

City of Hillsboro, Ohio  
Highland County

Regular Audit

January 1 , 2001 Through December 31, 2001

**BALESTRA & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

Telephone (740) 289-4131

Fax (740) 289-3639

E-Mail: [mbalcpa@bright.net](mailto:mbalcpa@bright.net)

Member American Institute of Certified Public Accountants  
Ohio Society of Certified Public Accountants





STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
Columbus, Ohio 43215

Telephone 614-466-4514  
800-282-0370

Facsimile 614-728-7398  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

We have reviewed the Independent Auditor's Report of the City of Hillsboro, Highland County, prepared by Balestra & Company, for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

June 26, 2002

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528 South West Street, P.O. Box 687  
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Telephone (740) 289-4131  
Fax (740) 289-3639 E-mail: mbalcpa@bright.net

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**Independent Auditor's Report**

We have audited the accompanying general-purpose financial statements of the City of Hillsboro, Highland County, as of and for the year ended December 31, 2001. These general-purpose financial statements are the responsibility of the City of Hillsboro's management. Our responsibility is to express an opinion on these general-purpose 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 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Hillsboro, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary 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 May 24, 2002 on our consideration of the City of Hillsboro's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 15 to the general-purpose financial statements, the City of Hillsboro implemented Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, and Governmental Accounting Standards Board Statement No. 36, *Recipient Reporting for Certain Shared Non-exchange Revenues* (an amendment of GASB Statement No. 33).

**Balestra & Company**  
Balestra & Company

May 24, 2002

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CITY OF HILLSBORO, OHIO  
HIGHLAND COUNTY

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## General Purpose Financial Statements

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The general purpose financial statements of the City include the basic combined financial statements, presented by fund type and account group, and notes to the financial statements that are essential to the fair presentation of financial position and results of operation and cash flows of the proprietary fund type.

**City of Hillsboro, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**As of December 31, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
-----				
Assets:				
-----				
Cash and Cash Equivalents	\$1,519,830	\$934,749	\$192,497	\$17,969
Investments	400,252	0	0	0
Cash and Cash Equivalents with Fiscal Agents	0	0	0	0
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Investments with Fiscal Agents	0	0	0	0
Receivables: (Net of Allowance)				
Taxes	934,438	66,240	33,120	0
Accounts	119,882	0	0	0
Interfund	250,000	0	0	0
Due from Other Governments	226,527	284,892	1,526	0
Materials & Supply Inventory	32,875	55,248	0	0
Loans Receivable	0	632,524	0	0
Deferred Expense on Refunding	0	0	0	0
Prepaid Items	18,683	2,826	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits:				
-----				
Amount to be Provided for retirement of general long-term debt	0	0	0	0
Amount Available in Debt Service Fund	0	0	0	0
Total Assets and Other Debits	\$3,502,487	\$1,976,479	\$227,143	\$17,969

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$1,806,077	\$8,705	\$0	\$0	\$4,479,827
0	0	0	0	400,252
165,872	0	0	0	165,872
0	69,223	0	0	69,223
254,296	0	0	0	254,296
0	0	0	0	1,033,798
320,044	437,184	0	0	877,110
0	0	0	0	250,000
0	0	0	0	512,945
55,825	0	0	0	143,948
0	0	0	0	632,524
144,749	0	0	0	144,749
9,756	0	0	0	31,265
7,249,770	0	14,592,723	0	21,842,493
0	0	0	261,883	261,883
0	0	0	227,143	227,143
<u>\$10,006,389</u>	<u>\$515,112</u>	<u>\$14,592,723</u>	<u>\$489,026</u>	<u>\$31,327,328</u>

(Continued)

**City of Hillsboro, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**As of December 31, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, Fund Equity and Other Credits:				
-----				
Liabilities:				
-----				
Accounts Payable	\$32,322	\$131,164	\$0	\$0
Contracts Payable	0	139,989	0	0
Accrued Wages	64,563	4,454	0	0
Compensated Absences Payable	24,884	1,369	0	0
Interfund Payable	0	0	0	250,000
Due to Other Governments	63,270	98,132	0	0
Deferred Revenue	424,005	314,336	34,150	0
Undistributed Monies	0	0	0	0
Deposits Held & Due Others	0	0	0	0
Accrued Interest Payable	0	0	0	0
Bond Anticipation Notes Payable	0	0	0	0
Revenue Bonds Payable	0	0	0	0
	-----	-----	-----	-----
Total Liabilities	609,044	689,444	34,150	250,000
	-----	-----	-----	-----
Fund Equity and Other Credits:				
-----				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	128,526	148,867	0	6,435
Reserved for Inventory	32,875	55,248	0	0
Reserved for Prepaid Items	18,683	2,826	0	0
Reserved for Loans Receivable	0	632,524	0	0
Unreserved:				
Undesignated	2,713,359	447,570	192,993	(238,466)
	-----	-----	-----	-----
Total Fund Equity and Other Credits	2,893,443	1,287,035	192,993	(232,031)
	-----	-----	-----	-----
Total Liabilities, Fund Equity and Other Credits	\$3,502,487	\$1,976,479	\$227,143	\$17,969
	=====	=====	=====	=====

