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

Municipal Court receivables reported in the agency funds amount to \$1,245,046. Due to the age of many of these accounts, the amount of \$567,990 is considered uncollectable.

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

<u>General</u>	
Local Government	\$152,623
Homestead & Rollback	12,195
<u>Special Revenue</u>	
Street Constr., Maint. & Repair Fund	
Gasoline Tax	101,966
State Highway Fund	
Gasoline Tax	8,268
Police Pension Fund	
Homestead & Rollback	1,742
Fire Pension Fund	
Homestead & Rollback	1,742
Rehab Fund	
CHIP Grant	171,239
Victim's Rights Fund	
VOCA Grant Fund	24,781
Municipal Motor Vehicle Fund	
Permissive Tax	6,975
<u>Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,742</u>
<b>Total Governmental Activities</b>	<b><u>\$483,273</u></b>
<u>Enterprise</u>	
Water Fund	
Grant	<u>400,588</u>
<b>Total All Funds</b>	<b><u>\$883,861</u></b>

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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**9. INTERFUND TRANSACTIONS**

Interfund balances at December 31, 2004, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$350,000	\$ 0
<i>Non Major Capital Projects Fund</i>		
Tax Increment Fund	0	350,000
<b>Total All Funds</b>	<b>\$350,000</b>	<b>\$350,000</b>

These balances primarily resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payment is made.

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 payment 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, 2004, were as follows:

FUND	Transfer In	Transfer Out
General	\$0	\$580,000
	0	580,000
<i>Non-Major Special Revenue Funds</i>		
Street C.M. & Repair	150,000	0
Police Pension	160,000	0
Fire Pension	185,000	0
Recreation	85,000	0
<b>Total Non-Major Special Revenue</b>	<b>580,000</b>	<b>0</b>
<b>Total All Funds</b>	<b>\$580,000</b>	<b>\$580,000</b>

## CITY OF HILLSBORO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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#### 10. DEFINED BENEFIT RETIREMENT PLANS

**Ohio Public Employees Retirement System:** All employees of the City participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans:

The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan.

The Member-Director Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan member accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earning thereon.

The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor, and post-retirement health care benefits to qualifying members of both the Traditional and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

The Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5% of their annual covered salary to fund pension obligations and the City is required to contribute 13.55%; 9.55% was the portion used to fund pension obligations. Contributions are authorized by State statute. The contribution rates are determined actuarially.

The City's contributions to the PERS of Ohio for the years ending December 31, 2002, 2003, and 2004 were \$242,879, \$296,149, and \$228,234 respectively. These contributions were equal to the required contributions for each of the years.

**Ohio Police and Fire Disability and Pension Fund:** The City of Hillsboro contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24% respectively for police officers and firefighters. The City's contributions to OP&F for the years ended December 31, 2002, 2003, and 2004 were \$201,253, \$154,710, and \$203,315 for policemen and \$227,200, \$190,155, and \$160,814 for firefighters, respectively, equal to required contributions for each year.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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#### 11. POSTEMPLOYMENT BENEFITS

**Ohio Public Employees Retirement System:** The Ohio Public Employees Retirement System (the System) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit enrolled in the Traditional or Combined Plans. Members for the Member-Defined Plan do not qualify for ancillary benefits, including post-employment health care coverage. Health care coverage for disability benefit and qualified survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefits (OPEB) as described in GASB No. 12. A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 employer contribution rate for local government employers was 13.55% of covered payroll; 4% was the portion used to fund health care for 2004.

Benefits are advance funded using the entry age normal actuarial cost method. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. Significant actuarial assumptions include a rate of return on investments of 8%, an annual increase in active employee total payroll of 4% compounded annually, and an additional increase in total payroll of .50% to 6.3% based on additional pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4% annually. OPEB are financed through employer contributions and investment earnings. At December 31, 2004, the total number of active contributing participants in the Traditional and Combined Plans was 369,885. As of December 31, 2003, the actuarial value of net assets available for future OPEB payments was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial liability were \$26.9 billion and \$16.4 billion, respectively. The City's actual contributions for 2004 which were used to fund OPEB were \$67,375.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree medical Account that can be used to fund future health care expenses.

