

City of Hillsboro, Ohio  
Highland County

Regular Audit

January 1 , 2002 Through December 31, 2002

**BALESTRA & COMPANY**

(A division of Harr & Scherer CPAs Inc.)

**CERTIFIED PUBLIC ACCOUNTANTS**

528 South West Street, P.O. Box 687

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





**Auditor of State  
Betty Montgomery**

Members of Council  
City of Hillsboro  
Hillsboro, Ohio

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, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

June 23, 2003

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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.

# BALESTRA & COMPANY

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

## 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, 2002. 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, 2002, 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 30, 2003 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.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

*Balestra & Company*  
Balestra & Company

May 30, 2003

**City of Hillsboro, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**As of December 31, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
-----				
Assets:				
-----				
Cash and Cash Equivalents	\$207,169	\$688,937	\$172,704	\$55,943
Investments	408,782	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	1,070,661	66,118	33,059	0
Accounts	38,760	0	0	0
Interfund	450,000	0	0	0
Due from Other Governments	169,779	251,496	1,532	0
Materials & Supply Inventory	32,588	22,261	0	0
Loans Receivable	0	718,881	0	0
Deferred Expense on Refunding	0	0	0	0
Prepaid Items	19,613	3,479	0	0
Restricted Cash:				
Cash and Cash Equivalents	0	0	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	<u>\$2,397,352</u>	<u>\$1,751,172</u>	<u>\$207,295</u>	<u>\$55,943</u>

See Accompanying Notes to the General Purpose Financial Statements.



Proprietary Fund Type	Fiduciary Fund Types	Account Groups		2002 Totals (Memorandum Only)	2001 Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations		
Enterprise	Trust and Agency				
\$3,184,573	\$11,065	\$0	\$0	\$4,320,391	\$4,478,637
0	0	0	0	408,782	402,468
424,690	0	0	0	424,690	163,442
0	103,712	0	0	103,712	69,223
0	0	0	0	0	256,726
0	0	0	0	1,169,838	1,033,798
397,059	610,560	0	0	1,046,379	877,110
0	0	0	0	450,000	250,000
1,321,000	0	0	0	1,743,807	512,945
33,949	0	0	0	88,798	143,948
0	0	0	0	718,881	652,594
120,413	0	0	0	120,413	144,749
15,366	0	0	0	38,458	31,265
91,184	0	0	0	91,184	0
9,084,266	0	15,692,836	0	24,777,102	21,955,826
0	0	0	292,309	292,309	261,883
0	0	0	173,396	173,396	227,143
<u>\$14,672,500</u>	<u>\$725,337</u>	<u>\$15,692,836</u>	<u>\$465,705</u>	<u>\$35,968,140</u>	<u>\$31,461,757</u>

(Continued)

**City of Hillsboro, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**As of December 31, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities,				
Fund Equity and Other Credits:				
-----				
Liabilities:				
-----				
Accounts Payable	\$28,649	\$27,409	\$0	\$0
Contracts Payable	0	0	0	78,310
Accrued Wages & Benefits	71,908	5,046	0	0
Compensated Absences Payable	31,488	3,098	0	0
Retainage Payable	0	0	0	0
Interfund Payable	0	0	0	450,000
Due to Other Governments	116,194	148,433	0	0
Deferred Revenue	531,761	224,687	33,899	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	780,000	408,673	33,899	528,310
	-----	-----	-----	-----
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	83,425	159,702	0	20,765
Reserved for Inventory	32,588	22,261	0	0
Reserved for Prepaid Items	19,613	3,479	0	0
Reserved for Loans Receivable	0	718,881	0	0
Unreserved:				
Undesignated	1,481,726	438,176	173,396	(493,132)
	-----	-----	-----	-----
Total Fund Equity and Other Credits	1,617,352	1,342,499	173,396	(472,367)
	-----	-----	-----	-----
Total Liabilities, Fund Equity and Other Credits	\$2,397,352	\$1,751,172	\$207,295	\$55,943
	=====	=====	=====	=====

