

---

City of Hillsboro

Highland County

Regular Audit

January 1 , 1999 Through December 31, 1999

Fiscal Year Audited Under GAGAS: 1999

---

City of Hillsboro

Highland County

Regular Audit

January 1 , 1999 Through December 31, 1999

Fiscal Year Audited Under GAGAS: 1999

**MICHAEL A. BALESTRA, CPA, INC.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**528 SOUTH WEST STREET, P.O. BOX 687**  
**PIKETON, OHIO 45661**

CITY OF HILLSBORO  
HIGHLAND COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditors' Report	
General Purpose Financial Statements	1
Financial Statements	
Combined Balance Sheet - All Fund Types and Account Groups	2-5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Similar Trust Fund	6
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types	7-8
Combined Statement of Revenues, Expenses and Changes in Retained Earnings Proprietary Fund Type	9
Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - Proprietary Fund Type	10
Combined Statement of Cash Flows - Proprietary Fund Type	11
Notes to the General Purpose Financial Statements	12-36
Report on Compliance and Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards	37-38
Schedule of Findings	39



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street, 1<sup>st</sup> Floor  
Columbus, Ohio 43215

Telephone 614-466-4514  
800-282-0370

Facsimile 614-728-7398

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

We have reviewed the Independent Auditor's Report of the City of Hillsboro, Highland County, prepared by Michael Balestra, CPA, Inc. for the audit period January 1, 1999 to December 31, 1999. 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.



JIM PETRO  
Auditor of State

June 26, 2000

**MICHAEL A. BALESTRA, CPA, INC.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**528 SOUTH WEST STREET, P.O. BOX 687**  
**PIKETON, OHIO 45661**

TELEPHONE (740) 289-4131  
FAX (740) 289-3639  
E-MAIL mbalecpa@bright.net

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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

Independent Auditors' 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, 1999. 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient documentation supporting the amounts reported by the City of Hillsboro for fixed assets, nor were we able to satisfy ourselves as to those amounts by other auditing procedures. Those amounts are included in the proprietary fund type and general fixed asset account group and represent 75 percent and 100 percent of the assets, respectively, of the proprietary fund type and general fixed asset account group.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to obtain sufficient documentation supporting the amounts reported by the City of Hillsboro for fixed assets, 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, 1999, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated June 16, 2000 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.

*Michael A. Balestra, CPA, INC.*

Michael A. Balestra, CPA, INC.

June 16, 2000

## **General Purpose Financial Statements**

---

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

**City of Hillsboro, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**As of December 31, 1999**

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Debt Service	Enterprise
<b>Assets and Other Debits:</b>				
<b>Assets:</b>				
Cash and Cash Equivalents	\$1,803,498	\$866,151	\$118,072	\$1,802,516
Cash and Cash Equivalents with Fiscal Agents	0	0	0	415,564
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Receivables: (Net of Allowance)				
Taxes	959,773	55,900	27,950	0
Accounts	122,585	0	0	313,555
Interfund	20,000	0	0	0
Due from Other Governments	45,875	25,784	0	0
Materials & Supply Inventory	23,050	8,791	0	27,152
Loans Receivable	0	570,487	0	0
Deferred Expense on Refunding	0	0	0	193,421
Prepaid Items	10,070	3,978	0	6,863
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	8,114,150
<b>Other Debits:</b>				
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
<b>Total Assets and Other Debits</b>	<b>\$2,984,851</b>	<b>\$1,531,091</b>	<b>\$146,022</b>	<b>\$10,873,221</b>

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Trust and Agency			
\$5,270	\$0	\$0	\$4,595,507
0	0	0	415,564
66,133	0	0	66,133
0	0	0	1,043,623
554,259	0	0	990,399
0	0	0	20,000
0	0	0	71,659
0	0	0	58,993
0	0	0	570,487
0	0	0	193,421
0	0	0	20,911
0	14,155,113	0	22,269,263
0	0	423,054	423,054
0	0	146,022	146,022
<u>\$625,662</u>	<u>\$14,155,113</u>	<u>\$569,076</u>	<u>\$30,885,036</u>

(Continued)



