

City of Hillsboro

Highland County

Regular Audit

January 1, 2007 through December 31, 2007

BALESTRA, HARR & SCHERER CPAs, INC.
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Mary Taylor, CPA
Auditor of State

City Council
City of Hillsboro
130 North High St.
Hillsboro, OH 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, 2007 to December 31, 2007. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 17, 2008

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City of Hillsboro
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For the Year Ended December 31, 2007

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

City of Hillsboro
Highland County, Ohio
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, Highland County, (the City), as of and for the year ended December 31, 2007, 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.

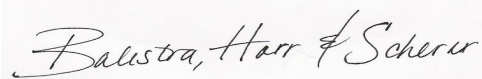
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2007, and the respective changes in financial position, thereof, and the respective budgetary comparison for the General, Street and Revolving Loan Funds, 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 29, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

City Council
City of Hillsboro
Independent Auditor's Report

As described in Note 18 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 50 *Pension Disclosures*.

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

Balestra, Harr & Scherer, CPAs, Inc.
August 29, 2008

City of Hillsboro, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

The discussion and analysis of the City of Hillsboro's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2007. 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 2007 are as follows:

- In total, net assets increased \$357,271. Net assets of governmental activities increased \$596,170. Net assets of business-type activities decreased \$238,899.
- Governmental Activities general revenues accounted for \$5,016,609 in revenue or 76 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,598,848 or 24 percent of total revenues of \$6,615,457. Business-type activities general revenues accounted for \$124,528 in revenue or 4 percent of all revenues. Program specific revenues accounted for \$2,811,106 or 96 percent of total revenues of \$2,935,634.
- The City had \$6,019,287 in expenses related to governmental activities; \$1,598,848 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,174,533 in expenses related to business-type activities; \$2,811,106 of these expenses was offset by program specific charges for services, grants and contributions.

Using the Annual Financial Report

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

The statement of net 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. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what monies remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in a single column.

Reporting the City as a Whole

Statement of Net 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 2007?" 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.

City of Hillsboro, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

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. These fees are accounted for in the Sewer Fund.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

City of Hillsboro, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

The City as a Whole

The statement of net assets reviews the City as a whole. Table 1 provides a summary of the City's net assets for 2007 compared to the prior year:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and Other Assets	\$ 6,916,168	\$ 5,851,246	\$ 2,547,201	\$ 1,770,401	\$ 9,463,369	\$ 7,621,647
Capital Assets, Net	10,494,373	10,026,517	15,858,142	15,324,232	26,352,515	25,350,749
Total Assets	17,410,541	15,877,763	18,405,343	17,094,633	35,815,884	32,972,396
Liabilities						
Current and Other Liabilities	700,320	662,806	115,703	111,756	816,023	774,562
Long-Term Liabilities	1,348,115	449,021	9,941,176	8,395,514	11,289,291	8,844,535
Total Liabilities	2,048,435	1,111,827	10,056,879	8,507,270	12,105,314	9,619,097
Net Assets						
Invested in Capital Assets						
Net of Debt	9,519,293	9,942,251	6,075,728	7,275,964	15,595,021	17,218,215
Restricted	3,075,744	2,339,931	-	-	3,075,744	2,339,931
Unrestricted	2,767,069	2,483,754	2,272,736	1,311,399	5,039,805	3,795,153
Total Net Assets	\$ 15,362,106	\$ 14,765,936	\$ 8,348,464	\$ 8,587,363	\$ 23,710,570	\$ 23,353,299

Total governmental activities assets increased \$596,170 while business-type activities decreased \$238,899.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 74% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. Invested in capital assets, net of related debt for the City as a whole decreased primarily due to depreciation expense.

City of Hillsboro, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

Table 2 shows the changes in net assets for the year 2007 compared to the prior year.

Table 2
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 950,842	\$ 1,007,781	\$ 2,811,106	\$ 2,730,406	\$ 3,761,948	\$ 3,738,187
Operating Grants and Contributions	648,006	763,650	-	-	648,006	763,650
Capital Grants and Contributions	-	-	-	900,000	-	900,000
Total Program Revenues	1,598,848	1,771,431	2,811,106	3,630,406	4,409,954	5,401,837
General Revenues:						
Property & Income Taxes	4,149,962	3,863,146	-	-	4,149,962	3,863,146
Unrestricted Investment Earnings Grants and Contributions Not Restricted to Specific Programs	143,552	124,953	19,187	17,252	162,739	142,205
Gain on Sale of Capital Assets	437,212	360,549	-	-	437,212	360,549
Other	-	2,090	-	-	-	2,090
Total General Revenues	5,016,609	4,653,830	124,528	115,183	5,141,137	4,769,013
Total Revenues	6,615,457	6,425,261	2,935,634	3,745,589	9,551,091	10,170,850
Program Expenses						
General Government -						
Legislative and Executive	1,233,246	1,255,553	-	-	1,233,246	1,255,553
Judicial	259,802	239,200	-	-	259,802	239,200
Security of Persons and Property	3,282,169	2,907,838	-	-	3,282,169	2,907,838
Public Health	53,954	155,663	-	-	53,954	155,663
Leisure Time Activities	120,841	131,985	-	-	120,841	131,985
Community Environment	499,284	495,994	-	-	499,284	495,994
Transportation	554,442	625,244	-	-	554,442	625,244
Interest and Fiscal Charges	15,549	7,263	-	-	15,549	7,263
Water Fund	-	-	1,463,210	1,398,983	1,463,210	1,398,983
Sewer Fund	-	-	1,711,323	1,157,564	1,711,323	1,157,564
Total Expenses	6,019,287	5,818,740	3,174,533	2,556,547	9,193,820	8,375,287
Increase (Decrease) in Net Assets	596,170	606,521	(238,899)	1,189,042	357,271	1,795,563
Beginning Net Assets	14,765,936	14,159,415	8,587,363	7,398,321	23,353,299	21,557,736
Ending Net Assets	\$ 15,362,106	\$ 14,765,936	\$ 8,348,464	\$ 8,587,363	\$ 23,710,570	\$ 23,353,299

City of Hillsboro, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

Governmental Activities

Governmental activities increased \$596,170 or 4% during 2007.

The state and federal government contributed to the County revenues of \$648,006 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$5,016,609, and amounted to 76% of total revenues. These revenues primarily consist of property and income tax revenue of \$4,149,962, or 83% of total general revenues in 2007. The property tax revenue and the income tax revenue for 2007 were comparable to 2006.

General government expenses include legislative and executive and judicial programs, totaled \$1,493,048 or 25% of total governmental expenses.