**Police and Fire Disability and Pension Fund:** OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty two if attending school full-time or on a two thirds basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing OP&F's Board of Trustees to offer health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2004 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors had monthly health care contributions.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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**11. POSTEMPLOYMENT BENEFITS (Continued)**

The number of participants eligible to receive health care benefits as of December 31, 2003, (the latest information available) was 13,662 for Police and 10,474 for Firefighters. The City's actual contributions for 2004 that were used to fund postemployment benefits was \$63,843 for Police and \$65,671 for Firefighters. The Fund's total health care expenses for the year ended December 31, 2003 were \$150,853,148, which was net of member contributions of \$17,207,506.

**12. RISK MANAGEMENT**

The City maintains a comprehensive risk management program through the purchase of various types of liability, property and crime insurance from the Ohio Government Risk Management Plan.

General liability insurance is maintained in the amount of \$10,000,000 for each occurrence. Other liability insurances includes \$10,000,000 employers liability coverage (which provides additional coverage to the State's Workers Compensation Program), \$10,000,000 for law enforcement professional liability, \$10,000,000 for public official errors and omissions liability and \$10,000,000 for automobile liability. In addition the City maintains replacement cost insurance on building and contents in the blanket amount of \$15,726,690. Other property insurance includes contractor's equipment, automobile physical damage and earthquake damage to the blanket limit. The City carries comprehensive boiler and machinery coverage in the amount of \$13,000,000.

The City also maintains a blanket crime bond in the amount of \$2,500. In addition the City carries employee dishonesty coverage in the amount of \$242,000. The City pays all elected officials' bonds by statute. The City insures an employee health benefits program through Humana Insurance Company.

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.

**13. OTHER EMPLOYEE BENEFITS**

*Deferred Compensation:* Employees of the City may elect to participate in the ING Deferred Compensation Program created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

*Compensated Absences:* Vacation leave is earned at rates which 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.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**13. OTHER EMPLOYEE BENEFITS (Continued)**

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. The Fire Department earns sick leave at a rate of 6.44 hours for each completed pay period. 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-fourth of their leave balance. All other City employees earn sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with at least ten years of service at the time of separation shall be paid the value of his/her sick credit for up to one-fourth of the leave up to 300 hours. Such payment shall be based on the employee's rate of pay at the time of separation, or the full balance may be transferred to another governmental agency.

**14. CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2004:

	Beginning Balance 12/31/2003	Additions	Deletions	Ending Balance 12/31/2004
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$373,192	\$0	\$0	\$373,192
Total Capital Assets, Not Being Depreciated	<u>373,192</u>	<u>-</u>	<u>-</u>	<u>373,192</u>
Capital Assets Being Depreciated				
Land Improvements	2,024,132	-	-	2,024,132
Buildings and Improvements	1,833,151	-	(192,750)	1,640,401
Furniture and Equipment	1,148,893	18,369	-	1,167,262
Vehicles	1,600,610	-	(1,400)	1,599,210
Infrastructure	8,846,797	123,616	-	8,970,413
Total Capital Assets Being Depreciated	<u>15,453,583</u>	<u>141,985</u>	<u>(194,150)</u>	<u>15,401,418</u>
Less Accumulated Depreciation				
Land Improvements	(838,078)	(36,449)	-	(874,527)
Buildings and Improvements	(349,292)	(44,706)	31,754	(362,244)
Furniture and Equipment	(555,518)	(81,959)	-	(637,477)
Vehicles	(1,110,059)	(131,439)	1,400	(1,240,098)
Infrastructure	(2,689,889)	(160,051)	-	(2,849,940)
Total Accumulated Depreciation	<u>(5,542,836)</u>	<u>(454,604)</u>	<u>33,154</u>	<u>(5,964,286)</u>
Total Capital Assets Being Depreciated, Net	<u>9,910,747</u>	<u>(312,619)</u>	<u>(160,996)</u>	<u>9,437,132</u>
Governmental Activities Capital Assets, Net	<u>\$10,283,939</u>	<u>\$ (312,619)</u>	<u>\$ (160,996)</u>	<u>\$9,810,324</u>



**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**14. CAPITAL ASSETS (Continued)**

\*Depreciation expense was charged to governmental functions as follows:

General Government:

Legislative and Executive	\$ 58,462
Security of Persons & Property	136,451
Public Health	7,304
Leisure Time Activities	33,480
Transportation	<u>218,907</u>
Total Depreciation Expense	<u>\$ 454,604</u>

	Ending Balance 12/31/2003	Additions	Deletions	Ending Balance 12/31/2004
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 3,972,493	\$ 1,956,061	\$ (116,921)	\$ 5,811,633
Total Capital Assets, Not Being Depreciated	3,972,493	1,956,061	(116,921)	5,811,633
Capital Assets Being Depreciated				
Land Improvements	273,604	-	-	273,604
Buildings and Equipment	7,209,408	37,044	-	7,246,452
Mechanical Equipment	708,863	165,503	(94,496)	779,870
Vehicles	156,601	-	-	156,601
Water/Sewer Lines	5,021,716	135,008	-	5,156,724
Total Capital Assets Being Depreciated	13,370,192	337,555	(94,496)	13,613,251
Less Accumulated Depreciation				
Land Improvements	(146,033)	(9,052)	-	(155,085)
Buildings and Equipment	(3,600,230)	(251,108)	-	(3,851,338)
Mechanical Equipment	(483,840)	(62,319)	19,900	(526,259)
Vehicles	(100,339)	(8,706)	-	(109,045)
Water/Sewer Lines	(1,979,464)	(71,630)	-	(2,051,094)
Total Accumulated Depreciation	(6,309,906)	(402,815)	19,900	(6,692,821)
Total Capital Assets Being Depreciated, Net	7,060,286	(65,260)	(74,596)	6,920,430
Business Type Activities Capital Assets, Net	<u>\$11,032,779</u>	<u>\$ 1,890,801</u>	<u>\$ (191,517)</u>	<u>\$ 12,732,063</u>

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**15. LONG-TERM DEBT OBLIGATIONS**

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

	Outstanding 12/31/2003	Issued	Retired	Outstanding 12/31/2004	Due In One Year
<b><i>Governmental Activities</i></b>					
Compensated Absences	\$246,466	\$284,582	\$246,466	\$284,582	\$23,508
1997 - 6.5%					
Street Improvement Bonds	190,000	0	45,000	145,000	45,000
Capital Lease	53,765	0	12,605	41,160	13,157
<b>Total Governmental Activities</b>	<b>\$490,231</b>	<b>\$284,582</b>	<b>\$304,071</b>	<b>\$470,742</b>	<b>\$81,665</b>
<b><i>Business-Type Activities</i></b>					
Compensated Absences	\$45,618	\$53,975	\$45,618	\$53,975	\$0
<b>Water</b>					
1997 - 4.65%					
Mortgage Revenue Bond	3,281,500	0	3,281,500	0	0
2004 - 2%					
Mortgage Revenue Bond	0	3,281,500	(3,833)	3,285,333	110,000
Unamortized Charge	0	103,500	3,833	99,667	3,833
<b>Total Water Fund</b>	<b>3,281,500</b>	<b>3,385,000</b>	<b>3,281,500</b>	<b>3,385,000</b>	<b>113,833</b>
<b>Sewer</b>					
2004 - OWDA Loan	0	161,133	0	161,133	10,960
1997 - 4.65% Mortgage Revenue Bond	1,290,000	0	235,000	1,055,000	245,000
<b>Total Sewer Fund</b>	<b>1,290,000</b>	<b>161,133</b>	<b>235,000</b>	<b>1,216,133</b>	<b>255,960</b>
<b>Total Business-Type Activities</b>	<b>\$4,617,118</b>	<b>\$3,600,108</b>	<b>\$3,562,118</b>	<b>\$4,655,108</b>	<b>\$369,793</b>

Mortgage revenue bonds were issued for payment of water system improvements, construction of a 150,000,000 gallon reservoir, and a water storage tank. Properties and revenues of the utility facilities have been pledged to repay these debts.

Mortgage revenue bonds were issued in 2004 to currently refund water mortgage revenue bonds of \$3,281,500 issued in 1991. Property and revenue of the utility facilities have been pledged to repay these debts.