**City of Hillsboro, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**As of December 31, 1999**

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Debt Service	Enterprise
Liabilities, Fund Equity and Other Credits:				
Liabilities:				
Accounts Payable	\$18,146	\$72,372	\$0	\$11,903
Accrued Wages	21,280	3,658	0	10,701
Compensated Absences Payable	27,531	1,716	0	99,361
Due to Other Governments	33,754	80,736	0	24,352
Deferred Revenue	491,839	54,800	27,400	0
Undistributed Monies	0	0	0	0
Deposits Held & Due Others	0	0	0	0
Interfund Payable	0	20,000	0	0
Accrued Interest Payable	0	0	0	185,758
Bond Anticipation Notes Payable	0	0	0	0
OWDA Loans Payable	0	0	0	53,386
Revenue Bonds Payable	0	0	0	5,586,300
<b>Total Liabilities</b>	<b>592,550</b>	<b>233,282</b>	<b>27,400</b>	<b>5,971,761</b>
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	351,861
Retained Earnings:				
Unreserved	0	0	0	4,549,599
Fund Balance:				
Reserved for Encumbrances	787,210	100,749	0	0
Reserved for Inventory	23,050	8,791	0	0
Reserved for Prepaid Items	10,070	3,978	0	0
Reserved for Loans Receivable	0	570,487	0	0
Unreserved:				
Undesignated	1,571,971	613,804	118,622	0
<b>Total Fund Equity and Other Credits</b>	<b>2,392,301</b>	<b>1,297,809</b>	<b>118,622</b>	<b>4,901,460</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$2,984,851</b>	<b>\$1,531,091</b>	<b>\$146,022</b>	<b>\$10,873,221</b>

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

Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
	\$0	\$0	\$102,421
	0	0	35,639
	0	229,076	357,684
	56,993	0	195,835
	0	0	574,039
	497,266	0	497,266
	66,133	0	66,133
	0	0	20,000
	0	0	185,758
	0	340,000	340,000
	0	0	53,386
	0	0	5,586,300
	620,392	0	8,014,461
	0	14,155,113	14,155,113
	0	0	351,861
	0	0	4,549,599
	0	0	887,959
	0	0	31,841
	0	0	14,048
	0	0	570,487
	5,270	0	2,309,667
	5,270	14,155,113	22,870,575
	\$625,662	\$14,155,113	\$30,885,036

**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, 1999

	General Fund	Special Revenue	Debt Service	Expendable Trust	Totals (Memorandum Only)
<b>Revenues:</b>					
Taxes	\$3,227,192	\$208,953	\$77,646	\$0	\$3,513,791
Charges for Services	216,155	0	813	0	216,968
License and Permits	13,651	63,708	0	0	77,359
Fines and Forfeitures	222,875	20,218	0	0	243,093
Intergovernmental	53,382	405,701	2,465	0	461,548
Investment Income	148,672	47,717	0	0	196,389
Rental	19,790	13,549	0	0	33,339
Other	23,586	10,148	0	828	34,562
<b>Total Revenues</b>	<b>3,925,303</b>	<b>769,994</b>	<b>80,924</b>	<b>828</b>	<b>4,777,049</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General Government/Leg. & Exec.	754,664	0	0	0	754,664
Judicial	252,435	0	0	0	252,435
Health	17,127	0	0	0	17,127
Leisure Time Activity	0	85,362	0	0	85,362
Transportation	0	422,912	0	0	422,912
Security of Person & Property	1,817,515	267,524	0	0	2,085,039
Community Environment	19,204	377,044	0	0	396,248
Capital Outlay	235,035	0	2,123	0	237,158
Other	0	161,790	0	112	161,902
<b>Debt Service:</b>					
Principal Retirement	0	0	50,000	0	50,000
Interest and Fiscal Charges	0	0	18,950	0	18,950
<b>Total Expenditures</b>	<b>3,095,980</b>	<b>1,314,632</b>	<b>71,073</b>	<b>112</b>	<b>4,481,797</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>829,323</b>	<b>(544,638)</b>	<b>9,851</b>	<b>716</b>	<b>295,252</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds from Sale of Assets	850	113	0	0	963
Operating Transfers - In	0	455,000	0	0	455,000
Operating Transfers - Out	(455,000)	0	0	0	(455,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(454,150)</b>	<b>455,113</b>	<b>0</b>	<b>0</b>	<b>963</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>375,173</b>	<b>(89,525)</b>	<b>9,851</b>	<b>716</b>	<b>296,215</b>
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>2,014,856</b>	<b>1,398,669</b>	<b>108,771</b>	<b>4,554</b>	<b>3,526,850</b>
<b>Residual Equity Transfers Increase (Decrease) in Reserve for Inventory</b>	<b>2,272</b>	<b>(11,335)</b>	<b>0</b>	<b>0</b>	<b>(9,063)</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$2,392,301</b>	<b>\$1,297,809</b>	<b>\$118,622</b>	<b>\$5,270</b>	<b>\$3,814,002</b>