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		2002 Totals (Memorandum Only)	2001 Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations		
Enterprise	Trust and Agency				
\$37,632	\$0	\$0	\$0	\$93,690	\$71,790
181,912	0	0	0	260,222	150,195
19,090	0	0	0	96,044	85,482
56,679	0	0	235,705	326,970	293,450
91,184	0	0	0	91,184	0
0	0	0	0	450,000	250,000
51,583	5,031	0	0	321,241	199,402
1,240,000	0	0	0	2,030,347	772,491
0	605,529	0	0	605,529	425,161
0	103,712	0	0	103,712	77,987
240,629	0	0	0	240,629	173,341
2,960,000	0	0	230,000	3,190,000	270,000
4,842,700	0	0	0	4,842,700	5,101,300
9,721,409	714,272	0	465,705	12,652,268	7,870,599
0	0	15,692,836	0	15,692,836	14,592,723
459,136	0	0	0	459,136	459,136
4,491,955	0	0	0	4,491,955	4,263,133
0	0	0	0	263,892	283,828
0	0	0	0	54,849	88,123
0	0	0	0	23,092	21,509
0	0	0	0	718,881	652,594
0	11,065	0	0	1,611,231	3,230,112
4,951,091	11,065	15,692,836	0	23,315,872	23,591,158
\$14,672,500	\$725,337	\$15,692,836	\$465,705	\$35,968,140	\$31,461,757

**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, 2002

	General Fund	Special Revenue	Debt Service	Capital Projects	Expendable Trust	2002 Totals (Memorandum Only)	2001 Totals (Memorandum Only)
<b>Revenues:</b>							
Taxes	\$3,337,182	\$63,010	\$31,505	\$0	\$0	\$3,431,697	\$3,631,041
Charges for Services	118,513	23,408	0	0	0	141,921	201,120
License and Permits	13,464	68,740	0	0	0	82,204	82,634
Fines and Forfeitures	265,022	79,550	0	0	0	344,572	316,858
Intergovernmental	12,153	900,372	3,222	0	0	915,747	526,182
Investment Income	103,665	47,770	0	0	0	151,435	251,944
Rental	15,415	33,814	0	0	0	49,229	20,027
Other	50,991	31,144	0	0	2,360	84,495	171,830
<b>Total Revenues</b>	<b>3,916,405</b>	<b>1,247,808</b>	<b>34,727</b>	<b>0</b>	<b>2,360</b>	<b>5,201,300</b>	<b>5,201,636</b>
<b>Expenditures:</b>							
<b>Current:</b>							
General Government/Leg. & Exec.	1,507,275	19,196	0	0	0	1,526,471	1,085,602
Judicial	366,320	0	0	0	0	366,320	344,073
Health	20,499	12,764	0	0	0	33,263	46,943
Leisure Time Activity	0	222,820	0	0	0	222,820	177,632
Transportation	0	1,029,000	0	0	0	1,029,000	473,159
Security of Person & Property	2,648,666	349,071	0	0	0	2,997,737	2,747,037
Community Environment	35,623	266,501	0	0	0	302,124	310,238
Capital Outlay	0	0	1,499	240,336	0	241,835	154,869
Other	0	0	0	0	0	0	123,722
<b>Debt Service:</b>							
Principal Retirement	0	0	40,000	0	0	40,000	35,000
Interest and Fiscal Charges	0	0	12,825	0	0	12,825	14,488
<b>Total Expenditures</b>	<b>4,578,383</b>	<b>1,899,352</b>	<b>54,324</b>	<b>240,336</b>	<b>0</b>	<b>6,772,395</b>	<b>5,512,763</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(661,978)</b>	<b>(651,544)</b>	<b>(19,597)</b>	<b>(240,336)</b>	<b>2,360</b>	<b>(1,571,095)</b>	<b>(311,127)</b>
<b>Other Financing Sources (Uses):</b>							
Proceeds from Sale of Assets	148	0	0	0	0	148	0
Operating Transfers - In	0	615,000	0	0	0	615,000	655,000
Operating Transfers - Out	(615,000)	0	0	0	0	(615,000)	(855,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(614,852)</b>	<b>615,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>148</b>	<b>(200,000)</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>(1,276,830)</b>	<b>(36,544)</b>	<b>(19,597)</b>	<b>(240,336)</b>	<b>2,360</b>	<b>(1,570,947)</b>	<b>(511,127)</b>
<b>Fund Balances (Deficit) at Beginning of Year (Restated - Note 15)</b>	<b>2,894,469</b>	<b>1,412,030</b>	<b>192,993</b>	<b>(232,031)</b>	<b>8,705</b>	<b>4,276,166</b>	<b>4,755,473</b>
<b>Increase (Decrease) in Reserve for Inventory</b>	<b>(287)</b>	<b>(32,987)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(33,274)</b>	<b>31,820</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$1,617,352</b>	<b>\$1,342,499</b>	<b>\$173,396</b>	<b>(\$472,367)</b>	<b>\$11,065</b>	<b>\$2,671,945</b>	<b>\$4,276,166</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, 2002