Mortgage revenue bonds were issued in 1997 to refund and defease sewer mortgage revenue bonds of \$2,315,000 dated January 22 1990. Property and revenue of the utility facilities have been pledged to repay these debts.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

Compensated Absences (sick leave and vacation benefits) will be paid from the fund from which the person is paid. Capital lease obligations will be paid from the fund that maintains custody of the related asset.

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

Principal and interest requirements to retire Mortgage Revenue Bonds at December 31, 2004 were as follows:

	<u>Mortgage Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$355,000	\$191,995
2006	330,000	178,146
2007	345,000	163,679
2008	365,000	147,930
2009	80,000	138,319
2010-2014	455,000	642,569
2015-2019	550,000	539,617
2020-2024	685,000	403,169
2025-2029	865,000	214,875
2030-2031	410,000	20,750
Total	<u>\$4,440,000</u>	<u>\$2,641,049</u>

The amortization schedule does not match the outstanding debt amounts listed on page 44 in the amount of \$99,667 which is the unamortized charge.

The City has utilized trustees (Bank of New York) to service the mortgage revenue bonds from 1997. Payments to the trustees are recorded as disbursements in the year they are deposited with the trustees. At December 31, 2004, the trustees have accumulated \$420,387 toward the redemption of these bonds. Of the \$420,387, \$251,896 is held as a reserve for debt service to meet the requirements of the United States Department of Agriculture.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

The OWDA Loan was issued for the purpose of a sewer lining project. The work has not been fully completed, therefore, the loan amount has not been issued in full and a final payment schedule is not available. The loan will be repaid from the Sewer Fund.

Principal and interest requirements to retire General Obligation Bonds at December 31, 2004 were as follows:

	General Obligation Bonds	
	Principal	Interest
2005	\$45,000	\$9,425
2006	50,000	6,500
2007	50,000	3,250
Total	\$145,000	\$19,175

**16. 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 is 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, 2004.

Litigation

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

**17. SHORT TERM OBLIGATIONS**

During fiscal year 2004, the City re-newed the \$2,960,000 in Bond Anticipation Notes for the purpose of water system improvements. These notes will be repaid with the issuance of bonded debt. The note liability is reflected in the Water Enterprise Fund, which received the proceeds.

The City's note activity, including amounts outstanding and interest rates follows:

	Principal Outstanding 12/31/03	Additions	Deductions	Principal Outstanding 12/31/04
Water System Bond Anticipation Note - 3.90%	\$2,960,000	\$2,960,000	\$2,960,000	\$2,960,000

**CITY OF HILLSBORO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2004

**18. CAPITALIZED LEASES - LESSEE DISCLOSURE**

During a previous, the City entered into a capitalized lease for the acquisition of a backhoe. The terms of the agreements provide options to purchase the equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 *Accounting for Leases*, 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 street fund. These expenditures are reflected as program/object expenditures on a budgetary basis.

The capital assets acquired by the leases have been capitalized in the statement of net assets for governmental activities in the amount of \$53,765 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 assets for governmental activities. Principal payments in fiscal year 2004 totaled \$12,605 in the governmental funds.

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, 2004.

<u>Year Ending December 31,</u>	<u>Capitalized Lease Obligation</u>
2005	\$14,916
2006	14,916
2007	14,916
Total Minimum Lease Payments	44,748
Less: Amount Representing Interest	(3,588)
Present Value of Minimum Lease Payments	<u>\$41,160</u>

**19. CONTRACT COMMITMENTS**

As of December 31, 2004, the City had contractual commitments for the completion of the expansion of the water plant.

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance as of 12/31/04</u>
Gilbert & Sons	\$4,811,361	\$4,461,032	\$350,329

**20. SUBSEQUENT EVENTS**

On June 30th, 2005, the City renewed the short term bond anticipation note in the amount of \$2,960,000 with an interest rate of 4.52% per annum through Fifth Third Bank. The bond anticipation note will mature December 2005.

On July 11<sup>th</sup>, 2005, the City passed a resolution to place on the ballot a proposed increase in the city income tax rate by .5%. If passed, this increase of .5% would raise the income tax rate from 1.5% to 2.0%.