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

**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, 1999

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$2,896,000	\$3,275,460	\$379,460	\$183,370	\$208,815	\$25,445
Charges for Services	175,160	175,594	434	0	0	0
License and Permits	11,600	13,651	2,051	54,000	63,708	9,708
Fines and Forfeitures	235,800	222,875	(12,925)	22,000	20,218	(1,782)
Intergovernmental	15,000	44,935	29,935	754,153	485,351	(268,802)
Interest Income	220,000	149,614	(70,386)	41,500	47,717	6,217
Rent	12,600	19,790	7,190	0	13,549	13,549
Other	133,000	23,586	(109,414)	0	11,073	11,073
<b>Total Revenues</b>	<b>3,699,160</b>	<b>3,925,505</b>	<b>226,345</b>	<b>1,055,023</b>	<b>850,431</b>	<b>(204,592)</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/leg. & exec.	965,591	791,764	173,827	0	0	0
Judicial	276,348	260,347	16,001	20,000	0	20,000
Health	20,000	17,722	2,278	0	0	0
Leisure Time Activity	0	0	0	96,853	85,745	11,108
Transportation	0	0	0	549,866	445,823	104,043
Security of Person and Property	2,097,602	2,643,559	(545,957)	296,200	260,241	35,959
Community Environment	25,400	19,904	5,496	907,302	415,729	491,573
Capital Outlay	1,030,562	235,035	795,527	208,012	177,075	30,937
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>4,415,503</b>	<b>3,968,331</b>	<b>447,172</b>	<b>2,078,233</b>	<b>1,384,613</b>	<b>693,620</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(716,343)</b>	<b>(42,826)</b>	<b>673,517</b>	<b>(1,023,210)</b>	<b>(534,182)</b>	<b>489,028</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Fixed Assets	0	850	850	0	113	113
Advances In	12,000	12,000	0	0	20,000	20,000
Advances Out	(20,000)	(20,000)	0	(15,000)	(12,000)	3,000
Operating Transfers In	0	0	0	455,000	455,000	0
Operating Transfers Out	(455,000)	(455,000)	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(463,000)</b>	<b>(462,150)</b>	<b>850</b>	<b>440,000</b>	<b>463,113</b>	<b>23,113</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>(1,179,343)</b>	<b>(504,976)</b>	<b>674,367</b>	<b>(583,210)</b>	<b>(71,069)</b>	<b>512,141</b>
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>1,498,491</b>	<b>1,498,491</b>	<b>0</b>	<b>830,458</b>	<b>830,458</b>	<b>0</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$319,148</b>	<b>\$993,515</b>	<b>\$674,367</b>	<b>\$247,248</b>	<b>\$759,389</b>	<b>\$512,141</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, 1999

	Debt Service Fund			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$72,600	\$77,577	\$4,977	\$3,151,970	\$3,561,852	\$409,882
Charges for Services	0	813	813	175,160	176,407	1,247
License and Permits	0	0	0	65,600	77,359	11,759
Fines and Forfeitures	0	0	0	257,800	243,093	(14,707)
Intergovernmental	2,400	2,465	65	771,553	532,751	(238,802)
Interest Income	0	0	0	261,500	197,331	(64,169)
Rent	0	0	0	12,600	33,339	20,739
Other	0	0	0	133,000	34,659	(98,341)
<b>Total Revenues</b>	<b>75,000</b>	<b>80,855</b>	<b>5,855</b>	<b>4,829,183</b>	<b>4,856,791</b>	<b>27,608</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/leg. & exec.	0	0	0	965,591	791,764	173,827
Judicial	0	0	0	296,348	260,347	36,001
Health	0	0	0	20,000	17,722	2,278
Leisure Time Activity	0	0	0	96,853	85,745	11,108
Transportation	0	0	0	549,866	445,823	104,043
Security of Person and Property	0	0	0	2,393,802	2,903,800	(509,998)
Community Environment	0	0	0	932,702	435,633	497,069
Capital Outlay	0	0	0	1,238,574	412,110	826,464
Other	38,300	2,123	36,177	38,300	2,123	36,177
<b>Debt Service:</b>						
Principal Retirement	50,000	50,000	0	50,000	50,000	0
Interest and Fiscal Charges	23,375	18,950	4,425	23,375	18,950	4,425
<b>Total Expenditures</b>	<b>111,675</b>	<b>71,073</b>	<b>40,602</b>	<b>6,605,411</b>	<b>5,424,017</b>	<b>1,181,394</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(36,675)</b>	<b>9,782</b>	<b>46,457</b>	<b>(1,776,228)</b>	<b>(567,226)</b>	<b>1,209,002</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Fixed Assets	0	0	0	0	963	963
Advances In	0	0	0	12,000	32,000	20,000
Advances Out	0	0	0	(35,000)	(32,000)	3,000
Operating Transfers In	0	0	0	455,000	455,000	0
Operating Transfers Out	0	0	0	(455,000)	(455,000)	0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(23,000)</b>	<b>963</b>	<b>23,963</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>(36,675)</b>	<b>9,782</b>	<b>46,457</b>	<b>(1,799,228)</b>	<b>(566,263)</b>	<b>1,232,965</b>
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>108,290</b>	<b>108,290</b>	<b>0</b>	<b>2,437,239</b>	<b>2,437,239</b>	<b>0</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$71,615</b>	<b>\$118,072</b>	<b>\$46,457</b>	<b>\$638,011</b>	<b>\$1,870,976</b>	<b>\$1,232,965</b>