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$13,229	\$0	\$0	\$0	\$176,715
10,206	0	0	0	150,195
16,465	0	0	0	85,482
48,453	0	0	219,026	293,732
0	0	0	0	250,000
34,741	3,259	0	0	199,402
0	0	0	0	772,491
0	425,161	0	0	425,161
0	77,987	0	0	77,987
354,267	0	0	0	354,267
0	0	0	270,000	270,000
5,101,300	0	0	0	5,101,300
5,578,661	506,407	0	489,026	8,156,732
0	0	14,592,723	0	14,592,723
459,136	0	0	0	459,136
3,968,592	0	0	0	3,968,592
0	0	0	0	283,828
0	0	0	0	88,123
0	0	0	0	21,509
0	0	0	0	632,524
0	8,705	0	0	3,124,161
4,427,728	8,705	14,592,723	0	23,170,596
\$10,006,389	\$515,112	\$14,592,723	\$489,026	\$31,327,328

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balances  
 All Governmental Fund Types and Similar Trust Fund  
 For the Year Ended December 31, 2001

	General Fund	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Totals (Memorandum Only)
<b>Revenues:</b>						
Taxes	\$3,456,342	\$80,798	\$93,901	\$0	\$0	\$3,631,041
Charges for Services	201,120	0	0	0	0	201,120
License and Permits	13,051	69,583	0	0	0	82,634
Fines and Forfeitures	256,678	60,180	0	0	0	316,858
Intergovernmental	85,034	438,172	2,976	0	0	526,182
Investment Income	202,559	49,385	0	0	0	251,944
Rental	15,200	4,827	0	0	0	20,027
Other	72,759	96,985	0	0	1,060	170,804
<b>Total Revenues</b>	<b>4,302,743</b>	<b>799,930</b>	<b>96,877</b>	<b>0</b>	<b>1,060</b>	<b>5,200,610</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/Leg. & Exec.	1,052,749	32,853	0	0	0	1,085,602
Judicial	344,073	0	0	0	0	344,073
Health	21,023	25,920	0	0	0	46,943
Leisure Time Activity	572	177,060	0	0	0	177,632
Transportation	0	473,159	0	0	0	473,159
Security of Person & Property	2,412,581	334,456	0	0	0	2,747,037
Community Environment	36,082	399,151	0	0	0	435,233
Capital Outlay	0	0	1,538	153,331	0	154,869
Other	0	123,655	0	0	67	123,722
<b>Debt Service:</b>						
Principal Retirement	0	0	35,000	0	0	35,000
Interest and Fiscal Charges	0	0	14,488	0	0	14,488
<b>Total Expenditures</b>	<b>3,867,080</b>	<b>1,566,254</b>	<b>51,026</b>	<b>153,331</b>	<b>67</b>	<b>5,637,758</b>
Excess of Revenues Over (Under) Expenditures	435,663	(766,324)	45,851	(153,331)	993	(437,148)
<b>Other Financing Sources (Uses):</b>						
Operating Transfers - In	0	655,000	0	0	0	655,000
Operating Transfers - Out	(655,000)	(200,000)	0	0	0	(855,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(655,000)</b>	<b>455,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(200,000)</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(219,337)	(311,324)	45,851	(153,331)	993	(637,148)
<b>Fund Balances (Deficit) at Beginning of Year (Restated - Note 15)</b>	<b>3,109,512</b>	<b>1,569,807</b>	<b>147,142</b>	<b>(78,700)</b>	<b>7,712</b>	<b>4,755,473</b>
Increase (Decrease) in Reserve for Inventory	3,268	28,552	0	0	0	31,820
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$2,893,443</b>	<b>\$1,287,035</b>	<b>\$192,993</b>	<b>(\$232,031)</b>	<b>\$8,705</b>	<b>\$4,150,145</b>

See Accompanying Notes to the General Purpose Financial Statements.

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual (Budget Basis)  
 All Governmental Fund Types  
 For the Fiscal Year Ended December 31, 2001

	-----General Fund-----			-----Special Revenue Funds-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$2,994,500	\$3,435,035	\$440,535	\$73,580	\$80,836	\$7,256
Charges for Services	189,116	221,652	32,536	0	0	0
License and Permits	12,000	13,051	1,051	65,000	69,583	4,583
Fines and Forfeitures	261,000	256,678	(4,322)	47,500	60,180	12,680
Intergovernmental	43,000	23,543	(19,457)	780,000	438,858	(341,142)
Interest Income	175,000	203,485	28,485	52,500	49,385	(3,115)
Rent	14,100	15,200	1,100	8,000	4,827	(3,173)
Other	26,800	72,759	45,959	94,000	184,950	90,950
<b>Total Revenues</b>	<b>3,715,516</b>	<b>4,241,403</b>	<b>525,887</b>	<b>1,120,580</b>	<b>888,619</b>	<b>(231,961)</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/leg. & exec.	1,200,626	1,111,300	89,326	0	0	0
Judicial	374,782	358,372	16,410	75,000	66,999	8,001
Health	25,000	21,023	3,977	0	0	0
Leisure Time Activity	0	0	0	198,118	257,788	(59,670)
Transportation	0	0	0	543,068	478,253	64,815
Security of Person and Property	2,631,930	2,540,513	91,417	356,464	324,779	31,685
Community Environment	97,239	37,074	60,165	729,475	528,622	200,853
Capital Outlay	0	0	0	274,619	123,655	150,964
Other	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>4,329,577</b>	<b>4,068,282</b>	<b>261,295</b>	<b>2,176,744</b>	<b>1,780,096</b>	<b>396,648</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(614,061)</b>	<b>173,121</b>	<b>787,182</b>	<b>(1,056,164)</b>	<b>(891,477)</b>	<b>164,687</b>
<b>Other Financing Sources (Uses):</b>						
Advances In	0	0	0	0	0	0
Advances Out	(250,000)	(250,000)	0	0	0	0
Operating Transfers In	0	0	0	655,000	655,000	0
Operating Transfers Out	(1,091,660)	(655,000)	436,660	(200,000)	(200,000)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(1,341,660)</b>	<b>(905,000)</b>	<b>436,660</b>	<b>455,000</b>	<b>455,000</b>	<b>0</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>(1,955,721)</b>	<b>(731,879)</b>	<b>1,223,842</b>	<b>(601,164)</b>	<b>(436,477)</b>	<b>164,687</b>
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>2,505,535</b>	<b>2,505,535</b>	<b>0</b>	<b>1,147,366</b>	<b>1,147,366</b>	<b>0</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$549,814</b>	<b>\$1,773,656</b>	<b>\$1,223,842</b>	<b>\$546,202</b>	<b>\$710,889</b>	<b>\$164,687</b>