	-----General Fund-----			-----Special Revenue Funds-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$3,495,270	\$3,307,662	(\$187,608)	\$60,240	\$62,618	\$2,378
Charges for Services	223,000	199,635	(23,365)	17,500	23,408	5,908
License and Permits	12,250	13,464	1,214	70,000	68,740	(1,260)
Fines and Forfeitures	256,000	265,022	9,022	64,400	79,550	15,150
Intergovernmental	43,000	69,954	26,954	1,308,565	904,093	(404,472)
Interest Income	150,000	96,351	(53,649)	86,000	32,270	(53,730)
Rent	15,000	15,415	415	2,000	33,814	31,814
Other	21,100	50,801	29,701	125,700	114,857	(10,843)
<b>Total Revenues</b>	<b>4,215,620</b>	<b>4,018,304</b>	<b>(197,316)</b>	<b>1,734,405</b>	<b>1,319,350</b>	<b>(415,055)</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/leg. & exec.	1,888,262	1,503,191	385,071	0	0	0
Judicial	393,295	373,634	19,661	135,666	99,764	35,902
Health	25,000	20,499	4,501	0	0	0
Leisure Time Activity	0	0	0	286,907	285,905	1,002
Transportation	0	0	0	1,238,851	1,117,249	121,602
Security of Person and Property	2,908,714	2,664,394	244,320	370,400	348,239	22,161
Community Environment	89,665	50,633	39,032	922,699	506,363	416,336
Capital Outlay	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Debt Service:</b>						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>5,304,936</b>	<b>4,612,351</b>	<b>692,585</b>	<b>2,954,523</b>	<b>2,357,520</b>	<b>597,003</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(1,089,316)</b>	<b>(594,047)</b>	<b>495,269</b>	<b>(1,220,118)</b>	<b>(1,038,170)</b>	<b>181,948</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Fixed Assets	0	148	148	0	0	0
Advances In	0	0	0	0	0	0
Advances Out	(200,000)	(200,000)	0	0	0	0
Operating Transfers In	0	0	0	702,000	615,000	(87,000)
Operating Transfers Out	(615,000)	(615,000)	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(815,000)</b>	<b>(814,852)</b>	<b>148</b>	<b>702,000</b>	<b>615,000</b>	<b>(87,000)</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>(1,904,316)</b>	<b>(1,408,899)</b>	<b>495,417</b>	<b>(518,118)</b>	<b>(423,170)</b>	<b>94,948</b>
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>1,918,892</b>	<b>1,918,892</b>	<b>0</b>	<b>934,747</b>	<b>934,747</b>	<b>0</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$14,576</b>	<b>\$509,993</b>	<b>\$495,417</b>	<b>\$416,629</b>	<b>\$511,577</b>	<b>\$94,948</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, 2002

	-----Debt Service Fund-----			-----Capital Projects Fund-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$30,120	\$31,309	\$1,189	\$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	3,000	3,222	222	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>33,120</b>	<b>34,531</b>	<b>1,411</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	206,435	261,101	(54,666)
Other	37,300	1,499	35,801	0	0	0
<b>Debt Service:</b>						
Principal Retirement	40,000	40,000	0	0	0	0
Interest and Fiscal Charges	15,000	12,825	2,175	0	0	0
<b>Total Expenditures</b>	<b>92,300</b>	<b>54,324</b>	<b>37,976</b>	<b>206,435</b>	<b>261,101</b>	<b>(54,666)</b>
Excess of Revenues Over (Under) Expenditures	(59,180)	(19,793)	39,387	(206,435)	(261,101)	(54,666)
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Fixed Assets	0	0	0	0	0	0
Advances In	0	0	0	200,000	200,000	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>200,000</b>	<b>200,000</b>	<b>0</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(59,180)	(19,793)	39,387	(6,435)	(61,101)	(54,666)
Fund Balances (Deficit) at Beginning of Year	192,497	192,497	0	17,969	17,969	0
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$133,317</b>	<b>\$172,704</b>	<b>\$39,387</b>	<b>\$11,534</b>	<b>(\$43,132)</b>	<b>(\$54,666)</b>

See Accompanying Notes to the General Purpose Financial Statements.