Security of persons and property is one of the major activities of the City, generating 55% of total expenses. The expense increased slightly from 2006 to 2007.

Business-Type Activities

The City's business-type activities are its water and sewer departments. The water and wastewater treatment plants provide services to the City's residents. The water plant generated operating revenues of \$1,313,208 and had operating expenses of \$1,176,293 and had interest expenses of \$286,917. The wastewater treatment plant generated operating revenues of \$1,603,239 and had operating expenses of \$1,626,454, and had interest expense of \$33,479. The City's goal is to cover the costs of operations as well as to 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

Information about the City's major fund starts on page 12. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$8,391,313 and expenditures and other financing uses of \$7,389,590. The net change in fund balance for the year was most significant in the Street Fund, an increase of \$556,788. The majority of the increase in fund balance is due to a \$700,000 bond issuance. The General Fund had a fund balance increase of 89,911. The Revolving Loan Fund and Capital Project Fund had fund balance increases of \$44,765 and \$119,570, respectively.

City of Hillsboro, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2007, the City amended its General Fund budget. 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 \$4,615,555 and final budgeted revenues were \$5,212,893. The increase of \$597,338 was mainly due to an increase in the budgeted property tax revenue. Original budgeted expenditures were \$5,578,283 and final budgeted expenditures were \$6,098,782. The increase of \$520,499 was due to an increase in the amount budgeted for transfers out and an decrease in Judicial System expenditures.

The General Fund's actual revenues exceeded final budgeted revenues by \$344,867 which was primarily due to property taxes, income taxes, and interest revenue exceeding final budgeted revenues.

The General Fund's actual expenditures were \$669,601 less than final budgeted expenditures mainly due to legislative and executive, judicial system and security of persons and property expenditures being lower than estimated.

Capital Assets and Debt Administration

Capital Assets

At the end of the 2007 the City had \$26,352,515 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2007 and 2006 balances.

Table 3

	Governmental Activities		Business-Type Activities		Total	
	2007	2006*	2007	2006*	2007	2006*
Land	\$ 505,936	\$ 384,072	\$ -	\$ -	\$ 505,936	\$ 384,072
Land Improvements	958,492	995,021	94,824	100,415	1,053,316	1,095,436
Buildings and Improvements	1,172,861	1,154,272	11,696,847	8,632,445	12,869,708	9,786,717
Furniture and Equipment	747,871	579,499	415,120	370,767	1,162,991	950,266
Vehicles	951,634	845,084	250,863	48,837	1,202,497	893,921
Infrastructure/Water & Sewer Lines	6,033,989	5,966,274	3,347,105	3,088,106	9,381,094	9,054,380
Construction in Progress	123,590	102,295	53,383	3,083,662	176,973	3,185,957
Totals	\$ 10,494,373	\$ 10,026,517	\$ 15,858,142	\$ 15,324,232	\$ 26,352,515	\$ 25,350,749

* Certain reclassifications were made to January 1, 2007 beginning balances to conform to 2007 presentation. There was no impact on January 1, 2007 net assets.

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

City of Hillsboro, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2007
(Unaudited)

Debt

At December 31, 2007, the City of Hillsboro had \$10,845,662 in bonds, loans, and leases outstanding, \$1,195,897 due within one year.

Table 5
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
O.W.D.A. Loan	\$ -	\$ -	\$ 2,720,582	\$ 1,643,634	\$ 2,720,582	\$ 1,643,634
Capital Lease	275,080	34,266	-	-	275,080	34,266
OPWC Loan	-	-	190,000	-	190,000	-
Mortgage Revenue Bonds	-	-	6,960,000	6,677,334	6,960,000	6,677,334
Bonds	700,000	50,000	-	-	700,000	50,000
Total	\$ 975,080	\$ 84,266	\$ 9,870,582	\$ 8,320,968	\$ 10,845,662	\$ 8,405,234

The City's overall legal debt margin was \$4,611,627 at December 31, 2007.

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

The Future

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

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

Contacting the City's Finance Department

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

City of Hillsboro, Ohio
Statement of Net Assets
December 31, 2007

	Governmental Activities	Business-Type Activities	Totals
<u>ASSETS</u>			
Equity in Pooled Cash and Cash Equivalents	\$ 3,929,293	\$ 1,750,322	\$ 5,679,615
Investments	6,234	-	6,234
Cash and Cash Equivalents in Segregated Accounts	-	409,778	409,778
Receivables:			
Taxes	1,604,940	-	1,604,940
Accounts	228,350	387,101	615,451
Due From Other Governments	298,941	-	298,941
Loans Receivable	848,410	-	848,410
Deferred Expense on Refunding	-	-	-
Non-Depreciable Capital Assets	629,526	53,383	682,909
Depreciable Capital Assets	9,864,847	15,804,759	25,669,606
Total Assets	<u>\$ 17,410,541</u>	<u>\$ 18,405,343</u>	<u>\$ 35,815,884</u>
<u>Liabilities</u>			
Accounts Payable	\$ 90,094	\$ 26,341	\$ 116,435
Accrued Wages and Benefits	106,561	21,326	127,887
Due to Other Governments	159,125	21,243	180,368
Deferred Revenue	341,655	-	341,655
Accrued Interest Payable	2,885	46,793	49,678
Long-Term Liabilities			
Due Within One Year	70,875	1,135,027	1,205,902
Due in More than One Year	1,277,240	8,806,149	10,083,389
Total Liabilities	<u>2,048,435</u>	<u>10,056,879</u>	<u>12,105,314</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	9,519,293	6,075,728	15,595,021
Restricted for:			
Debt Service	315,231	-	315,231
Street	797,774	-	797,774
Revolving Loan	1,114,353	-	1,114,353
Other Purposes	848,386	-	848,386
Unrestricted	2,767,069	2,272,736	5,039,805
Total Net Assets	<u>\$ 15,362,106</u>	<u>\$ 8,348,464</u>	<u>\$ 23,710,570</u>

See accompanying notes to the basic financial statements.