(Continued)

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual (Budget Basis)  
 All Governmental Fund Types  
 For the Fiscal Year Ended December 31, 2001

	-----Debt Service Fund-----			-----Capital Projects Fund-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$29,290	\$93,920	\$64,630	\$0	\$0	\$0
Charges for Services	0	0	0	0	0	0
License and Permits	0	0	0	0	0	0
Fines and Forfeitures	0	0	0	0	0	0
Intergovernmental	2,500	2,976	476	0	0	0
Interest Income	0	0	0	0	0	0
Rent	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Total Revenues</b>	<b>31,790</b>	<b>96,896</b>	<b>65,106</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/leg. & exec.	0	0	0	0	0	0
Judicial	0	0	0	0	0	0
Health	0	0	0	0	0	0
Leisure Time Activity	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
Security of Person and Property	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Capital Outlay	0	0	0	250,000	232,031	17,969
Other	37,300	1,538	35,762	0	0	0
<b>Debt Service:</b>						
Principal Retirement	35,000	35,000	0	0	0	0
Interest and Fiscal Charges	20,000	14,488	5,512	0	0	0
<b>Total Expenditures</b>	<b>92,300</b>	<b>51,026</b>	<b>41,274</b>	<b>250,000</b>	<b>232,031</b>	<b>17,969</b>
Excess of Revenues Over (Under) Expenditures	(60,510)	45,870	106,380	(250,000)	(232,031)	17,969
<b>Other Financing Sources (Uses):</b>						
Advances In	0	0	0	250,000	250,000	0
Advances Out	0	0	0	0	0	0
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	0	0	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>250,000</b>	<b>250,000</b>	<b>0</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(60,510)	45,870	106,380	0	17,969	17,969
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>146,627</b>	<b>146,627</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$86,117</b>	<b>\$192,497</b>	<b>\$106,380</b>	<b>\$0</b>	<b>\$17,969</b>	<b>\$17,969</b>

See Accompanying Notes to the General Purpose Financial Statements.



**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenses  
 and Changes in Retained Earnings  
 Proprietary Fund Type  
 For the Year Ended December 31, 2001

	Enterprise
Operating Revenues:	
-----	
Tap-in Fees	\$119,916
Sales	696
Charges for Services	2,033,954
Other Operating Revenues	38,905
	-----
Total Operating Revenue	2,193,471
	-----
Operating Expenses:	
-----	
Salaries	663,004
Fringe Benefits	204,024
Purchased Services	111,891
Materials and Supplies	129,726
Depreciation	377,037
Amortization	24,336
Contractual Services	197,890
Other Operating Expenses	29,468
	-----
Total Operating Expenses	1,737,376
	-----
Operating Income	456,095
	-----
Non-Operating Revenues (Expenses):	
-----	
Other Non-Operating Revenues	80
Proceeds from Sale of Fixed Assets	143
Interest	60,831
Loss on Disposal of Fixed Assets	(51,901)
Interest and Fiscal Charges	(461,342)
	-----
Total Non-Operating Revenues (Expenses)	(452,189)
	-----
Income Before Operating Transfers	3,906
	-----
Operating Transfers In	200,000
	-----
Net Income	203,906
	-----
Retained Earnings at Beginning of Year (Restated - Note 15)	3,764,686
	-----
Retained Earnings at End of Year	3,968,592
	-----
Contributed Capital at Beginning and End of Year	459,136
	-----
Total Fund Equity at End of Year	\$4,427,728
	=====

See Accompanying Notes to the General Purpose Financial Statements.

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenses and Changes  
 In Fund Equity - Budget and Actual (Budget Basis)  
 Proprietary Fund Type  
 For the Year Ended December 31, 2001

	----- Enterprise -----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
	-----		
Operating Revenues:			
-----			
Tap-In Fees	\$10,000	\$119,916	\$109,916
Sales	0	696	696
Charges for Services	2,030,000	2,046,292	16,292
Other Operating Revenues	38,000	38,905	905
	-----		
Total Operating Revenue	2,078,000	2,205,809	127,809
	-----		
Operating Expenses:			
-----			
Salaries	736,007	720,752	15,255
Fringe Benefits	267,713	219,457	48,256
Purchased Services	134,558	119,019	15,539
Materials and Supplies	222,692	165,842	56,850
Contractual Services	4,049,519	664,721	3,384,798
Other Operating Expenses	55,392	29,947	25,445
	-----		
Total Operating Expenses	5,465,881	1,919,738	3,546,143
	-----		
Operating Income (Loss)	(3,387,881)	286,071	3,673,952
	-----		
Non-Operating Revenues (Expenses):			
-----			
Proceeds from Sale of Fixed Assets	0	143	143
Other Non-Operating Revenues	3,400,000	0	(3,400,000)
Interest	22,000	25,111	3,111
Payment on Principal	(273,646)	(273,646)	0
Interest and Fiscal Charges	(394,758)	(384,666)	10,092
	-----		
Total Non-Operating Revenues (Expenses)	2,753,596	(633,058)	(3,386,654)
	-----		
Income (Loss) Before Operating Transfers	(634,285)	(346,987)	287,298
	-----		
Operating Transfers In	0	200,000	200,000
Operating Transfers Out	(123,000)	0	123,000
	-----		
Net Income (Loss)	(757,285)	(146,987)	610,298
	-----		
Retained Earnings at Beginning of Year	1,699,021	1,699,021	0
	-----		
Retained Earnings at Year End	\$941,736	\$1,552,034	\$610,298
	=====		