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

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenses  
 and Changes in Retained Earnings  
 Proprietary Fund Type  
 For the Year Ended December 31, 1999

	Enterprise
<b>Operating Revenues:</b>	
Sales	\$911
Charges for Services	1,862,618
Other Operating Revenues	32,323
<b>Total Operating Revenue</b>	<b>1,895,852</b>
<b>Operating Expenses:</b>	
Salaries	589,146
Fringe Benefits	170,019
Purchased Services	108,820
Materials and Supplies	139,398
Depreciation	259,869
Amortization	24,336
Contractual Services	245,466
Other Operating Expenses	30,645
<b>Total Operating Expenses</b>	<b>1,567,699</b>
<b>Operating Income (Loss)</b>	<b>328,153</b>
<b>Non-Operating Revenues (Expenses):</b>	
Other Non-Operating Expenses	(3,577)
Loss on Disposal of Fixed Assets	(4,679)
Interest	36,862
Interest and Fiscal Charges	(280,739)
<b>Total Non-Operating Revenues (Expenses)</b>	<b>(252,133)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>76,020</b>
Operating Transfers In	395,000
Operating Transfers Out	(395,000)
<b>Net Income (Loss)</b>	<b>76,020</b>
<b>Retained Earnings/Fund Balance (Deficit) at Beginning of Year</b>	<b>4,473,579</b>
<b>Retained Earnings/Fund Balance (Deficit) at End of Year</b>	<b>4,549,599</b>
<b>Contributed Capital at Beginning of Year</b>	<b>256,345</b>
Contributions During the Year from:	
Water/Sewer Taps	95,516
<b>Contributed Capital at End of Year</b>	<b>351,861</b>
<b>Total Fund Equity at End of Year</b>	<b>\$4,901,460</b>

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

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenses and Changes  
 In Fund Equity - Budget (Budget Basis) and Actual  
 Proprietary Fund Type  
 For the Year Ended December 31, 1999

	Enterprise		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Operating Revenues:</b>			
Tap-In Fees	\$6,000	\$95,516	\$89,516
Sales	0	911	911
Charges for Services	1,700,000	1,818,805	118,805
Intergovernmental	700,000	0	(700,000)
Other Operating Revenues	30,500	32,323	1,823
<b>Total Operating Revenue</b>	<b>2,436,500</b>	<b>1,947,555</b>	<b>(488,945)</b>
<b>Operating Expenses:</b>			
Salaries	651,565	615,713	35,852
Fringe Benefits	210,735	176,898	33,837
Purchased Services	142,000	106,014	35,986
Materials and Supplies	196,741	144,081	52,660
Contractual Services	4,008,587	395,164	3,613,423
Other Operating Expenses	49,367	30,734	18,633
<b>Total Operating Expenses</b>	<b>5,258,995</b>	<b>1,468,604</b>	<b>3,790,391</b>
<b>Operating Income (Loss)</b>	<b>(2,822,495)</b>	<b>478,951</b>	<b>3,301,446</b>
<b>Non-Operating Revenues (Expenses):</b>			
Other Non-Operating Revenues	2,500,000	0	(2,500,000)
Interest	20,000	28,209	8,209
Payment on Principal	(340,188)	(256,854)	83,334
Interest and Fiscal Charges	(348,209)	(293,951)	54,258
Other Non-Operating Expenses	(5,500)	(3,577)	1,923
<b>Total Non-Operating Revenues (Expenses)</b>	<b>1,826,103</b>	<b>(526,173)</b>	<b>(2,352,276)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>(996,392)</b>	<b>(47,222)</b>	<b>949,170</b>
Operating Transfers In	495,000	395,000	(100,000)
Operating Transfers Out	(395,000)	(395,000)	0
<b>Net Income (Loss)</b>	<b>(896,392)</b>	<b>(47,222)</b>	<b>849,170</b>
<b>Retained Earnings/Fund Balance (Deficit) at Beginning of Year</b>	<b>1,842,588</b>	<b>1,842,588</b>	<b>0</b>
<b>Retained Earnings/Fund Balance at Year End</b>	<b>\$946,196</b>	<b>\$1,795,366</b>	<b>\$849,170</b>

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

**City of Hillsboro, Ohio**  
 Combined Statement of Cash Flows  
 Proprietary Fund Type  
 For the Year Ended December 31, 1999