City of Hillsboro, Ohio
Statement of Activities
For the Year Ended December 31, 2007

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	\$ 1,233,246	\$ 151,348	\$ 44,504	\$ -	\$ (1,037,394)		\$ (1,037,394)
Judicial	259,802	33,565	708	-	(225,529)		(225,529)
Security of Persons and Property	3,282,169	660,644	155,512	-	(2,466,013)		(2,466,013)
Public Health	53,954	3,590	1,544	-	(48,820)		(48,820)
Leisure Time Activities	120,841	13,938	34,220	-	(72,683)		(72,683)
Community Environment	499,284	77,784	182,761	-	(238,739)		(238,739)
Transportation	554,442	8,848	226,641	-	(318,953)		(318,953)
Interest and Fiscal Charges	15,549	1,125	2,116	-	(12,308)		(12,308)
Total Governmental Activities	6,019,287	950,842	648,006	-	(4,420,439)		(4,420,439)
Business-Type activities:							
Sewer	1,711,323	1,589,797	-	-		(121,526)	(121,526)
Water	1,463,210	1,221,309	-	-		(241,901)	(241,901)
Total Business-Type Activities	3,174,533	2,811,106	-	-	-	(363,427)	(363,427)
Total Government	\$ 9,193,820	\$ 3,761,948	\$ 648,006	\$ -	\$ (4,420,439)	\$ (363,427)	\$ (4,783,866)
General revenues:							
Taxes:							
Property taxes levied for:							
General Purposes					249,522	-	249,522
Special Purposes					38,864	-	38,864
Debt Service					84,242	-	84,242
Capital Projects					119,570	-	119,570
Income taxes					3,657,764	-	3,657,764
Grants and Contributions Not Restricted to Specific Programs					437,212	-	437,212
Unrestricted Investment Earnings					143,552	19,187	162,739
Rent					23,350	-	23,350
Miscellaneous					262,533	105,341	367,874
Total general revenues					5,016,609	124,528	5,141,137
Change in net assets					596,170	(238,899)	357,271
Net assets - January 1, 2007					14,765,936	8,587,363	23,353,299
Net assets - December 31, 2007					\$ 15,362,106	\$ 8,348,464	\$ 23,710,570

See accompanying notes to the basic financial statements.

City of Hillsboro, Ohio
Balance Sheet
Governmental Funds
December 31, 2007

	<u>General</u>	<u>Street</u>	<u>Revolving Loan</u>	<u>Capital Project</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Equity in Pooled Cash and Cash Equivalents	\$ 1,621,806	\$ 744,373	\$ 347,349	\$ 117,419	\$ 1,098,346	\$ 3,929,293
Investments	6,234	-	-	-	-	6,234
Accounts Receivable	228,350	-	-	-	-	228,350
Interfund Receivable	290,000	-	-	-	-	290,000
Taxes Receivable	1,455,372	-	-	-	149,568	1,604,940
Due from Other Governments	132,852	106,947	-	-	59,142	298,941
Loans Receivable	-	-	767,004	-	81,406	848,410
<i>Total Assets</i>	<u>\$ 3,734,614</u>	<u>\$ 851,320</u>	<u>\$ 1,114,353</u>	<u>\$ 117,419</u>	<u>\$ 1,388,462</u>	<u>\$ 7,206,168</u>
LIABILITIES:						
Accounts Payable	\$ 43,646	\$ 37,871	\$ -	\$ -	\$ 8,577	\$ 90,094
Accrued Wages and Benefits	99,706	4,306	-	-	2,549	106,561
Due to Other Governments	51,039	4,182	-	-	103,904	159,125
Interfund Payable	-	-	-	290,000	-	290,000
Deferred Revenue	879,167	71,298	-	-	164,735	1,115,200
<i>Total Liabilities</i>	<u>1,073,558</u>	<u>117,657</u>	<u>-</u>	<u>290,000</u>	<u>279,765</u>	<u>1,760,980</u>
FUND BALANCES:						
Reserved:						
Reserved for Encumbrances	179,995	-	2,370	-	20,387	202,752
Reserved for Loans Receivable	-	-	767,004	-	81,406	848,410
Unreserved, Undesignated, Reported in:						
General Fund	2,481,061	-	-	-	-	2,481,061
Special Revenue Funds	-	733,663	344,979	-	706,619	1,785,261
Debt Service Funds	-	-	-	-	300,285	300,285
Capital Projects Funds	-	-	-	(172,581)	-	(172,581)
<i>Total Fund Balances</i>	<u>2,661,056</u>	<u>733,663</u>	<u>1,114,353</u>	<u>(172,581)</u>	<u>1,108,697</u>	<u>5,445,188</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,734,614</u>	<u>\$ 851,320</u>	<u>\$ 1,114,353</u>	<u>\$ 117,419</u>	<u>\$ 1,388,462</u>	<u>\$ 7,206,168</u>

See accompanying notes to the basic financial statements.

City of Hillsboro, Ohio
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2007

Total Governmental Fund Balances		\$ 5,445,188
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.		10,494,373
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	594,556	
Intergovernmental	<u>178,989</u>	
Total		773,545
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.		
Accrued Interest Payable	(2,885)	
Capital Lease Payable	(275,080)	
Compensated Absences	(373,035)	
General Obligation Bonds	<u>(700,000)</u>	
Total		<u>(1,351,000)</u>
Net Assets of Governmental Activities		<u><u>\$ 15,362,106</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2007

	<u>General</u>	<u>Street</u>	<u>Revolving Loan</u>	<u>Capital Project</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:						
Taxes	\$ 3,800,630	\$ -	\$ -	\$ 119,570	\$ 183,280	\$ 4,103,480
Charges for Services	497,262	-	-	-	-	497,262
Licenses and Permits	44,662	-	-	-	4,766	49,428
Fines and Forfeitures	229,209	-	-	-	174,942	404,151
Intergovernmental	455,215	270,936	-	-	376,980	1,103,131
Interest	122,617	8,460	9,927	-	2,548	143,552
Rent	8,100	1,783	-	-	13,467	23,350
Other	139,653	2,448	96,251	-	24,181	262,533
<i>Total Revenues</i>	<u>5,297,348</u>	<u>283,627</u>	<u>106,178</u>	<u>119,570</u>	<u>780,164</u>	<u>6,586,887</u>
EXPENDITURES:						
Current:						
General Government:						
Legislative and Executive	1,035,536	-	-	-	115,268	1,150,804
Judicial	257,314	-	-	-	1,835	259,149
Security of Persons and Property	2,839,667	-	-	-	402,787	3,242,454
Public Health	22,956	-	-	-	4,000	26,956
Leisure Time Activities	-	-	-	-	88,633	88,633
Community Environment	25,922	-	61,413	-	411,949	499,284
Transportation	-	436,906	-	-	-	436,906
Capital Outlay	539,660	219,467	-	-	-	759,127
Debt Service:						
Principal Retirements	45,242	14,301	-	-	50,000	109,543
Interest and Fiscal Charges	7,966	615	-	-	4,084	12,665
<i>Total Expenditures</i>	<u>4,774,263</u>	<u>671,289</u>	<u>61,413</u>	<u>-</u>	<u>1,078,556</u>	<u>6,585,521</u>
<i>Excess of Revenues Over(Under) Expenditures</i>	<u>523,085</u>	<u>(387,662)</u>	<u>44,765</u>	<u>119,570</u>	<u>(298,392)</u>	<u>1,366</u>
OTHER FINANCING SOURCES AND USES:						
Transfers In	35,269	244,450	-	-	524,350	804,069
Issuance of Bonds	-	700,000	-	-	-	700,000
Inception of Capital Lease	300,357	-	-	-	-	300,357
Transfers Out	(768,800)	-	-	-	(35,269)	(804,069)
<i>Total Other Financing Sources and Uses</i>	<u>(433,174)</u>	<u>944,450</u>	<u>-</u>	<u>-</u>	<u>489,081</u>	<u>1,000,357</u>
<i>Net Change in Fund Balances</i>	89,911	556,788	44,765	119,570	190,689	1,001,723
<i>Fund Balances at Beginning of Year</i>	2,571,145	176,875	1,069,588	(292,151)	918,008	4,443,465
<i>Fund Balance at End of Year</i>	<u>\$ 2,661,056</u>	<u>\$ 733,663</u>	<u>\$ 1,114,353</u>	<u>\$ (172,581)</u>	<u>\$ 1,108,697</u>	<u>\$ 5,445,188</u>