See Accompanying Notes to the General Purpose Financial Statements.

**City of Hillsboro, Ohio**  
 Combined Statement of Cash Flows  
 Proprietary Fund Type  
 For the Year Ended December 31, 2001

	Enterprise
Increase in Cash and Cash Equivalents:	
<hr style="border-top: 1px dashed black;"/>	
Cash Flows from Operating Activities:	
<hr style="border-top: 1px dashed black;"/>	
Cash Received from Customers	\$2,166,904
Cash Received from Other Operating Sources	38,905
Cash Payments to Suppliers for Goods and Services	(529,807)
Cash Payments to Employees for Services	(704,285)
Cash Payments for Employee Benefits	(219,263)
	<hr style="border-top: 1px dashed black;"/>
Net Cash Provided by Operating Activities	752,454
	<hr style="border-top: 1px dashed black;"/>
Cash Flows from Noncapital Financing Activities:	
<hr style="border-top: 1px dashed black;"/>	
Operating Transfers In	200,000
	<hr style="border-top: 1px dashed black;"/>
Net Cash Provided by Noncapital Financing Activities	200,000
	<hr style="border-top: 1px dashed black;"/>
Cash Flows from Capital and Related Financing Activities:	
<hr style="border-top: 1px dashed black;"/>	
Proceeds from Sale of Capital Assets	143
Payment for Capital Acquisitions	(350,072)
Principal Payments	(273,646)
Interest Payments	(288,001)
	<hr style="border-top: 1px dashed black;"/>
Net Cash (Used for) Capital and Related Financing Activities	(911,576)
	<hr style="border-top: 1px dashed black;"/>
Cash Flows from Investing Activities:	
<hr style="border-top: 1px dashed black;"/>	
Interest on Investments	60,831
	<hr style="border-top: 1px dashed black;"/>
Net Cash Provided by Investing Activities	60,831
	<hr style="border-top: 1px dashed black;"/>
Net Increase in Cash and Cash Equivalents	101,709
Cash and Cash Equivalents at Beginning of Year	1,870,240
	<hr style="border-top: 1px dashed black;"/>
Cash and Cash Equivalents at End of Year	<u>\$1,971,949</u>
	<hr style="border-top: 1px dashed black;"/>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
<hr style="border-top: 1px dashed black;"/>	
Operating Income	\$456,095
	<hr style="border-top: 1px dashed black;"/>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
<hr style="border-top: 1px dashed black;"/>	
Depreciation	377,037
Amortization	24,336
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	12,338
(Increase) in Prepaid Items	(978)
(Increase) in Materials and Supplies Inventory	(22,262)
(Decrease) in Accounts Payable	(47,798)
Increase in Contracts Payable	10,206
Increase in Accrued Wages	2,449
(Decrease) in Compensated Absences Payable	(45,435)
(Decrease) in Intergovernmental Payable	(13,534)
	<hr style="border-top: 1px dashed black;"/>
Total Adjustments	296,359
	<hr style="border-top: 1px dashed black;"/>
Net Cash Provided by Operating Activities	<u>\$752,454</u>
	<hr style="border-top: 1px dashed black;"/>

See Accompanying Notes to the General Purpose Financial Statements.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Hillsboro have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applies to governmental units. The Governmental Accounting Standards Board is the accepted standard - setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

##### A. 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 provided support to service providers.

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

**A. CITY GOVERNMENT AND REPORTING ENTITY (Continued)**

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

**B. BASIS OF ACCOUNTING - FUND ACCOUNTING**

The City uses funds and account groups to report on its financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is a separate accounting entity with self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate fund types. The following categories and fund types are used by the City:

***GOVERNMENTAL FUNDS***

***General Fund*** - The general fund is used to account for all activities of the City not required to be included in another fund.

***Special Revenue Funds*** - The special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

***Debt Service Funds*** - The debt service funds are used to account for the accumulation of financial resources for, and the payment of, general obligation long-term debt principal, interest and related costs.

***Capital Project Funds*** - The capital project funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

---

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

**B. BASIS OF ACCOUNTING - FUND ACCOUNTING (Continued)**

***PROPRIETARY FUNDS:***

***Enterprise Funds*** - The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

***FIDUCIARY FUNDS:***

***Expendable Trust Fund*** - The Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The Expendable Trust fund accounts for assets where both the principal and interest may be spent.

***Agency Funds*** - The Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

***ACCOUNT GROUPS:***

***General Fixed Assets Account Group*** - The General Fixed Assets Account Group is used to account for all general fixed assets of the City, other than those fixed assets accounted for in the proprietary funds.