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenses  
 and Changes in Fund Equity  
 Proprietary Fund Type  
 For the Year Ended December 31, 2002

	2002	2001
	Enterprise	Enterprise
<b>Operating Revenues:</b>		
Tap-in Fees	\$146,886	\$119,916
Sales	2,894	696
Charges for Services	2,167,061	2,033,954
Other Operating Revenues	57,785	38,905
<b>Total Operating Revenue</b>	<b>2,374,626</b>	<b>2,193,471</b>
<b>Operating Expenses:</b>		
Salaries	783,268	662,722
Fringe Benefits	245,093	204,024
Purchased Services	499,222	111,891
Materials and Supplies	177,530	129,726
Depreciation	395,396	383,704
Amortization	24,336	24,336
Contractual Services	184,554	197,890
Other Operating Expenses	32,794	29,468
<b>Total Operating Expenses</b>	<b>2,342,193</b>	<b>1,743,761</b>
<b>Operating Income</b>	<b>32,433</b>	<b>449,710</b>
<b>Non-Operating Revenues (Expenses):</b>		
Grants	547,200	0
Other Non-Operating Revenues	9,199	80
Loss on Sale of Fixed Assets	(60,571)	(51,901)
Proceeds from Sale of Fixed Assets	282	143
Interest	41,599	60,831
Interest and Fiscal Charges	(341,320)	(280,416)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>196,389</b>	<b>(271,263)</b>
<b>Income Before Operating Transfers</b>	<b>228,822</b>	<b>178,447</b>
<b>Operating Transfers In</b>	<b>0</b>	<b>200,000</b>
<b>Net Income</b>	<b>228,822</b>	<b>378,447</b>
<b>Retained Earnings</b> at Beginning of Year (Restated - Note 15)	<b>4,263,133</b>	<b>3,884,686</b>
<b>Retained Earnings</b> at End of Year	<b>4,491,955</b>	<b>4,263,133</b>
<b>Contributed Capital at Beginning and End of Year</b>	<b>459,136</b>	<b>459,136</b>
<b>Total Fund Equity at End of Year</b>	<b>\$4,951,091</b>	<b>\$4,722,269</b>

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, 2002

	----- Enterprise -----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Operating Revenues:			
-----			
Tap-In Fees	\$10,000	\$146,886	\$136,886
Sales	0	2,894	2,894
Charges for Services	2,967,517	2,090,046	(877,471)
Other Operating Revenues	35,500	57,785	22,285
	-----	-----	-----
Total Operating Revenue	3,013,017	2,297,611	(715,406)
	-----	-----	-----
Operating Expenses:			
-----			
Salaries	799,841	774,323	25,518
Fringe Benefits	254,137	231,598	22,539
Purchased Services	6,233,799	5,936,473	297,326
Materials and Supplies	223,588	181,038	42,550
Other Operating Expenses	53,089	33,159	19,930
	-----	-----	-----
Total Operating Expenses	7,564,454	7,156,591	407,863
	-----	-----	-----
Operating Income (Loss)	(4,551,437)	(4,858,980)	(307,543)
	-----	-----	-----
Non-Operating Revenues (Expenses):			
-----			
Proceed from Short Term Notes	4,000,000	2,960,000	(1,040,000)
Operating Grants	1,900,000	466,200	(1,433,800)
Proceeds from Sale of Fixed Assets	0	282	282
Interest	14,500	31,162	16,662
Payment on Principal	(278,428)	(352,350)	(73,922)
Interest and Fiscal Charges	(407,304)	(297,059)	110,245
	-----	-----	-----
Total Non-Operating Revenues (Expenses)	5,228,768	2,808,235	(2,420,533)
	-----	-----	-----
Net Income (Loss)	677,331	(2,050,745)	(2,728,076)
	-----	-----	-----
Retained Earnings at Beginning of Year	1,806,077	1,806,077	0
	-----	-----	-----
Retained Earnings at Year End	\$2,483,408	(\$244,668)	(\$2,728,076)
	=====	=====	=====