See accompanying notes to the basic financial statements.

City of Hillsboro, Ohio
 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, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 1,001,723

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 difference between depreciation and capital outlays in the current period.

Capital Asset Additions	962,775	
Current Year Depreciation	(473,652)	
Total	489,123	489,123

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 disposal of fixed assets.

Loss on Sale of Capital Assets	(21,267)	
Total	(21,267)	(21,267)

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

Taxes	46,482	
Intergovernmental	(17,913)	
Total	28,569	28,569

Proceeds from the issuance of debt in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (700,000)

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. 50,000

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. 59,543

In the statement of activities, interest is accrued on outstanding bonds and long-term loans payable, whereas in governmental funds, an interest expenditure is reported when due. (2,884)

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	(8,280)	
Total	(8,280)	(8,280)

Inception of capital leases is recorded as other financing sources in the governmental funds, but is recorded as a capital lease obligation and therefore is not recorded in the statement of activities (300,357)

Net Change in Net Assets of Governmental Activities \$ 596,170

See accompanying notes to the basic financial statements.

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

General Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Property Taxes	\$ 232,850	\$ 641,714	\$ 711,486	\$ 69,772
Income Taxes	3,583,541	3,581,246	3,638,005	56,759
Charges for Services	445,077	514,800	539,759	24,959
Licenses and Permits	26,288	24,500	44,662	20,162
Fines and Forfeitures	216,208	201,500	229,209	27,709
Intergovernmental	21,460	20,000	29,000	9,000
Interest	69,744	65,000	122,617	57,617
Rent	8,584	8,000	8,100	100
Other	11,803	96,133	139,653	43,520
Total Revenues	4,615,555	5,152,893	5,462,491	309,598
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,821,755	1,884,779	1,304,071	580,708
Judicial System	643,700	275,650	271,254	4,396
Security of Persons and Property	3,050,278	3,067,749	3,033,530	34,219
Public Health	25,000	25,000	24,200	800
Community Environment	37,550	37,804	27,326	10,478
Total Expenditures	5,578,283	5,290,982	4,660,381	630,601
Excess of Revenues Over(Under) Expenditures	(962,728)	(138,089)	802,110	940,199
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	-	35,269	35,269
Advances In	-	60,000	60,000	-
Transfers Out	-	(807,800)	(768,800)	39,000
Total Other Financing Sources and Uses	-	(747,800)	(673,531)	74,269
Net Change in Fund Balance	(962,728)	(885,889)	128,579	1,014,468
Fund Balance at Beginning of Year	1,162,578	1,162,578	1,162,578	-
Prior Year Encumbrances Appropriated	108,173	108,173	108,173	-
Fund Balance (Deficit) at End of Year	\$ 308,023	\$ 384,862	\$ 1,399,330	\$ 1,014,468

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

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

Street Fund
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and Permits	\$ 43,998	\$ 58,795	\$ 59,308	\$ 513
Intergovernmental	157,391	210,324	212,159	1,835
Interest	6,276	8,387	8,460	73
Rent	1,323	1,767	1,783	16
Other	1,816	2,427	2,448	21
Total Revenues	210,804	281,700	284,158	2,458
EXPENDITURES:				
Current:				
Transportation	-	644,811	406,319	238,492
Capital Outlay	-	506,639	500,406	6,233
Total Expenditures	-	1,151,450	906,725	244,725
Excess of Revenues Over(Under) Expenditures	210,804	(869,750)	(622,567)	247,183
OTHER FINANCING SOURCES AND USES:				
Transfers In	181,347	242,336	244,450	2,114
Bonds Issued	519,299	693,946	700,000	6,054
Total Other Financing Sources and Uses	700,646	936,282	944,450	8,168
Net Change in Fund Balance	911,450	66,532	321,883	255,351
Fund Balance at Beginning of Year	69,675	69,675	69,675	-
Prior Year Encumbrances Appropriated	51,565	51,565	51,565	-
Fund Balance at End of Year	\$ 1,032,690	\$ 187,772	\$ 443,123	\$ 255,351

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

City of Hillsboro, Ohio
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, 2007

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Interest	-	14,645	9,927	(4,718)
Other	-	113,805	77,139	(36,666)
Total Revenues	-	128,450	87,066	(41,384)
EXPENDITURES:				
Community and Economic Development	128,450	128,450	61,413	67,037
Total Expenditures	128,450	128,450	61,413	67,037
Net Change in Fund Balance	(128,450)	-	25,653	25,653
Fund Balance at Beginning of Year	321,696	321,696	321,696	-
Fund Balance at End of Year	<u>\$ 193,246</u>	<u>\$ 321,696</u>	<u>\$ 347,349</u>	<u>\$ 25,653</u>