***General Long-Term Obligations Account Group*** - The General Long-Term Obligations Account Group is used to account for all long-term obligations of the City, except those accounted for in the proprietary funds.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

All proprietary 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 balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

***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. (See Note 5.) Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, interest, and grants.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue.

Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001

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

##### C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

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 the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred.

##### D. 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 combined 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.

The revised budget then serves as the basis for the annual appropriation measure. Further amendments may be made during the year if the Council determines that revenue to be collected will be greater than or less than prior estimates and the budget commission finds the revised estimate to be reasonable. The amounts set forth in the financial statements represents estimates from the final amended certificate issued in 2001.

**Appropriations:** A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. Supplemental appropriations may be adopted by Council. Amounts shown in the financial statements represent the appropriated budgeted amounts and all supplemental appropriations. One supplemental appropriation was adopted during 2001 by Council.



CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETS AND BUDGETARY ACCOUNTING (Continued)

**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. For the General fund, Council appropriations are budgeted to fund and function level. For all other funds, Council appropriations are budgeted to the fund level. 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, and as a note disclosure for proprietary 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.

E. 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 record. Interest is distributed to various funds based upon the Ohio Revised Code requirements, and is presented as "Cash and Cash Equivalents" on the combined balance sheet.

During fiscal year 2001, investments were limited to repurchase agreements and treasury notes.

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

**F. PROPERTY, PLANT AND EQUIPMENT**

The fixed asset values initially were determined at December 31, 1995 and again at December 31, 1999 assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City has established \$500 as the threshold for which fixed assets are to be reported.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

**General Fixed Assets:** General fixed assets (fixed assets used in governmental fund type operation) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group at historical cost or estimated historical cost. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are capitalized, as these assets are of value to the City.

**Enterprise Fund Fixed Assets:** Fixed assets reflected in the enterprise funds are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

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

**G. INVENTORIES OF SUPPLIES**

Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the enterprise funds when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

**H. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond December 31, 2001, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**I. INTERFUND ASSETS AND LIABILITIES**

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet. Short-term interfund loans or the short-term portion of advances are classified as interfund receivables/payables.

**J. COMPENSATED ABSENCES**

In 1996, the City implemented the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end. This item is discussed in Note 12 to the General Purpose Financial Statements.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, compensated absences are expended when earned. The entire amount of compensated absences is reported as a fund liability.

**K. INTERGOVERNMENTAL REVENUES**

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for enterprise fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

**L. CONTRIBUTED CAPITAL**

Contributed capital represents resources from other funds, other governments, private sources, and tap-in fees, to the extent they exceed the cost of physical connection to the system, which have been provided to the enterprise funds and are not subject to repayment. Because the City, prior to 1996, had not prepared financial statements in accordance with accounting principles generally accepted in the United States of America, the exact amount of contributed capital pertaining to years prior to 1996 cannot be determined. Consequently, only those amounts that have been able to be identified specifically have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to the enterprise funds have been classified as retained earnings. As of December 31, 2001 the City's contributed capital consisted of tap-in fees.

**M. RESERVES OF FUND EQUITY**

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

**N. LONG-TERM DEBT**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

**O. INTERFUND TRANSACTIONS**

During the course of normal operations, the City has numerous transactions between funds, most of which are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

Nonrecurring and non-routine transfers of equity between funds and the transfer of residual balances of discontinued funds or projects to the general fund or capital projects funds are classified as residual equity transfers.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

**O. INTERFUND TRANSACTIONS (Continued)**

Transactions that constitute reimbursements for expenditures or expenses initially made from a fund that are properly allocable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures and expenses in the fund that is reimbursed.

**P. 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.

**Q. TOTAL COLUMNS ON FINANCIAL STATEMENTS**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

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

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

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

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

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001

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#### 2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (StarOhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized agencies.

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.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

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

**Deposits:** At year end, the carrying amount of the City's deposits was \$2,183,037 and the bank balance was \$2,516,416. Of the bank balance:

1. \$569,026 was covered by federal depository insurance; and
2. \$1,947,390 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City held to a successful claim by the FDIC.

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

	Category			Carrying	Fair
	1	2	3	Amount	Value
<b>Investments:</b>					
Money Market	\$ 0	\$ 0	\$ 0	\$ 946,436	\$ 946,436
Repurchase Agreements	0	0	1,585,449	1,585,449	1,585,449
U.S. Treasury Notes	0	654,548	0	654,548	654,548
Total Investments	\$ 0	\$ 654,548	\$1,585,449	\$3,186,433	\$3,186,433

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

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

GASB 3 to GASB 9 Reconciliation

	<u>Cash &amp; Cash Equivalents</u>	<u>Investments</u>
GASB 9 Balances	\$ 4,714,922	\$654,548
Repurchase Agreements	(1,585,449)	1,585,449
Money Market	<u>(946,436)</u>	<u>946,436</u>
GASB 3	<u>\$ 2,183,037</u>	<u>\$3,186,433</u>

**3. BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations and changes in fund balance/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis), all Proprietary Fund Types 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 that:

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).
4. Proceeds from and principal payments on bond and revenue anticipation notes are reported on the operating statement (Budget Basis) rather than as balance sheet transactions (GAAP basis).
5. The City repays short-term note debt from the debt service fund (Budget Basis) as opposed to the fund that received the proceeds (GAAP basis). Debt service fund resources used to pay both principal and interest have been allocated accordingly.
6. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).