	Enterprise
<b>Increase (Decrease) in Cash and Cash Equivalents:</b>	
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Customers	\$1,819,716
Cash Received from Other Operating Sources	32,323
Cash Payments to Suppliers for Goods and Services	(528,795)
Cash Payments to Employees for Services	(615,713)
Cash Payments for Employee Benefits	(176,898)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>530,633</b>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Operating Transfers In	395,000
Operating Transfers Out	(395,000)
Other Non-Operating Revenues	(3,577)
<b>Net Cash Provided by (Used for) Noncapital Financing Activities</b>	<b>(3,577)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Proceeds from Tap in Fees	95,516
Payment for Capital Acquisitions	(127,448)
Principal Payments	(256,854)
Interest Payments	(283,388)
<b>Net Cash Provided by (Used for) Capital and Related Financing Activities</b>	<b>(572,174)</b>
<b>Cash Flows from Investing Activities:</b>	
Interest on Investments	36,862
<b>Net Cash Provided by (Used for) Investing Activities</b>	<b>36,862</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(8,256)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>2,226,336</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$2,218,080</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>	
Operating Income (Loss)	<b>\$328,153</b>
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</b>	
Depreciation	259,869
Amortization	24,336
<b>Changes in Assets and Liabilities:</b>	
(Increase)/Decrease in Accounts Receivable	(43,813)
(Increase)/Decrease in Prepaid Items	(4,431)
(Increase)/Decrease in Materials and Supplies Inventory	5,870
Increase/(Decrease) in Accounts Payable	(5,905)
Increase/(Decrease) in Accrued Wages	(10,016)
Increase/(Decrease) in Compensated Absences Payable	(18,808)
Increase/(Decrease) in Intergovernmental Payable	(4,622)
<b>Total Adjustments</b>	<b>202,480</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$530,633</b>

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



**CITY OF HILLSBORO, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 1999**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Hillsboro have been prepared in conformity with generally accepted accounting principles (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 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. Components 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, 1999

---

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.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

---

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 does 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 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.

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.

**CITY OF HILLSBORO, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

---

**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 (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is followed for the governmental, expendable trust fund, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the City is sixty days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Principal and interest on general long-term and special assessment debt are recognized as expenditures when due or when amounts have been accumulated in the debt service fund for payments to be made in the following year.

Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Revenues accrued at the end of the year included income taxes withheld by employers, interest on investments, intergovernmental revenues (including motor vehicle license fees, gasoline tax, and local government assistance, fines and forfeitures, charges for services, and reimbursements due from federal and state funded projects for which corresponding expenditures have been made.

Other revenues, including licenses, permits, certain charges for services, income tax other than those withheld by employers, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The accrual basis of accounting is used for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred. Unbilled service charges are recognized as revenue at year-end.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Special assessment installments are recorded as deferred revenue because they do not meet the availability criteria. Property taxes measurable as of December 31, 1999, and delinquent property taxes, whose availability is indeterminate and which are not intended to finance the current year, have also been recorded as deferred revenue.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

---

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETS AND BUDGETARY ACCOUNTING

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 1999.

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. Several supplemental appropriations were adopted during 1998 by Council.

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.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETS AND BUDGETARY ACCOUNTING (Continued)

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 appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

E. CASH AND INVESTMENTS

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

During fiscal year 1999, investments were limited to repurchase agreements and treasury notes.

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

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

F. PROPERTY, PLANT AND EQUIPMENT

The fixed asset values initially were determined at December 31, 1995, 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.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. PROPERTY, PLANT AND EQUIPMENT (Continued)

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, 1999

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 1999, 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 13 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. Such resources restricted for the construction of capital assets are recorded as contributed capital.



CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

---

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. CONTRIBUTED CAPITAL

Contributed capital represents resources from other funds, other governments, private sources, and tap-in fees, to the extent they exceed the cost of physical connection to the system, which have been provided to the enterprise funds and are not subject to repayment. Because the City, prior to 1996 had not prepared financial statements in accordance with generally accepted accounting principles, 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, 1999 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, 1999

---

**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 generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Q. TOTAL COLUMNS ON FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

**CITY OF HILLSBORO, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 1999**

---

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

State statute permits 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;
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, 1999

**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 \$2,211,720 and the bank balance was \$2,327,952. Of the bank balance:

1. \$468,595 was covered by federal depository insurance; and
2. \$1,859,357 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City held to a successful claim by the FDIC.