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

City of Hillsboro, Ohio
Statement of Net Assets
Proprietary Funds

December 31, 2007

	Water	Sewer	Total
ASSETS:			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 384,028	\$ 1,366,294	\$ 1,750,322
Cash and Cash Equivalents in Segregated Accounts	-	409,778	409,778
Accounts Receivable	153,705	233,396	387,101
Deferred Expense on Refunding	-	-	-
Total Current Assets	<u>537,733</u>	<u>2,009,468</u>	<u>2,547,201</u>
<i>Noncurrent Assets</i>			
Non-Depreciable Capital Assets	-	53,383	53,383
Depreciable Capital Assets, net	7,785,865	8,018,894	15,804,759
Total Noncurrent Assets	<u>7,785,865</u>	<u>8,072,277</u>	<u>15,858,142</u>
Total Assets	<u>\$ 8,323,598</u>	<u>\$ 10,081,745</u>	<u>\$ 18,405,343</u>
LIABILITIES:			
<i>Current Liabilities</i>			
Accounts Payable	\$ 13,431	\$ 12,910	\$ 26,341
Accrued Wages and Benefits	10,615	10,711	21,326
Due to Other Governments	10,419	10,824	21,243
Accrued Interest Payable	34,216	12,577	46,793
Notes Payable	-	650,000	650,000
OWDA Loans - Current Portion	-	75,194	75,194
Revenue Bonds Payable - Current Portion	111,000	285,000	396,000
OPWC Loans - Current Portion	-	10,000	10,000
Unamortized Charge - Current Portion	3,833	-	3,833
Total Current Liabilities	183,514	1,067,216	1,250,730
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
OWDA Loans Payable - Net of Current Portion	-	2,645,388	2,645,388
Compensated Absences Payable	37,829	32,765	70,594
Revenue Bonds Payable - Net of Current Portion	5,825,832	-	5,825,832
OPWC Loans - Net of Current Portion	-	180,000	180,000
Unamortized Charge - Refunding Bonds - Net of Current Portion	84,335	-	84,335
Total Noncurrent Liabilities	<u>5,947,996</u>	<u>2,858,153</u>	<u>8,806,149</u>
Total Liabilities	<u>6,131,510</u>	<u>3,925,369</u>	<u>10,056,879</u>
NET ASSETS:			
Invested in capital assets, net of related debt	1,849,033	4,226,695	6,075,728
Unrestricted	343,055	1,929,681	2,272,736
Total Net Assets	<u>\$ 2,192,088</u>	<u>\$ 6,156,376</u>	<u>\$ 8,348,464</u>

See accompanying notes to the basic financial statements.

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

For the Year Ended December 31, 2007

	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$ 1,180,409	\$ 1,552,726	\$ 2,733,135
Tap-In Fees	40,900	37,071	77,971
Other	91,899	13,442	105,341
Total Operating Revenues	1,313,208	1,603,239	2,916,447
Operating Expenses			
Salaries and Wages	462,325	386,696	849,021
Fringe Benefits	136,508	142,924	279,432
Contractual Services	73,075	468,230	541,305
Materials & Supplies	117,820	144,254	262,074
Utilities	81,643	87,536	169,179
Other	3,101	51,519	54,620
Amortization Expense	-	23,069	23,069
Depreciation Expense	301,821	322,226	624,047
Total Operating Expenses	1,176,293	1,626,454	2,802,747
Operating Income	136,915	(23,215)	113,700
Nonoperating Revenues (Expenses)			
Interest Earnings	-	19,187	19,187
Loss on Sale of Capital Assets	-	(51,390)	(51,390)
Interest & Fiscal Charges	(286,917)	(33,479)	(320,396)
Total Nonoperating Revenues (Expenses)	(286,917)	(65,682)	(352,599)
Changes in Net Assets	(150,002)	(88,897)	(238,899)
Net Assets at Beginning of Year	2,342,090	6,245,273	8,587,363
Net Assets at End of Year	<u>\$ 2,192,088</u>	<u>\$ 6,156,376</u>	<u>\$ 8,348,464</u>

See accompanying notes to the basic financial statements.

City of Hillsboro, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents:			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ 1,180,141	\$ 1,628,741	\$ 2,808,882
Cash Received from Utility Deposits	40,900	37,071	77,971
Cash Received from Other Operating Sources	91,899	13,442	105,341
Cash Payments to Suppliers for Goods and Services	(269,933)	(704,655)	(974,588)
Cash Payments to Employees for Services and Benefits	(590,342)	(546,193)	(1,136,535)
Cash Payments for Other Operating Expenses	(3,101)	(51,519)	(54,620)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>449,564</u>	<u>376,887</u>	<u>826,451</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from OWDA Loan	-	1,162,939	1,162,939
Payments for Capital Acquisitions	(131,511)	(1,077,836)	(1,209,347)
Proceeds from Note Payable	-	650,000	650,000
Proceeds from OPWC Loan	-	200,000	200,000
Principal Payments	(105,000)	(365,991)	(470,991)
Interest Payments	(279,464)	(23,159)	(302,623)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(515,975)</u>	<u>545,953</u>	<u>29,978</u>
Cash Flows from Investing Activities:			
Interest on Investments	-	19,187	19,187
<i>Net Cash Provided by (Used for) Investing Activities</i>	<u>-</u>	<u>19,187</u>	<u>19,187</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(66,411)	942,027	875,616
Cash and Cash Equivalents at Beginning of Year	450,439	834,045	1,284,484
Cash and Cash Equivalents at End of Year	<u>\$ 384,028</u>	<u>\$ 1,776,072</u>	<u>\$ 2,160,100</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Operating Income	\$ 136,915	\$ (23,215)	\$ 113,700
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	301,821	322,226	624,047
Amortization	-	23,069	23,069
Changes in Assets and Liabilities:			
(Increase)/Decrease in Accounts Receivable	(268)	76,015	75,747
Increase/(Decrease) in Accounts Payable	2,605	(4,635)	(2,030)
Increase/(Decrease) in Accrued Wages and Benefits	(1,421)	3,405	1,984
Increase/(Decrease) in Compensated Absences Payable	8,336	(12,288)	(3,952)
Increase/(Decrease) in Due to Other Governments	1,576	(7,690)	(6,114)
Total Adjustments	<u>312,649</u>	<u>400,102</u>	<u>712,751</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 449,564</u>	<u>\$ 376,887</u>	<u>\$ 826,451</u>

See accompanying notes to the basic financial statements.

City of Hillsboro, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
As of December 31, 2007

	<u>Agency</u>
ASSETS	
Cash and Cash Equivalents in Segregated Accounts	\$ 45,042
Receivables:	
Accounts	<u>63,195</u>
Total Assets	<u>\$ 108,237</u>
 LIABILITIES	
Due to Other Governments	\$ 37,285
Undistributed Monies	25,789
Deposits Held and Due to Others	<u>45,163</u>
Total Liabilities	<u>\$ 108,237</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, 2007

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 (U.S. GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

CITY GOVERNMENT AND REPORTING ENTITY

The City of Hillsboro (the "City"), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City 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.

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

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues not classified as program revenues are presented as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies that extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

FUND ACCOUNTING

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

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Street Fund - This fund is established to account for resources devoted to financing street repairs and construction.