**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

**3. BUDGETARY BASIS OF ACCOUNTING (Continued)**

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$(219,337)	\$(311,324)	\$45,851	\$(153,331)
Adjustments:				
Revenue Accrual	(61,340)	88,689	19	250,000
Expenditure Accrual	(305,966)	16,451	0	(78,700)
Encumbrances	(145,236)	(230,293)	0	0
Budget Basis	<u>\$(731,879)</u>	<u>\$(436,477)</u>	<u>\$45,870</u>	<u>\$ 17,969</u>

There were no differences between the budget basis and GAAP basis in the Expendable Trust fund.

Net Excess of Revenues Over Expenses, and Operating Transfers Proprietary Fund Type	
	<u>Enterprise</u>
GAAP Basis	\$ 203,906
Increases (Decreases) Due To:	
Revenue Accruals	(23,462)
Expense Accruals	(73,388)
Encumbrances	<u>(254,043)</u>
Budget Basis	<u>\$(146,987)</u>

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

**4. LONG-TERM DEBT OBLIGATIONS**

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

<u>Types / Issues</u>	<u>Outstanding at 12/31/00</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding at 12/31/01</u>
<i>General Long-Term Obligations</i>				
Compensated Absences	\$ 241,635	\$ 0	\$ 22,609	\$ 219,026
Bond Anticipation Notes	<u>305,000</u>	<u>0</u>	<u>35,000</u>	<u>270,000</u>
Total Long-Term Obligations	<u>\$ 546,635</u>	<u>\$ 0</u>	<u>\$ 57,609</u>	<u>\$ 489,026</u>
<i>Enterprise Fund Obligations</i>				
<b>Water Fund</b>				
Mortgage Revenue Bond	3,412,400	0	41,100	3,371,300
<b>Sewer Fund</b>				
OWDA Loan	27,546	0	27,546	0
Mortgage Revenue Bonds	<u>1,935,000</u>	<u>0</u>	<u>205,000</u>	<u>1,730,000</u>
Total Enterprise Fund Obligation	<u>\$5,374,946</u>	<u>\$ 0</u>	<u>\$ 273,646</u>	<u>\$5,101,300</u>

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

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

The Ohio Water Development Authority (O.W.D.A.) loans were issued for utility construction projects. Property and revenue of the utility facilities were pledged to repay these debts.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

Compensated Absences (sick leave and vacation benefits) will be paid from the fund from which the person is paid. Additions and deletions of accrued vacation and sick leave are shown net since it is impractical for the City to determine these amounts separately.

The City has Industrial Development Revenue Bonds outstanding in the aggregate principal of \$835,000 at December 31, 2001 for facilities used by private corporations or other entities. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. There has not been and is not any condition of default under the bonds or the related financing documents.

The General Obligation Bond Anticipation Note was issued for the improvement of city streets. General obligation bond anticipation note is a 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 City intends to refinance the obligations on a long-term basis and the intent is supported by an ability to consummate the refinancing.

The annual requirement to amortize all bonded debt outstanding as of December 31, 2001, including interest payments of \$4,184,364 are as follows:

	Mortgage Revenue Bonds
2002	533,271
2003	533,241
2004	532,486
2005	531,334
2006-2010	2,078,731
2011-2015	1,209,014
Thereafter	3,867,587
Totals	<u><u>\$9,285,664</u></u>

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

The amount to repay note debt outstanding as of December 31, 2001, including interest payments of \$64,025 are as follows:

	General Obligation Bond <u>Anticipation Note</u>
2002	\$ 57,550
2003	54,950
2004	57,350
2005	54,425
2006-2007	<u>109,750</u>
Total	<u>\$ 334,025</u>

The City has utilized trustees (Fifth/Third Bank) to service the general obligation and mortgage revenue bonds. Payments to the trustees are recorded as disbursements in the year they are deposited with the trustees. At December 31, 2001, the trustees have accumulated \$420,168 toward the redemption of these bonds.

**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 revaluation was completed in 1994. 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.

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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**5. PROPERTY TAX (Continued)**

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, 2001. 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 2001 operations. The receivable and the portion of the tax levies prepaid by year end into the undivided general tax agency fund are therefore offset by a credit to deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2001, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2000 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$ 90,259,640
Public Utility Personal Property	3,335,310
Tangible Personal Property	<u>28,850,380</u>
Total Property Taxes	<u>\$122,445,330</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, 2001 consisted of taxes, accounts (billings for user charged services including unbilled utility services), and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services.

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

Municipal Court receivables amount to \$1,068,662. Due to the age of many of these accounts, the amount of \$631,478 is considered uncollectable.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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**7. RECEIVABLES (Continued)**

A summary of the principal items of intergovernmental receivables follows:

<u>General</u>	
Local Government	\$113,086
Grants	64,236
Homestead & Rollback	9,668
Sales Tax	<u>39,537</u>
Total General	<u>226,527</u>
 <u>Special Revenue</u>	
Street Constr., Maint. & Repair Fund	
Gasoline Tax	64,063
State Highway	
Gasoline Tax	5,193
Police Pension	
Homestead & Rollback	1,526
Fire Pension	
Homestead & Rollback	1,526
Rehab.	
Grants	184,067
Victim's Rights	
Grants	20,551
Municipal Motor Vehicle Fund	
Permissive Tax	<u>7,966</u>
Total Special Revenue	<u>284,892</u>
 <u>Debt Service</u>	
Bond Retirement	
Homestead & Rollback	<u>1,526</u>
 Total	 <u>\$512,945</u>