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

	Category			Carrying Amount	Fair Value
	1	2	3		
<i>Investments:</i>					
Money Market	\$ 0	\$ 0	\$ 0	\$ 205,934	\$ 205,934
Repurchase Agreements	0	0	1,058,453	1,058,453	1,058,453
U.S. Treasury Bonds	0	0	1,601,097	1,601,097	1,601,097
	0	0	1,601,097	1,601,097	1,601,097
Total					
Investments	\$ 0	\$ 0	\$2,659,550	\$2,865,484	\$2,865,484

The treasury bonds have maturities ranging from June 2000 to June 2002.

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, 1999

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

GASB 3 to GASB 9 Reconciliation

	<u>Cash &amp; Cash Equivalents</u>	<u>Investments</u>
GASB 9 Balances	\$ 5,077,204	\$ 0
Repurchase Agreements	(1,058,453)	1,058,453
Money Market	(205,934)	205,934
U.S. Treasury Bonds	(1,601,097)	1,601,097
GASB 3	<u>\$ 2,211,720</u>	<u>\$2,865,484</u>

3. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (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).

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

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

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types			
	General	Special Revenue	Debt Service
GAAP Basis	\$ 375,173	\$ (89,525)	\$9,851
Adjustments:			
Revenue Accrual	12,202	100,437	(69)
Expenditure Accrual	(100,795)	24,779	0
Encumbrances	(791,556)	(106,760)	0
Budget Basis	<u>\$(504,976)</u>	<u>\$(71,069)</u>	<u>\$9,782</u>

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

Net Loss/Excess of Revenues Over Expenses, and Operating Transfers Proprietary Fund Type	
	<u>Enterprise</u>
GAAP Basis	\$ 76,020
Increases (Decreases) Due To:	
Revenue Accruals	43,050
Expense Accruals	(151,222)
Gain on Disposal of Fixed Assets	4,679
Encumbrances	<u>(19,749)</u>
Budget Basis	<u>\$ (47,222)</u>

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

4. ACCOUNTABILITY AND COMPLIANCE

The following funds have a fund balance deficit as of December 31, 1999:

<i>Special Revenue Funds</i>	
Fire Pension Fund	\$ (28,161)
<i>Enterprise Funds</i>	
Water Debt Retirement Fund	(3,578,894)
Sewer Debt Retirement Fund	(1,561,527)

These deficits are a result of the application of generally accepted accounting principles to the financial reporting of these funds. The deficits will be eliminated when resources are provided for the retirement of the bonds or loans.

5. LONG-TERM DEBT OBLIGATIONS

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

<u>Types / Issues</u>	<u>Outstanding at 12/31/98</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding at 12/31/99</u>
<i>General Long-Term Obligations</i>				
Compensated Absences	\$ 346,455	\$ 0	\$ 117,379	\$ 229,076
General Obligation Bonds	20,000	0	20,000	0
Bond Anticipation Notes	370,000	0	30,000	340,000
Total Long-Term Obligations	<u>\$ 736,455</u>	<u>\$ 0</u>	<u>\$ 167,379</u>	<u>\$ 569,076</u>
<i>Enterprise Fund Obligations</i>				
<i>Water Fund</i>				
Mortgage Revenue Bond	3,488,000	0	36,700	3,451,300
<i>Sewer Fund</i>				
OWDA Loan	77,706	0	24,320	53,386
Mortgage Revenue Bonds	2,325,000	0	190,000	2,135,000
Total Enterprise Fund Obligation	<u>\$5,890,706</u>	<u>\$ 0</u>	<u>\$ 251,020</u>	<u>\$5,639,686</u>

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

---

5. LONG-TERM DEBT OBLIGATIONS (Continued)

Outstanding general obligation bond consists of a recreation facility construction issue. General obligation bond is 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.

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.

Outstanding special assessment bonds consist of sewer line extension assessments which are payable from the proceeds of tax assessments against individual property owners. Special Assessment monies will be received in and the debt will be retired through a Special Assessment Bond Retirement Debt Service Fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

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

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

The City has Industrial Development Revenue Bonds outstanding in the aggregate principal of \$835,000 at December 31, 1999 for facilities used by private corporations or other entities. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. There has not been and is not any condition of default under the bonds or the related financing documents.

The General Obligation Bond Anticipation Note was issued for the improvement of city streets. General obligation bond anticipation note is a direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Property tax monies will be received in and the debt will be repaid from a General Obligation Bond Retirement Fund. The City intends to refinance the obligations on a long-term basis and the intent is supported by an ability to consummate the refinancing.

The City's defeased Sewer Mortgage Revenue Bonds of \$2,315,000 dated January 22, 1990 was paid off in 1999.