Revolving Loan Fund - A revolving loan fund established to account for the program income revenue receipts and expenditures incurred in the administration of the City's revolving loan program.

Capital Project Fund - the fund accounts for financial resources to be used for the construction or acquisition of major capital facilities.

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.

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.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets 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 sources (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.

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.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2007, but which were levied to finance fiscal year 2008 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.

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.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 represent estimates from the final amended certificate issued in 2007.

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. Supplemental appropriations were adopted during 2007 by the 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.

CASH AND INVESTMENTS

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

During the year 2007, investments were limited to repurchase agreements, money market accounts, and donated common stock.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the enterprise funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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.

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

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

INTERFUND ASSETS AND LIABILITIES

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as "Interfund 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"; however, there were no internal balances at December 31, 2007.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 12 to the Basic Financial Statements.

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

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. Notes, capital leases, and bonds are recognized as liabilities on the fund financial statements when due.

RESERVES OF FUND BALANCES

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 balance 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.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Of the City's \$3,075,744 restricted net assets, \$0 are restricted for enabling legislation.

OPERATING REVENUES AND EXPENSES

Operating revenue are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for sewer and water utility services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund.

CAPITAL CONTRIBUTIONS

Capital contributions in the enterprise fund financial statements arise from outside contributions of fixed assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

INTERFUND TRANSACTIONS

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as 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. Transfers between governmental funds are eliminated on the statement of activities.

ESTIMATES

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

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

3. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the City has identified as not required for use within the five 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.

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;
7. The State Treasurer's investment pool (STAR Ohio);

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

3. DEPOSITS AND INVESTMENTS (Continued)

8. Securities lending agreements in which the City 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 City'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 City's total average portfolio.

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.

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.

Deposits:

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

The City's bank balance of \$5,075,226 is either covered by FDIC or collateralized by the financial institutions public entity deposit pools in the manner as described above.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

3. DEPOSITS AND INVESTMENTS (Continued)

Investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturities 6 months or less</u>
Common Stock	\$ 7,783	\$ 7,783
U.S. Government Money Market Mutual Funds	<u>540,485</u>	<u>423,490</u>
	<u>\$ 548,268</u>	<u>\$ 431,273</u>

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

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s investment policy allows the City to invest in accordance with the Ohio Revised Code (Ohio Law). The City limits their investments to money market accounts, repurchase agreements, and stocks.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. The City does have an investment policy. More than 98 percent of the City’s investments are in money market funds as of December 31, 2007.

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

4. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual, for the General Fund, the Street Fund, and the Revolving Loan Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

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 table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis for the General Fund, the Street Fund, and the Revolving Loan Fund.

	Net Change in Fund Balance		
	<u>General</u>	<u>Street</u>	<u>Revolving Loan</u>
GAAP Basis	\$ 89,911	\$ 556,788	\$ 44,765
Adjustments:			
Revenue Accrual	(75,214)	531	(19,112)
Expenditure Accrual	354,364	65,814	-
Encumbrances	(240,482)	(301,250)	-
Budget Basis	<u>\$ 128,579</u>	<u>\$ 321,883</u>	<u>\$ 25,653</u>

5. 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 reappraisal was completed in 2003. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

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.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

5. PROPERTY TAX (Continued)

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

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2007. 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 2007 operations. The receivable is therefore offset by a credit to deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2007, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$119,532,350
Public Utility Personal Property	3,463,220
Tangible Personal Property	<u>12,376,199</u>
 Total Property Taxes	 <u>\$135,371,769</u>

6. LOCAL INCOME TAX

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

7. RECEIVABLES

Receivables at December 31, 2007 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.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

7. RECEIVABLES (Continued)

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

<u>General</u>	
Local Government	\$120,984
Homestead & Rollback	11,868
<u>Major Special Revenue</u>	
Street Constr., Maint. & Repair Major Special Revenue Fund	
Gasoline Tax	106,947
<u>Non-Major Special Revenue</u>	
State Highway Fund	
Gasoline Tax	8,670
Police Pension Fund	
Homestead & Rollback	1,695
Fire Pension Fund	
Homestead & Rollback	1,695
Municipal Motor Vehicle Fund	
Permissive Tax	6,453
Rehab Fund	38,934
<u>Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,695</u>
Total Governmental Activities	<u>\$298,941</u>

8. INTERFUND TRANSACTIONS

Interfund balances at December 31, 2007, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
General Fund	\$290,000	\$ 0
<i>Non-major Fund:</i>		
Tax Increment Capital Projects Fund	0	290,000
	\$290,000	\$290,000
Total All Funds	\$290,000	\$290,000

The above balance resulted from an advance to cover shortfalls which will be repaid with future revenues.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

8. INTERFUND TRANSACTIONS (Continued)

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. The transfer from the Sewer Assessment fund to the General fund was legal and approved by the Common Pleas Court.

Transfers made during the year ended December 31, 2007, were as follows:

Fund	Transfer In	Transfer Out
General	\$ 35,269	\$ 768,800
Major Special Revenue Funds		
Street C.M. & Repair	244,450	-
Non-Major Special Revenue Funds		
Police Pension	170,000	-
Fire Pension	203,000	-
Recreation	96,350	-
Life Squad Improvement	55,000	-
Total Non-Major Special Revenue	524,350	-
Non-Major Debt Service Fund		
Sewer Special Assessment	-	35,269
Total All Funds	\$ 804,069	\$ 804,069

9. DEFINED BENEFIT RETIREMENT PLANS

Ohio Public Employees Retirement System: The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 10.1 percent. The employer contribution rate for pension benefits for 2007 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the employer's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's contributions to the PERS of Ohio for the years ending December 31, 2005, 2006, and 2007 were \$228,461, \$240,488, and \$255,668 respectively. These contributions were equal to the required contributions for each of the years.

Ohio Police and Fire Disability and Pension Fund: The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability 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 the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute.

The City's contributions to OP&F for the years ended December 31, 2005, 2006, and 2007 were \$157,541, \$151,149, and \$166,808 for policemen and \$197,546, \$200,489, and \$244,391 for firefighters, respectively, equal to required contributions for each year.

10. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85 percent of covered payroll (16.7 percent for public safety and law enforcement); 5 percent of covered payroll was the portion that was used to fund health care from January 1 through June 30, 2007 and 6 percent from July 1 through December 31, 2007.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

10. POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2006, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next nine years and 4 percent annually after nine years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 374,979. The number of active contributing participants for both plans used in the December 31, 2006 (the latest information available) actuarial valuation was 362,130. Actual City contributions for 2007 which were used to fund postemployment benefits were \$101,953. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2006, (the latest information available) was \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which will allow additional funds to be allocated to the health care plan.