**8. FIXED ASSETS**

**General Fixed Assets:** Changes in general fixed assets during 2001 were as follows:

	Restated *			Balance at
	<u>Balance at</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/01</u>
	<u>12/31/00</u>			
Infrastructure	\$8,024,287	\$ 77,322	\$ 0	\$ 8,101,609
Land Improvements	2,173,806	75,917	0	2,249,723
Buildings & Improvements	1,469,205	271,415	0	1,740,620
Furniture & Equipment	836,151	85,510	27,674	893,987
Construction in Progress	17,374	0	859	16,515
Vehicles	<u>1,618,484</u>	<u>77,998</u>	<u>106,213</u>	<u>1,590,269</u>
Total	<u>\$14,139,307</u>	<u>\$ 588,162</u>	<u>\$134,746</u>	<u>\$14,592,723</u>

\* See Note 15 for explanation of restated fixed asset balances.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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**8. FIXED ASSETS (Continued)**

**Proprietary Fund Fixed Assets:** A summary of the Proprietary Fund Types fixed assets as of December 31, 2001, follows:

	Balance at 12/31/01
Land Improvements	\$ 73,604
Mechanic Equipment	686,782
Vehicles	117,727
Plant Buildings & Equipment	7,453,533
Water/Sewer Lines	4,591,830
 Total Assets	 12,923,476
Accumulated Depreciation	(5,673,706)
 Net Value of Assets	 <u>\$ 7,249,770</u>

**9. DEFINED BENEFIT RETIREMENT PLANS**

**Public Employees Retirement System:** All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The employer rate for local government employer units was 13.55%, of covered payroll; 4.3% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1999, 2000, and 2001 were \$177,098, \$190,629, and \$208,591 which were equal to the required contributions.

**Police and Firemen's Disability and Pension Fund:** The City of Hillsboro contributes to the Police and Firemen's Disability and Pension Fund of Ohio (the "Fund"), a cost-sharing multiple employer public employee retirement system administered by the Fund's Board of Trustees. The Fund provides retirement benefits, disability, and health care benefits to qualified participants and survivor and death benefits to qualified spouses, children and dependent parents. Benefits are based on eligible service credit. Benefits are established by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215-5164.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001

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#### 9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

Police and firefighters are required to contribute 10% of their annual covered salary to fund pension obligations and the City is required to contribute 19.5% for police and 24% for firefighters. Contributions are authorized by the State statute. An actuary, however, is used to determine the actuarial implications of the statutory requirements. The City's contributions to the Fund for the years ended December 31, 1999, 2000, and 2001 were \$113,317, \$127,060, and \$144,927 for policemen and \$145,008, \$158,250, and \$176,478 for firefighters, respectively, equal to required contributions for each year.

#### 10. POSTEMPLOYMENT BENEFITS

**Public Employees Retirement System:** The PERS of Ohio provides postemployment health care benefits to age service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was \$66,186, 4.3% of covered payroll.

The health inflation and significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 2000. OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

The number of active contributing participants was 411,076. \$11,735.9 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2000. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

**Police and Firemen's Disability and Pension Fund:** The Police and Firemen's Disability and Pension Fund provides postretirement health care coverage to any person who receives or is an eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty two if attending school full-time or on a two thirds basis. The Ohio Revised Code Chapter 742 provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost are included in the contribution rate. The contribution rate for Police is 19.5% and Firefighters is 24% of covered payroll of which 7.5% was applied to postemployment health care program. Health care funding and accounting is on a pay-as-you-go basis. In addition, most retirees are required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2000, (the latest information available) was 12,853 for policemen and 10,037 for firefighters. The City's actual contributions for 2001 that were used to fund postemployment benefits was \$55,797 for police and \$55,238 for firefighters. The Fund's total health care expenses for the year ending December 31, 2000 were \$106,160,054, which was net of member contributions \$5,657,431.



## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001

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#### 11. RISK MANAGEMENT

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the general aggregate. Other liability insurances includes \$1,000,000 employers liability coverage (which provides additional coverage to the State's Workers Compensation Program), \$1,000,000 for law enforcement professional liability, \$1,000,000 for public official errors and omissions liability and \$1,000,000 for automobile liability. In addition the City maintains replacement cost insurance on building and contents in the blanket amount of \$10,338,648. Other property insurance includes contractor's equipment, automobile physical damage and earthquake damage to the blanket limit. The City carries comprehensive boiler and machinery coverage in the amount of \$3,000,000.

The City also maintains crime insurance on monies and securities in the amount of \$2,500. In addition the City carries employee dishonesty coverage in the amount of \$25,000. The City pays all elected officials' bonds by statute. The City insures an employee health benefits program through Humana Insurance Company.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The City has not incurred significant reductions in insurance coverage from coverage in prior year by major category risk.

#### 12. OTHER EMPLOYEE BENEFITS

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

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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

The Police Department earns sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with not less than 10 years of service at retirement shall be paid the value of his/her sick leave credit for up to one-third of the leave up to a maximum of 400 hours upon termination. The Fire Department earns sick leave at a rate of 6.44 hours for each completed pay period. Those employees with not less than 10 years of service at retirement shall be paid the value of his/her sick leave credit for up to one-fourth of the leave up to 300 hours. All other City employees earn sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with at least ten years of service at the time of separation shall be paid the value of his/her sick credit for up to one-fourth of the leave up to 300 hours. Such payment shall be based on the employee's rate of pay at the time of separation, or the full balance may be transferred to another governmental agency. At December 31, 2001 the current amount of unpaid compensated absences in the governmental funds and the balance of the liability in the general long term obligations account group were \$26,253 and \$219,026 respectively. The liability for compensated absences in the enterprise funds was \$48,453.