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, 2002

	2002	2001
	Enterprise	Enterprise
Increase in Cash and Cash Equivalents:		
-----		
Cash Flows from Operating Activities:		
-----		
Cash Received from Customers	\$2,239,826	\$2,166,904
Cash Received from Other Operating Sources	57,785	38,905
Cash Payments to Suppliers for Goods and Services	(681,725)	(529,807)
Cash Payments to Employees for Services	(770,844)	(704,285)
Cash Payments for Employee Benefits	(229,542)	(219,263)
	-----	
Net Cash Provided by Operating Activities	615,500	752,454
	-----	
Cash Flows from Noncapital Financing Activities:		
-----		
Operating Grants Received	466,200	0
Operating Transfers In	0	200,000
	-----	
Net Cash Provided by Noncapital Financing Activities	466,200	200,000
	-----	
Cash Flows from Capital and Related Financing Activities:		
-----		
Proceeds from Sale of Investments	256,726	0
Purchase of Investments	0	(2,430)
Proceeds from Sale of Notes	2,960,000	0
Proceeds from Sale of Capital Assets	282	143
Payment for Capital Acquisitions	(2,076,747)	(350,072)
Principal Payments	(258,600)	(273,646)
Interest Payments	(274,032)	(288,001)
	-----	
Net Cash Provided by/(Used for) Capital and Related Financing Activities	607,629	(914,006)
	-----	
Cash Flows from Investing Activities:		
-----		
Interest on Investments	41,599	60,831
	-----	
Net Cash Provided by Investing Activities	41,599	60,831
	-----	
Net Increase in Cash and Cash Equivalents	1,730,928	99,279
Cash and Cash Equivalents at Beginning of Year	1,969,519	1,870,240
	-----	
Cash and Cash Equivalents at End of Year	\$3,700,447	\$1,969,519
	=====	
	=====	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
-----		
Operating Income	\$32,433	\$449,710
	-----	
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
-----		
Depreciation	395,396	383,704
Amortization	24,336	24,336
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivable	(77,015)	12,338
Decrease (Increase) in Prepaid Items	(5,610)	(978)
Decrease (Increase) in Materials and Supplies Inventory	21,876	(22,262)
Increase (Decrease) in Accounts Payable	24,403	(47,798)
Increase (Decrease) in Contracts Payable	171,706	10,206
Increase (Decrease) in Accrued Wages	2,625	2,449
Increase (Decrease) in Compensated Absences Payable	8,508	(45,717)
Increase (Decrease) in Due to Other Governments	16,842	(13,534)
	-----	
Total Adjustments	583,067	302,744
	-----	
Net Cash Provided by Operating Activities	\$615,500	\$752,454
	=====	
	=====	

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, 2002

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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, 2002

---

**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, 2002

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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, 2002

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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, 2002, but which were levied to finance fiscal year 2003 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, 2002

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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 2002.

**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 2002 by Council.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

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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. 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 the year 2002, investments were limited to repurchase agreements, common stock 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.

During the year 2002, the City held retainage monies for the construction of the water plant expansion project. Retainage amounts at December 31, 2002 have been restricted and are presented as "Restricted Cash: Cash and Cash Equivalents" on the balance sheet.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

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, 2002

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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, 2002, 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, 2002

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

**L. CONTRIBUTED CAPITAL**

Prior to the implementation of GASB 33, contributed capital was recorded for 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, 2002 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, 2002**

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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.

**R. COMPARATIVE FINANCIAL STATEMENTS**

Comparative total data for the prior year have been presented for informational purposes. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**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, 2002

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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, 2002

**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 \$2,130,461 and the bank balance was \$2,593,337. Of the bank balance:

1. \$603,711 was covered by federal depository insurance; and
2. \$1,989,626 was collateralized by pooled or pledged collateral. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City held to a successful claim by the FDIC.

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

	Category			Carrying Amount	Fair Value
	1	2	3		
<b>Investments:</b>					
Money Market \$	0	\$ 0	\$ 0	\$ 420,839	\$ 420,839
Stocks	0	2,406	0	2,406	2,406
Repurchase Agreements	0	0	2,388,677	2,388,677	2,388,677
U.S. Treasury Notes	0	406,376	0	406,376	406,376
<b>Total</b>					
Investments	<u>\$ 0</u>	<u>\$ 408,782</u>	<u>\$ 2,388,677</u>	<u>\$3,218,298</u>	<u>\$3,218,298</u>

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, 2002

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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

	Cash & Cash Equivalents	Investments
GASB 9 Balances	\$ 4,939,977	\$408,782
Repurchase Agreements	(2,388,677)	2,388,677
Money Market	(420,839)	420,839
 GASB 3	 \$ 2,130,461	 \$3,218,298

**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, 2002

**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			
		Special	Debt	Capital
	General	Revenue	Service	Projects
GAAP Basis	\$(1,276,830)	\$(36,544)	\$(19,597)	\$(240,336)
Adjustments:				
Revenue Accrual	101,899	71,542	(196)	200,000
Expenditure Accrual	(137,730)	(280,810)	0	78,310
Encumbrances	(96,238)	(177,358)	0	(99,075)
Budget Basis	<u>\$(1,408,899)</u>	<u>\$(423,170)</u>	<u>\$(19,793)</u>	<u>\$(61,101)</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	\$ 228,822
Increases (Decreases) Due To:	
Revenue Accruals	2,782,349
Expense Accruals	(1,541,489)
Encumbrances	<u>(3,520,427)</u>
Budget Basis	<u>\$(2,050,745)</u>