Police and Fire Disability and Pension Fund: The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to 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 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 6.75 percent of covered payroll in 2007. In addition, since July 1, 1992, most retirees and survivors 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 have monthly health care contributions.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

10. POSTEMPLOYMENT BENEFITS (Continued)

The City's actual contributions for 2007 that were used to fund postemployment health care benefits were \$57,716 for police and \$68,674 for firefighters. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) was \$120,373,722, which was net of member contributions of \$58,532,848. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, was 14,120 for police and 10,563 for firefighters.

11. RISK MANAGEMENT

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

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

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

11. RISK MANAGEMENT (Continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.

<u>Casualty and Property Coverage</u>	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	(17,340,825)	(16,738,904)
Retained earnings	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, casualty coverage liabilities noted above include approximately \$15.0 million and \$14.4 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$206,437. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

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

<u>Contributions to PEP</u>	
2005	\$92,712
2006	\$103,176
2007	\$103,261

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

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

11. RISK MANAGEMENT (Continued)

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 United Healthcare 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.

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

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

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007:

	Beginning Balance 1/1/2007	Additions	Deletions	Ending Balance 12/31/2007
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 384,072	\$ 121,864	\$ -	\$ 505,936
Construction in Progress	102,295	123,590	(102,295)	123,590
Total Capital Assets, Not Being Depreciated	<u>486,367</u>	<u>245,454</u>	<u>(102,295)</u>	<u>629,526</u>
Capital Assets Being Depreciated				
Land Improvements	1,942,447 *	-	-	1,942,447
Buildings and Improvements	1,638,510	64,376	-	1,702,886
Furniture and Equipment	1,463,346	325,256	(144,287)	1,644,315
Vehicles	1,817,127	199,030	(4,000)	2,012,157
Infrastructure	<u>9,348,128 *</u>	<u>230,954</u>	<u>-</u>	<u>9,579,082</u>
Total Capital Assets Being Depreciated	16,209,558	819,616	(148,287)	16,880,887
Less Accumulated Depreciation				
Land Improvements	(947,426) *	(36,529)	-	(983,955)
Buildings and Improvements	(484,238) *	(45,787)	-	(530,025)
Furniture and Equipment	(883,847) *	(135,617)	123,020	(896,444)
Vehicles	(972,043) *	(92,480)	4,000	(1,060,523)
Infrastructure	<u>(3,381,854) *</u>	<u>(163,239)</u>	<u>-</u>	<u>(3,545,093)</u>
Total Accumulated Depreciation	(6,669,408)	(473,652)	127,020	(7,016,040)
Total Capital Assets Being Depreciated, Net	<u>9,540,150</u>	<u>345,964</u>	<u>(21,267)</u>	<u>9,864,847</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,026,517</u>	<u>\$ 591,418</u>	<u>\$ (123,562)</u>	<u>\$ 10,494,373</u>

* Certain reclassifications were made to January 1, 2007 beginning balances to conform to 2007 presentation. There was no impact on January 1, 2007 net assets.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

13. CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

General Government:

Legislative and Executive	\$ 63,943
Security of Persons & Property	108,466
Public Health	26,998
Leisure Time Activities	32,208
Transportation	<u>242,037</u>
Total Depreciation Expense	<u>\$ 473,652</u>

	Ending Balance 12/31/2006	Additions	Deletions	Ending Balance 12/31/2007
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Construction in Progress	\$ 3,083,662	\$ 787,654	\$ (3,817,933)	\$ 53,383
Total Capital Assets, Not Being Depreciated	<u>3,083,662</u>	<u>787,654</u>	<u>(3,817,933)</u>	<u>53,383</u>
Capital Assets Being Depreciated				
Land Improvements	273,604	3,462	-	277,066
Buildings and Equipment	12,756,774	3,413,663	-	16,170,437
Mechanical Equipment	993,352	175,930	(104,258)	1,065,024
Vehicles	180,445	240,639	-	421,084
Water/Sewer Lines	<u>5,476,384</u>	<u>405,932</u>	<u>(79,756)</u>	<u>5,802,560</u>
Total Capital Assets Being Depreciated	19,680,559	4,239,626	(184,014)	23,736,171
Less Accumulated Depreciation				
Land Improvements	(173,189)	(9,053)	-	(182,242)
Buildings and Equipment	(4,124,329)	(349,261)	-	(4,473,590)
Mechanical Equipment	(622,585)	(131,577)	104,258	(649,904)
Vehicles	(131,608)	(38,613)	-	(170,221)
Water/Sewer Lines	<u>(2,388,278)</u>	<u>(95,543)</u>	<u>28,366</u>	<u>(2,455,455)</u>
Total Accumulated Depreciation	(7,439,989)	(624,047)	132,624	(7,931,412)
Total Capital Assets Being Depreciated, Net	<u>12,240,570</u>	<u>3,615,579</u>	<u>(51,390)</u>	<u>15,804,759</u>
Business Type Activities Capital Assets, Net	<u>\$15,324,232</u>	<u>\$4,403,233</u>	<u>\$ (3,869,323)</u>	<u>\$ 15,858,142</u>

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

14. LONG-TERM OBLIGATIONS

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

	Outstanding 12/31/2006	Issued	Retired	Outstanding 12/31/2007	Due In One Year
<i>Governmental Activities</i>					
Compensated Absences	\$ 364,755	\$ 373,035	\$ 364,755	\$ 373,035	\$ 10,005
2007 - 6.0% Street Improvement Bonds	-	700,000	-	700,000	35,000
1997 - 6.5% Street Improvement Bonds	50,000	-	50,000	-	-
Capital Lease	34,266	300,357	59,543	275,080	25,870
Total Governmental Activities	\$ 449,021	\$ 1,373,392	\$ 474,298	\$ 1,348,115	\$ 70,875
	Outstanding 12/31/2006	Issued	Retired	Outstanding 12/31/2007	Due In One Year
<i>Business Activities</i>					
Compensated Absences	\$ 74,546	\$ 70,594	\$ 74,546	\$ 70,594	\$ -
Water					
2004 - 2% Mortgage Revenue Bond	3,100,333	11,499	75,000	3,036,832	80,000
2005 - Water System Improvement Revenue Bonds - 4.25%	554,000	-	5,000	549,000	6,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,376,000	-	25,000	2,351,000	25,000
Unamortized Charge	92,001	-	3,833	88,168	3,833
Total Water Fund	6,122,334	11,499	108,833	6,025,000	114,833
Sewer					
2004 - OWDA Loan - 1%	367,506	-	22,417	345,089	11,291
2005 - OWDA Loan - 1%	1,276,128	47,238	63,574	1,259,792	63,903
2007 - OWDA Loan - 1%	-	1,115,701	-	1,115,701	-
2007 - OPWC Loan - 0%	-	200,000	10,000	190,000	10,000
2007 - 4.65% Notes	-	650,000	-	650,000	650,000
1997 - 4.65% Mortgage Revenue Bond	555,000	-	270,000	285,000	285,000
Total Sewer Fund	2,198,634	2,012,939	365,991	3,845,582	1,020,194
Total Business-Type Activities	\$ 8,395,514	\$ 2,095,032	\$ 549,370	\$ 9,941,176	\$ 1,135,027