**13. SEGMENT INFORMATION - ENTERPRISE FUNDS**

Financial segment information as of and for the year ended December 31, 2001 for the Enterprise Funds presented as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue	\$1,145,609	\$1,047,862	\$ 2,193,471
Depreciation Expense	120,784	256,253	377,037
Amortization Expense	0	24,336	24,336
Operating Income	351,272	104,823	456,095
Net Income after Operating Transfers	200,139	3,767	203,906
Net Working Capital	992,498	1,286,760	2,279,258
Total Assets	4,097,310	5,909,079	10,006,389
Revenue Bonds Payable	3,371,300	1,730,000	5,101,300
Total Equity	399,088	4,028,640	4,427,728
Encumbrances at 12/31/2001	52,285	201,758	254,043

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

**14. 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, 2001.

**15. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCES**

*Changes in Accounting Principles* For fiscal year 2001, the City has implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. The implementation of GASB Statements No. 33 and 36 had the following effect on fund balance at December 31, 2000:

	General	Special Revenue
Fund Balance at December 31, 2000	\$3,106,767	\$1,561,060
Implementation of GASB 33	2,745	8,747
Adjusted Fund Balance at January 1, 2001	\$3,109,512	\$1,569,807

*Restatement of Fund Balances* In the prior year, fixed assets were misstated in the General Fixed Asset Group and Enterprise Funds. This had the following effect on Investment in General Fixed Assets and Retained Earnings, respectively, as it was previously reported as of December 31, 2000:

	GFAAG
Investment in General Fixed Assets at December 31, 2000	\$14,135,742
Restatement Amount	3,565
Adjusted Investment in General Fixed Assets at January 1, 2001	\$14,139,307

  

	Enterprise
Retained Earnings at December 31, 2000	\$3,758,086
Restatement Amount	6,600
Adjusted Retained Earnings at January 1, 2001	\$3,764,686

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2001

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**16. ACCOUNTABILITY AND COMPLIANCE**

The following fund had a fund balance deficit as of December 31, 2001:

<i>Capital Projects Funds</i>	
Tax Increment Fund	\$232,031

This deficit is a result of the application of accounting principles generally accepted in the United States of America to the financial reporting of this fund. The General Fund is liable for any deficit in this fund and provides operating transfers when cash is required, not when accruals occur.

**17. INTERFUND TRANSACTIONS**

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$250,000	\$ 0
<i>Capital Project Fund</i>		
Tax Increment Fund	<u>0</u>	<u>250,000</u>
Total All Funds	<u>\$250,000</u>	<u>\$250,000</u>

**18. TRANSFERS**

An ordinance was passed by a unanimous vote of City Council on September 10, 2001 authorizing the Revolving Loan, a Special Revenue Fund to transfer \$200,000 to the Water Enterprise Fund. This ordinance was initiated by formal request of the Ohio Department of Development in order to provide funding as required by the City's 2001 CDBG Water and Sanitary Grant, for construction of a new water treatment plant for the City.

**BALESTRA & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS  
528 South West Street, P.O. Box 687  
Piketon, Ohio 45661  
Telephone (740) 289-4131  
Fax (740) 289-3639 E-mail: mbalcpa@bright.net

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

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

We have audited the financial statements of the City of Hillsboro, Highland County, as of and for the year ended December 31, 2001, in which we indicated the City had changed its method of accounting for non-exchange transactions, and have issued our report thereon dated May 24, 2002. 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.

*Compliance*

As part of obtaining reasonable assurance about whether the City of Hillsboro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated May 24, 2002.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the City of Hillsboro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated May 24, 2002.

Members of Council  
City of Hillsboro  
Hillsboro, Ohio 45133

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

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This report is intended solely for the information and use of the audit committee, management, and members of City Council, and is not intended to be and should not be used by anyone other than these specified parties.

**Balestra & Company**  
Balestra & Company

May 24, 2002

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

CITY OF HILLSBORO  
HIGHLAND COUNTY

Finding Number	Finding Summary	Fully Corrected	Not Corrected; Partially Corrected: Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
14228-2000-03	Draw down of CDBG grant funds limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds, in accordance with the Ohio Department of Development's Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook.	No	CDBG grant funds were not disbursed to enable the entity to have funds on hand of a balance of less than \$5,000 within fifteen days of receipt, in accordance with the Ohio Department of Development's Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook.
14228-2000-002	Filing of required reports in an adequate and timely fashion for the City's Micro Enterprise Grant, in accordance with the State of Ohio, Small Cities Community Development Block Grant Program (CDBG), Micro Enterprise Program Grant Agreement.	No	Required reports for 2001 were not filed, which is not in accordance with the Micro Enterprise Program Grant Agreement.
14228-2000-001	Draw down of Micro Enterprise grant funds limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds, in accordance with the Ohio Department of Development's Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook.	Yes	

PLANNED CORRECTIVE ACTIONS:

Finding Number	Planned Corrective Action	Anticipated Completion Date:	Responsible Contact Person:
14228-2000-002	Management will develop and monitor a cash management system to ensure compliance with the 15 day rule.	December 31, 2002	Kirby Ellison, Micro Enterprise Grant Coordinator
14228-2000-003	Management will develop and monitor a cash management system to ensure compliance with the 15 day rule.	December 31, 2002	Peg Beekman, Grant Coordinator







STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**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  
JULY 16, 2002**