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

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**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 12/31/01</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding at 12/31/02</u>
<i>General Long-Term Obligations</i>				
Compensated Absences	\$ 219,026	\$ 16,049	\$ 0	\$ 235,705
Bond Anticipation Notes	<u>270,000</u>	<u>0</u>	<u>40,000</u>	<u>230,000</u>
Total Long-Term Obligations	<u>\$ 489,026</u>	<u>\$ 16,049</u>	<u>\$ 40,000</u>	<u>\$ 465,705</u>
<i>Enterprise Fund Obligations</i>				
<b>Water Fund</b>				
Mortgage Revenue Bond	3,371,300	0	43,600	3,327,700
<b>Sewer Fund</b>				
Mortgage Revenue Bonds	<u>1,730,000</u>	<u>0</u>	<u>215,000</u>	<u>1,515,000</u>
Total Enterprise Fund Obligation	<u>\$5,101,300</u>	<u>\$ 0</u>	<u>\$ 258,600</u>	<u>\$4,842,700</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.

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 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.



**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

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

The annual requirement to amortize all bonded debt outstanding as of December 31, 2002, including interest payments of \$3,909,692 are as follows:

	Mortgage Revenue Bonds
2003	\$533,241
2004	532,486
2005	531,334
2006	529,377
2007	532,056
2008-2012	1,500,976
2013-2017	1,208,906
2018-2022	1,208,738
Thereafter	2,175,278
Totals	<u><u>\$8,752,392</u></u>

The amount to repay note debt outstanding as of December 31, 2002, including interest payments of \$46,475 are as follows:

	General Obligation Bond Anticipation Note
2003	\$ 54,950
2004	57,350
2005	54,425
2006	56,500
2007	53,250
Total	<u><u>\$ 276,475</u></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, 2002, the trustees have accumulated \$424,690 toward the redemption of these bonds.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

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**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.

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, 2002. 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 2002 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, 2002, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$ 90,698,830
Public Utility Personal Property	3,591,570
Tangible Personal Property	<u>27,946,718</u>
Total Property Taxes	<u><u>\$122,237,118</u></u>

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

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**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, 2002 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 \$1,122,729. Due to the age of many of these accounts, the amount of \$512,169 is considered uncollectable.

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

<b>General</b>	
Local Government	\$141,285
Grants	6,435
Homestead & Rollback	10,722
Sales Tax	<u>11,337</u>
Total General	<u>169,779</u>
<b>Special Revenue</b>	
Street Constr., Maint. & Repair Fund	
Gasoline Tax	65,940
State Highway	
Gasoline Tax	5,346
Police Pension	
Homestead & Rollback	1,532
Fire Pension	
Homestead & Rollback	1,532
Rehab.	
Grants	154,563
Victim's Rights	
Grants	15,090
Municipal Motor Vehicle Fund	
Permissive Tax	<u>7,493</u>
Total Special Revenue	<u>251,496</u>
<b>Debt Service</b>	
Bond Retirement	
Homestead & Rollback	<u>1,532</u>
<b>Enterprise</b>	
Water Fund	
Grant	<u>1,321,000</u>
Total	<u><u>\$1,743,807</u></u>

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

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**8. FIXED ASSETS**

**General Fixed Assets:** Changes in general fixed assets during 2002 were as follows:

	Balance at 12/31/01*	Additions	Deletions	Balance at 12/31/02
Infrastructure	\$8,101,609	\$ 718,083	\$ 0	\$ 8,819,692
Land Improvements	2,249,723	65,917	0	2,315,640
Buildings & Improvements	1,740,620	89,293	2,752	1,827,161
Furniture & Equipment	891,415	188,602	1,950	1,078,067
Construction in Progress	16,515	7,000	0	23,515
Vehicles	1,590,269	38,492	0	1,628,761
Total	<u>\$14,590,151</u>	<u>\$1,107,387</u>	<u>\$ 4,702</u>	<u>\$15,692,836</u>

\* Restated - See Note 15

**Proprietary Fund Fixed Assets:** A summary of the Proprietary Fund Types fixed assets as of December 31, 2002, follows:

	Balance at 12/31/02
Land Improvements	\$ 273,604
Mechanic Equipment	705,190
Vehicles	156,601
Plant Buildings & Equipment	7,270,817
Construction in Progress	2,007,574
Water/Sewer Lines	<u>4,785,318</u>
Total Assets	15,199,104
Accumulated Depreciation	<u>( 6,114,838)</u>
Net Value of Assets	<u>\$ 9,084,266</u>

**9. DEFINED BENEFIT RETIREMENT PLANS**

**Ohio Public Employees Retirement System:** All employees of the City participate in the Ohio Public Employees Retirement System (OPERS), 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. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement and public safety. The Law enforcement classification consists of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The 2002 employer contribution rate for local government employer units was 13.55% of covered payroll. For both law enforcement and public safety, the employer rate was 16.70% of covered payroll.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

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

The City's contributions to the PERS of Ohio for the years ending December 31, 2000, 2001, and 2002 were \$190,629, \$208,591, and \$242,879 respectively. These contributions were equal to the required contributions for each of the years.