City of Hillsboro  
Highland County

Schedule of Federal Awards Expenditures  
For the Year Ended December 31, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>United States Department of Agriculture</b>			
<i>Direct from the Federal Government</i>			
Water & Waste Disposal Systems for Rural Communities	N	10.760	\$1,020,197
<b>United States Department of Housing &amp; Urban Development</b>			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grant	G30438 J850	14.228	99,790
Home Investment Partnership Program	G30439 J846	14.239	<u>228,971</u>
Total United States Department of Housing & Urban Development			328,761
<b>United States Department of Justice</b>			
<i>Passed through the Governor's Office of Criminal Justice Services</i>			
Byrne Formula Grant Program	N/A	16.579	<u>20,769</u>
<b>United States Department of Homeland Security</b>			
<i>Passed through Ohio Emergency Management Agency</i>			
Public Assistance Grant	1453-DR-145-64304	97.036	<u>18,362</u>
Total U.S. Department of Homeland Security			
<b>Total Federal Financial Assistance</b>			<u><u>\$1,388,089</u></u>

NA - Pass Through Entity Number is Not Available

N - Direct from the Federal Government

See Accompanying Notes to the Schedule of Federal Awards Expenditures

**City of Hillsboro**  
**Notes to Schedule of Federal Awards Expenditures**  
**For the Fiscal Year Ended December 31, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) LOAN PROGRAMS**

The City of Hillsboro administers a loan program with funds provided by the U.S. Department of Housing and Urban Development, through the Ohio Department of Development, under the Community Development Block Grant Program. The purpose of this program is to provide low and moderate income families for building improvement at a low, fixed interest rate. As of December 31, 2004 the total amount of loans outstanding was \$789,138. Declining mortgage loans are also provided to low and moderate income families with the intent that they do not have to repay the loans unless they leave the residence before ten years. As of December 31, 2004 the total amount of these loans outstanding was \$86,290

**NOTE C - MATCHING REQUIREMENTS**

Certain federal programs require that the City contribute non-federal funds (matching funds) to support federally -funded programs. The City has complied with the matching requirements. The expenditures of non-federal matching funds are not included in this Schedule.

**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**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***

City of Hillsboro  
Highland County  
130 North High Street  
Hillsboro, Ohio 45133

We have audited 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, Ohio (“the City”), as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements and have issued our report thereon dated August 23, 2005, wherein we noted the City implemented GASB Statements No. 34, 37, 38 and Interpretation 6. 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City’s financial statements are free of 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*.

We noted certain matters that we reported to the management of the City in a separate letter dated August 23, 2005.



City of Hillsboro  
Highland County  
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

This report is intended solely for the information and use of management, City Council, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
August 23, 2005

# BALESTRA, HARR & SCHERER, CPAs, INC.

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Piketon, Ohio 45661

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## **Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

City of Hillsboro  
Highland County  
130 North High Street  
Hillsboro, Ohio 45133

### **Compliance**

We have audited the compliance of the City of Hillsboro, Highland County, Ohio ("the City" ) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2004. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2004.

### **Internal Control Over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

City of Hillsboro  
Highland County

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133

Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

We noted certain matters which do not require inclusion in this report that we have reported to management of the City in a separate letter dated August 23, 2005.

This report is intended for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.  
August 23, 2005

**CITY OF HILLSBORO  
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 § .505  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Water and Waste Disposal Systems For Rural Communities, CFDA #10.760
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	No

**CITY OF HILLSBORO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 SECTION .505  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number	None
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**3. FINDINGS FOR FEDERAL AWARDS**

Finding Number	None
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**CITY OF HILLSBORO  
SCHEDULE OF PRIOR YEAR FINDINGS  
OMB CIRCULAR A-133 SECTION .315(b)  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
14228-2003-02	Draw down of CDBG grant funds limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds, in accordance with the Ohio Department of Development's Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook.	No	Not Corrected. Initial finding occurred in 2000.
10760-2003-01	Monitoring for compliance with Davis Bacon Act by obtaining and verifying certified payrolls to prevailing wage rates. US Department of Labor requested the voluntary transfer of funds for contract number 11-9152200.	Yes	Fully Corrected.



**Auditor of State  
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**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  
NOVEMBER 10, 2005**