**CITY OF HILLSBORO, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 1999**

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

The annual requirement to amortize all bonded debt outstanding as of December 31, 1999, including interest payments of \$4,775,538 are as follows:

	Mortgage Revenue Bonds	O.W.D.A Loans	Totals (Memorandum Only)
2000	536,590	14,588	551,178
2001	532,640	29,177	561,817
2002	533,271	16,565	549,836
2003	533,241		533,241
2004	532,486		532,486
2005-2009	2,368,288		2,368,288
2010-2014	1,208,970		1,208,970
Thereafter	4,109,408		4,109,408
<b>Totals</b>	<b>\$10,354,894</b>	<b>\$60,330</b>	<b>\$10,415,224</b>

The amount to repay note debt outstanding as of December 31, 1999, including interest payments of \$105,950 are as follows:

	General Obligation Bond Anticipation Note
2000	\$ 57,100
2001	54,825
2002	57,550
2003	54,950
2004	57,350
2005-2007	164,175
<b>Total</b>	<b>\$ 445,950</b>

The City has utilized trustees (Fifth/Third Bank and Star 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, 1999, the trustees have accumulated \$415,564 toward the redemption of these bonds.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

---

#### 6. PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the County. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 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, 1999. 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 1999 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.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

**6. PROPERTY TAX (Continued)**

The full tax rate for all City operations for the year ended December 31, 1999, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$ 72,792,740
Public Utility Personal Property	3,878,070
Tangible Personal Property	<u>26,291,914</u>
 Total Property Taxes	 <u>\$102,962,724</u>

**7. LOCAL INCOME TAX**

This locally levied tax of one and one-half percent applied to gross salaries, wages and other personal service compensation earned by residents both in and out to 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.

**8. RECEIVABLES**

Receivables at December 31, 1999 consisted of taxes, interest, 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 \$1,065,041. Due to the age of many of these accounts, the amount of \$510,782 is considered uncollectable.

A summary of the principal items of intergovernmental receivables follows:

General	
<u>Local Government</u>	\$ 9,959
Sales Tax	<u>35,916</u>
 Total General	 <u>45,875</u>

**CITY OF HILLSBORO, OHIO**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 1999

**8. RECEIVABLES (Continued)**

Special Revenue	
Street Constr., Maint. & Repair Fund	
Gasoline Tax	21,689
State Highway	
Gasoline Tax	1,759
Municipal Motor Vehicle Fund	
Permissive Tax	<u>2,336</u>
Total Special Revenue	<u>25,784</u>
Total	<u>\$ 71,659</u>

**9. FIXED ASSETS**

General Fixed Assets: Changes in general fixed assets during 1999 were as follows:

	Balance at 12/31/98	Additions	Deletions	Balance at 12/31/99
Infrastructure	\$10,965,116	<u>\$85,534</u>	\$ 0	\$11,050,650
Land Improvements	273,495	33,050	0	306,545
Buildings	1,034,211	122,505	0	1,156,716
Furniture & Equipment	499,874	173,344	0	673,218
Vehicles	<u>871,251</u>	<u>96,733</u>	0	<u>967,984</u>
Total	<u>\$13,643,947</u>	<u>\$511,166</u>	<u>\$ 0</u>	<u>\$14,155,113</u>

Proprietary Fund Fixed Assets: A summary of the Proprietary Fund Types fixed assets as of December 31, 1999, follows:

	Balance at 12/31/99
Land Improvements	<u>\$ 123,197</u>
Mechanic Equipment	585,840
Vehicles	113,335
Plant Buildings & Equipment	6,336,949
Water/Sewer Lines	5,190,576
Total Assets	<u>12,349,897</u>
Accumulated Depreciation	<u>(4,235,747)</u>
Net Value of Assets	<u>\$ 8,114,150</u>

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

10. DEFINED BENEFIT RETIREMENT PLANS

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1999 employer rate for local government employer units was 13.55%, of covered payroll; 4.2% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1997, 1998, and 1999 were \$160,629, \$175,986, and \$177,098 which were equal to the required contributions.

***Police and Firemen's Disability and Pension Fund:*** The City of Hillsboro contributes to the Police and Firemen's Disability and Pension Fund of Ohio (the "Fund"), a cost-sharing multiple employer public employee retirement system administered by the Fund's Board of Trustees. The Fund provides retirement benefits, disability, and health care benefits to qualified participants and survivor and death benefits to qualified spouses, children and dependent parents. Benefits are based on eligible service credit. Benefits are established by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 230 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24 percent for firefighters. Contributions are authorized by the State statute. An actuary, however, is used to determine the actuarial implications of the statutory requirements. The City's contributions to the Fund for the years ended December 31, 1997, 1998, and 1999 were \$106,926, \$111,002, and \$113,317 for policemen and \$115,532, \$127,489, and \$145,008 for firefighters, respectively, equal to required contributions for each year.