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

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24% respectively for police officers and firefighters. The City's contributions to OP&F for the years ended December 31, 2000, 2001, and 2002 were \$127,060, \$144,927, and \$201,253 for policemen and \$158,250, \$176,478, and \$227,200 for firefighters, respectively, equal to required contributions for each year.

#### 10. POSTEMPLOYMENT BENEFITS

***Ohio Public Employees Retirement System:*** The Ohio Public Employees retirement System (OPERS) provides postretirement health care coverage to age service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement service is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employees to fund postretirement health care through their contributions to OPERS. For local government employer units the rate was 13.55% of covered payroll and 5% was the portion used to fund health care for the year.

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, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

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

The investment assumption rate for 2001 was 8.00%.

An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health care costs were assumed to increase 4.00% annually.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

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#### 10. POSTEMPLOYMENT BENEFITS (Continued)

The portion of the 2002 employer contribution rate that was used to fund health care for the year 2002 for local government employer was \$89,623, 5% of covered payroll.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 402,041. \$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medial Spending Accounts.

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

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

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.5 % and 7.75% of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2001, (the latest information available) was 13,174 for Police and 10,239 for Firefighters. The City's actual contributions for 2002 that were used to fund postemployment benefits was \$79,897 for Police and \$73,386 for Firefighters. The Fund's total health care expenses for the year ending December 31, 2001 were \$122,298,771, which was net of member contributions \$6,874,699.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002

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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, 2002

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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, 2002 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 \$34,586 and \$235,075 respectively. The liability for compensated absences in the enterprise funds was \$56,679.

**13. SEGMENT INFORMATION - ENTERPRISE FUNDS**

Financial segment information as of and for the year ended December 31, 2002 for the Enterprise Funds presented as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue	\$1,195,068	\$1,179,558	\$ 2,374,626
Depreciation Expense	124,545	270,851	395,396
Amortization Expense	0	24,336	24,336
Operating Income/(Loss)	40,978	(8,545)	32,433
Net Income/(Loss)	342,642	(113,820)	228,822
Net Working Capital	2,436,204	1,233,321	3,669,525
Total Assets	8,962,340	5,710,160	14,672,500
Revenue Bonds Payable	3,327,700	1,515,000	4,842,700
Bond Anticipation Note Payable	2,960,000	0	2,960,000
Total Equity	873,428	4,077,663	4,951,091
Encumbrances at 12/31/2002	3,335,487	184,940	3,520,427



**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

**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, 2002.

Litigation

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

**15. RESTATEMENT OF FUND BALANCES**

**Restatement of Fund Balances** In the prior year, fixed assets were misstated in the Enterprise and General Fixed Asset Group Funds. The General and Special Revenue funds were restated as a result of a correction of an error in the prior year. These restatements had the following effect on Fund Balance/Retained Earnings as it was previously reported as of December 31, 2002:

	General	Special Revenue	Enterprise	General Fixed Assets
Fund Balance/Retained Earnings at December 31, 2001	\$2,893,443	\$1,287,035	\$3,968,592	\$14,592,723
Restatement Amount	1,026	124,995	294,541	(2,572)
Adjusted Fund Balance/Retained Earnings at January 1, 2002	\$2,894,469	\$1,412,030	\$4,263,133	\$14,590,151

**16. ACCOUNTABILITY AND COMPLIANCE**

A. Accountability

The following fund had a fund balance deficit as of December 31, 2002:

<u>Capital Project Fund</u>	
Tax Increment Fund	\$472,367

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.

B. Compliance

The following fund had expenditures plus encumbrances in excess of appropriations as of December 31, 2002:

<u>Capital Project Fund.</u>	Tax Increment Fund	\$54,666
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**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2002

**17. INTERFUND TRANSACTIONS**

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$450,000	\$ 0
<i>Capital Project Fund</i>		
Tax Increment Fund	<u>0</u>	<u>450,000</u>
Total All Funds	<u>\$450,000</u>	<u>\$450,000</u>

**18. SHORT TERM OBLIGATIONS**

During fiscal year 2002, the City issued \$2,960,000 in Bond Anticipation Notes for the purpose of water system improvements. These notes will be repaid with the issuance of bonded debt. The note liability is reflected in the Water Enterprise Fund, which received the proceeds.