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 in the amount of \$3,385,000 were issued in 2004 to 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.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

14. LONG-TERM OBLIGATIONS (Continued)

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

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

The 1997 Mortgage Revenue Bonds were issued in the amount of \$2,510,000. These bonds are special obligations of the City, payable solely from the net revenues of its wastewater treatment and sewer system and the revenue fund created under the trust indenture.

The Street Improvement Bonds in the amounts of \$700,000 and \$400,000 were issued in 2007 and 1997, respectively, 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.

The 2007 Bond Anticipation Note was issued in the amount of \$650,000 on August 27, 2007 at the interest rate of 5.25% to finance improvements of the sewer systems. The sewer fund will be used to repay this note.

The 2004 OWDA loan was issued at an interest rate of 1% during 2004 and 2005 to pay for the costs of sanitary sewer lining. The 2005 OWDA loan is to pay for the costs of lift station, equalization basin, and relief sewers. The 2007 OWDA loan was issued at an interest rate of 1% in 2007 for a portion of the costs of the wastewater treatment plant bypass elimination. The OPWC loan was issued at a zero percent interest rate for a portion of the costs of the wastewater treatment plant bypass elimination. The sewer fund will be used to repay these loans.

Principal and interest requirements to retire General Obligation Bonds and principal requirements to retire OPWC debt at December 31, 2007 were as follows:

	General Obligation Bonds		OPWC	
	Principal	Interest	Principal	
2008	\$35,000	\$32,670	2008	\$10,000
2009	35,000	29,705	2009	10,000
2010	40,000	28,130	2010	10,000
2011	40,000	26,330	2011	10,000
2012	40,000	2,453	2012	10,000
2013-2017	230,000	95,740	2013-2017	50,000
2018-2022	280,000	47,320	2018-2022	50,000
			2023-2027	40,000
Total	\$700,000	\$262,348	Total	\$190,000

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

14. LONG-TERM DEBT OBLIGATIONS (Continued)

The OWDA loans were still open as of December 31, 2007 and no amortization schedules had been established for these loans.

Principal and interest requirements to retire Mortgage Revenue Bonds at December 31, 2007 were as follows:

	<u>Mortgage Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$396,000	\$271,517
2009	114,000	260,252
2010	120,000	255,866
2011	121,000	251,244
2012	127,000	246,641
2013-2017	725,000	1,146,255
2018-2022	887,000	975,511
2023-2027	1,115,000	748,961
2028-2032	1,179,000	457,419
2033-2037	492,000	284,341
2038-2042	606,000	170,519
2043-2045	<u>428,000</u>	<u>36,924</u>
Total	<u>\$6,310,000</u>	<u>\$5,105,450</u>

The amortization schedule does not match the outstanding debt amounts listed on page 46 in the amount of \$88,168 which is the unamortized charge.

The City's overall legal debt margin was \$4,611,627 at December 31, 2007.

15. CONTINGENCIES

Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2007.

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.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2007, the City entered into a capital lease for the purchase of a front-end loader, a police cruiser, and a vac-truck. During fiscal year 2005, the City entered into a capital lease for the purchase of a Ford Explorer and two police cruisers. In a previous fiscal year, 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 \$414,075 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 2007 totaled \$59,543 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, 2007.

Year Ending December 31,	Capitalized Lease Obligation
2008	\$ 64,642
2009	64,642
2010	57,529
2011	42,390
2012	34,363
2013-2014	51,545
Total Minimum Lease Payments	315,111
Less: Amount Representing Interest	(40,031)
Present Value of Minimum Lease Payments	\$ 275,080

17. DONATED STOCK

On October 23, 2003, the City received a donation of Proctor and Gamble Stock to be used for Life Squad improvements and related equipment. The market value of this stock at the time of donation was \$3,235. An investment firm holds the City's stock in book entry form in the City's name.

CITY OF HILLSBORO, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 18 – CHANGE IN ACCOUNTING PRINCIPLES

For 2007, the City has implemented *Governmental Accounting Standards Board (GASB) Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*, *GASB Statement No. 48, “Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues”*, and *GASB Statement No. 50, “Pension Disclosures”*.

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees’ years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the OPERS and the OP&F post-employment healthcare plans in the amount of \$58,811 and \$190,913, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

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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, Ohio
130 N High Street
Hillsboro, Ohio 45133

We have audited the financial statements of the governmental activities, 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, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 29, 2008. As described in Note 18 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, GASB Statement No. 48 *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 50 *Pension Disclosures*. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness on the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters which we reported to the City's management in a separate letter dated August 29, 2008.

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*

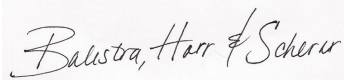
Page 2

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated August 29, 2008.

We intend this report solely for the information and use of management and members of the Council. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
August 29, 2008

**CITY OF HILLSBORO
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

None

City of Hillsboro

*Schedule of Prior Audit Findings
For the Fiscal Year Ended December 31, 2007*

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	Ohio Rev. Code Section 5705.10(D), requires that revenue derived from source other than property tax should be paid into special fund for such purpose.	Yes	Fully Corrected
2006-002	Accurate and timely accounting and reconciliations for the Municipal Court.	No	Partially Corrected, Re-issued in Management Letter.
2006-003	Ohio Rev. Code Section 705.08, states the Treasurer shall be the custodian of all moneys of the municipal corporation.	Yes	Fully Corrected.
2006-004	Policies and procedures over monitor loan repayments.	Yes	Fully Corrected.
2006-005	Service organization assurance over transactions processing.	Yes	Fully Corrected.
2006-006	Accurate and timely accounting and reconciliations for the Emergency Medical Services.	Yes	Fully Corrected.



Mary Taylor, CPA
Auditor of State

CITY OF HILLSBORO

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 6, 2008**