11. POSTEMPLOYMENT BENEFITS

***Public Employees Retirement System:*** The PERS of Ohio provides postemployment health care benefits to age service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 1999 employer contribution rate (identified above) that was used to fund health care for the year 1999 was \$54,894, 4.2% of covered payroll.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

11. POSTEMPLOYMENT BENEFITS (Continued)

Public Employees Retirement System (continued)

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, 1997. OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1999 were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contribution, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

Police and Firemen's Disability and Pension Fund: The Police and Firemen's Disability and Pension Fund provides postretirement health care coverage to any person who receives or is an eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty two if attending school full-time or on a two thirds basis. The Ohio Revised Code Chapter 742 provides the authority allowing the Police and Firemen's Disability and Pension Fund's board of trustees to provide health care coverage and states that health care cost are included in the contribution rate. The contribution rate for Police is 19.50 percent and Firefighters is 24.00 percent of covered payroll of which 7.00 percent was applied to postemployment health care program. Health care funding and accounting is on a pay-as-you-go basis. In addition, most retirees are required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1997, (the latest information available) was 11,424 for policemen and 9,186 for firefighters. The City's actual contributions for 1999 that were used to fund postemployment benefits was \$40,681 for police and \$42,342 for firefighters. The Fund's total health care expenses for the year ending December 31, 1999 were \$78,596,790.

12. RISK MANAGEMENT

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

General liability insurance is maintained in the amount of \$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.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

---

12. RISK MANAGEMENT (Continued)

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.

13. 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.

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 240 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 one year of service at the time of separation shall be paid one-half of the sick leave credit. 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, 1999 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 \$29,247 and \$229,076 respectively. The liability for compensated absences in the enterprise funds was \$99,361.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

14. INTERFUND TRANSACTIONS

Interfund balances at December 31, 1999, consist of the following individual fund receivables and payables:

<u>Fund Type/Fund</u>	<u>Asset</u> <u>Interfund</u> <u>Receivable</u>	<u>Liability</u> <u>Interfund</u> <u>Payable</u>
<i>General Fund</i>	\$ 20,000	\$ 0
<i>Special Revenue Funds</i>		
Rehab Fund	0	20,000
<i>Total All Funds</i>	<u>\$ 20,000</u>	<u>\$ 20,000</u>

15. SEGMENT INFORMATION - ENTERPRISE FUNDS

Financial segment information as of and for the year ended December 31, 1999 for the Enterprise Funds presented as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue	\$ 907,346	\$ 988,506	\$ 1,895,852
Depreciation Expense	73,194	186,675	259,869
Amortization Expense	0	24,336	24,336
Operating Income/(Loss)	158,772	169,381	328,153
Net Income/(Loss) after Operating Transfers	(43,579)	119,599	76,020
Net Working Capital	807,544	1,718,813	2,526,357
Total Assets	4,001,569	6,871,652	10,873,221
Operating Transfers In	245,000	150,000	395,000
Operating Transfers Out	(245,000)	(150,000)	(395,000)
Revenue Bonds Payable	3,451,300	2,135,000	5,586,300
OWDA Loans Payable	0	53,386	53,386
Total Equity	343,197	4,558,263	4,901,460



CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1999

---

16. CONTINGENCIES

Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 1999.

Legal

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the City.

**MICHAEL A. BALESTRA, CPA, INC.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**528 SOUTH WEST STREET, P.O. BOX 687**  
**PIKETON, OHIO 45661**

TELEPHONE (740) 289-4131  
FAX (740) 289-3639  
E-MAIL mbalcpa@bright.net

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards***

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

We have audited the financial statements of the City of Hillsboro, Highland County, as of and for the year ended December 31, 1999, and have issued our report thereon dated June 16, 2000 in which we were unable to obtain sufficient documentation supporting the amounts reported by the City of Hillsboro for fixed assets. Except as discussed above, we conducted our audit in accordance with generally accepted auditing standards 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. We noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 16, 2000.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Hillsboro's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 1999-001.

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

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the City in a separate letter dated June 16, 2000.

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

*Michael A. Balestra, CPA, INC.*  
Michael A. Balestra, CPA, INC.

June 16, 2000

**SCHEDULE OF FINDINGS**

**CITY OF HILLSBORO  
HIGHLAND COUNTY  
DECEMBER 31, 1999**

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

Finding Number	1999-001
----------------	----------

The City contracted with an appraisal firm to revalue their fixed assets and provide the information in an electronic format compatible with the new fixed asset software purchased. The information provided by the appraisal firm was inaccurate, incomplete and not provided in an electronic format. The validity of the amounts reported in the general-purpose financial statements could not be determined and resulted in a qualified opinion being issued. The City should require the appraisal firm to provide the information as required in their contract. Payments on the contract should be withheld until resolution is completed.



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

CITY OF HILLSBORO

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

By: Susan Babbitt

Date: JULY 18, 2000