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

	<u>Principal Outstanding 12/31/01</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding 12/31/02</u>
Water System Bond Anticipation Note - 3.25%	\$0	\$2,960,000	\$0	\$2,960,000

**19. CONTRACT COMMITMENTS**

As of December 31, 2002, the City had contractual commitments for the completion of street paving and expansion of the water plant.

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance as of 12/31/02</u>
Miller Mason Paving	\$207,077	\$126,736	\$80,341
Dave Holley Construction	206,159	176,866	29,293
Gilbert & Sons	<u>4,671,631</u>	<u>1,570,077</u>	<u>3,101,554</u>
Total	<u>\$5,084,867</u>	<u>\$1,873,679</u>	<u>\$3,211,188</u>

**CITY OF HILLSBORO, OHIO**  
**HIGHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U. S. Department of Housing &amp; Urban Development</u>			
<i>Passed through Ohio Department of Development</i>			
Community Development Block Grants REHAB Fund	G00261 G622	14.228	<u>\$523,890</u>
Total U. S. Department of Housing & Urban Development			523,890
<u>U. S. Department of Justice</u>			
<i>Passed through Governor's Office of Criminal Justice Services</i>			
Drug Control & Systems Improvement Formula Grant	N/A	16.579	24,351
Violence Against Women (VAWA) Grant	N/A	16.588	8,861
Law Enforcement Block Grant	N/A	16.592	<u>49,038</u>
Total U. S. Department of Justice			<u>82,250</u>
<u>U. S. Department of EPA</u>			
<i>Passed through U.S. Army Corps of Engineers</i>			
Capitalization Grants for Drinking Water State Revolving Fund	N/A	66.468	<u>252,500</u>
Total U. S. Department of EPA			252,500
<u>U. S. Department of Agriculture</u>			
Water & Waste Disposal Systems for Rural Communities	N	10.760	583,558
Rural Development Forestry and Communities	N	10.762	<u>2,698</u>
Total U.S. Department of Agriculture			<u>586,256</u>
Total Federal Financial Assistance			<u><u>\$1,444,896</u></u>

Legend:

N/A = Not Available

N = Direct Federal Award

See Accompanying Notes to the Schedule of Federal Award Expenditures

**City of Hillsboro**  
**Notes to Schedule of Federal Awards Expenditures**  
**For the Fiscal Year Ended December 31, 2002**

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**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

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

The City of Hillsboro administers a loan program with funds provided by the U.S. Department of Housing and Urban Development, through the Ohio Department of Development, under the Community Development Block Grant Program. The purpose of this program is to provide low and moderate income families for building improvement at a low, fixed interest rate. As of December 31, 2002 the total amount of loans outstanding was \$668,659. Declining mortgage loans are also provided to low and moderate income families with the intent that they do not have to repay the loans unless they leave the residence before ten years. As of December 31, 2002 the total amount of these loans outstanding was \$50,222.

**NOTE C - MATCHING REQUIREMENTS**

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

# BALESTRA & COMPANY

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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, 2002, and have issued our report thereon dated May 30, 2003. 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 30, 2003.

### *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.

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***

Page 2

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 30, 2003

**BALESTRA & COMPANY**  
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Ohio Society of Certified Public Accountants

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

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

**Compliance**

We have audited the compliance of the City of Hillsboro (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Hillsboro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002. However, the results of our audit procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 14228-2000-03.

City of Hillsboro

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

Page 2

**Internal Control Over Compliance**

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

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

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

*Balestra & Company*

Balestra & Company

May 30, 2003



**CITY OF HILLSBORO  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 SECTION .505  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	Yes
(d)(1)(vii)	Major Programs (list):	<b>Community Development Block Grant Program, CFDA #14.228 Water and Waste Disposal Systems For Rural Communities, CFDA #10.760</b>
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF HILLSBORO  
SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 SECTION .505  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002**

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

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

Finding Number	14228-2000-03
CFDA Title and Number	Community Development Block Grant Program, CFDA #14.228
Federal Award Number/Year	2002
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Cash Management

The Ohio Department of Development's Office of Housing and Community Partnership Management Rules and Regulations Handbook states that funds drawn down should be 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. The City was found not to be in compliance with the 15 day rule for most all drawdowns received. This could result in loss or suspension of federal funding. The City should develop a cash management system to ensure compliance with the 15 day rule relating to prompt disbursement of funds.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
14228-2000-03	Management will develop and monitor a cash management system to ensure compliance with the 15 day rule.	December 31, 2003	Peg Beekman, Grant Coordinator

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	See current year finding
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.	Yes	Finding no longer valid, the City did not receive this grant in the year 2002.





**Auditor of State  
Betty Montgomery**

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**CITY OF HILLSBORO**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 3, 2003**