

City of Hillsboro

Highland County

Single Audit

January 1, 2003 Through December 31, 2003

Fiscal Year Audited Under GAGAS: 2003

BALESTRA, HARR & SCHERER CPAs, INC.

CERTIFIED PUBLIC ACCOUNTANTS

528 South West Street, P.O. Box 687

Piketon, Ohio 45661



**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, Harr & Scherer CPAs, Inc., for the audit period January 1, 2003 through December 31, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

June 15, 2004

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CITY OF HILLSBORO, OHIO
HIGHLAND COUNTY

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BALESTRA, HARR & SCHERER, CPAs, Inc.

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Members of Council
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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, 2003. 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, 2003, 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 18, 2004 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 federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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, Harr & Scherer, CPA's, Inc.

Balestra, Harr & Scherer, CPA's, Inc.

May 18, 2004

City of Hillsboro, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of December 31, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				

Assets:				

Cash and Cash Equivalents	\$561,112	\$617,087	\$197,813	\$57,217
Investments	3,396	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
Receivables: (Net of Allowance)				
Taxes	904,332	71,830	35,915	0
Accounts	155,736	0	0	0
Interfund	450,000	0	0	0
Due from Other Governments	300,926	79,086	1,640	0
Materials & Supply Inventory	27,450	23,798	0	0
Loans Receivable	0	927,377	0	0
Deferred Expense on Refunding	0	0	0	0
Prepaid Items	22,714	5,458	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>\$2,425,666</u>	<u>\$1,724,636</u>	<u>\$235,368</u>	<u>\$57,217</u>

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		2003 Totals (Memorandum Only)	2002 Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations		
Enterprise	Trust and Agency				
\$1,076,890	\$13,090	\$0	\$0	\$2,523,209	\$4,320,391
0	0	0	0	3,396	408,782
405,021	0	0	0	405,021	424,690
0	101,252	0	0	101,252	93,751
0	0	0	0	1,012,077	1,169,838
350,830	699,379	0	0	1,205,945	1,046,379
0	0	0	0	450,000	450,000
1,240,000	0	0	0	1,621,652	1,743,807
35,984	0	0	0	87,232	88,798
0	0	0	0	927,377	718,881
96,077	0	0	0	96,077	120,413
21,498	0	0	0	49,670	38,458
175,089	0	0	0	175,089	91,184
11,032,779	0	15,826,775	0	26,859,554	24,786,710
0	0	0	237,854	237,854	292,309
0	0	0	198,612	198,612	173,396
<u>\$14,434,168</u>	<u>\$813,721</u>	<u>\$15,826,775</u>	<u>\$436,466</u>	<u>\$35,954,017</u>	<u>\$35,967,787</u>

(Continued)

City of Hillsboro, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of December 31, 2003

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, Fund Equity and Other Credits:				

Liabilities:				

Accounts Payable	\$23,621	\$20,427	\$0	\$0
Contracts Payable	0	0	0	0
Accrued Wages & Benefits	72,173	5,545	0	0
Compensated Absences Payable	36,927	5,043	0	0
Retainage Payable	0	0	0	0
Interfund Payable	0	0	0	450,000
Due to Other Governments	159,701	111,752	0	0
Deferred Revenue	471,919	124,050	36,756	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	764,341	266,817	36,756	450,000
	-----	-----	-----	-----
Fund Equity and Other Credits:				

Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	96,847	30,268	0	0
Reserved for Inventory	27,450	23,798	0	0
Reserved for Prepaid Items	22,714	5,458	0	0
Reserved for Loans Receivable	0	927,377	0	0
Unreserved:				
Undesignated (Deficit)	1,514,314	470,918	198,612	(392,783)
	-----	-----	-----	-----
Total Fund Equity and Other Credits	1,661,325	1,457,819	198,612	(392,783)
	-----	-----	-----	-----
Total Liabilities, Fund Equity and Other Credits	<u>\$2,425,666</u>	<u>\$1,724,636</u>	<u>\$235,368</u>	<u>\$57,217</u>

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		2003 Totals (Memorandum Only)	2002 Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations		
Enterprise	Trust and Agency				
\$23,281	\$0	\$0	\$0	\$67,329	93,690
301,015	0	0	0	301,015	260,222
13,400	0	0	0	91,118	96,044
54,416	0	0	246,466	342,852	326,970
175,089	0	0	0	175,089	91,184
0	0	0	0	450,000	450,000
51,883	43,250	0	0	366,586	321,241
1,240,000	0	0	0	1,872,725	2,030,347
0	656,129	0	0	656,129	605,529
0	101,252	0	0	101,252	103,712
233,256	0	0	0	233,256	240,629
2,960,000	0	0	0	2,960,000	3,190,000
4,571,500	0	0	190,000	4,761,500	4,842,700
9,623,840	800,631	0	436,466	12,378,851	12,652,268
0	0	15,826,775	0	15,826,775	15,696,210
459,136	0	0	0	459,136	459,136
		0			
4,351,192	0	0	0	4,351,192	4,488,228
		0			
0	0	0	0	127,115	263,892
0	0	0	0	51,248	54,849
0	0	0	0	28,172	23,092
0	0	0	0	927,377	718,881
0	13,090	0	0	1,804,151	1,611,231
4,810,328	13,090	15,826,775	0	23,575,166	23,315,519
<u>\$14,434,168</u>	<u>\$813,721</u>	<u>\$15,826,775</u>	<u>\$436,466</u>	<u>\$35,954,017</u>	<u>\$35,967,787</u>

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, 2003

	General Fund	Special Revenue	Debt Service	Capital Projects	Expendable Trust	2003 Totals (Memorandum Only)	2002 Totals (Memorandum Only)
Revenues:							
Taxes	\$3,653,849	\$66,667	\$73,915	\$0	\$0	\$3,794,431	\$3,431,697
Charges for Services	434,597	8,918	0	0	0	443,515	141,921
License and Permits	18,390	70,915	0	0	0	89,305	82,204
Fines and Forfeitures	222,055	176,440	0	0	0	398,495	344,572
Intergovernmental	33,099	409,675	3,143	80,000	0	525,917	915,747
Investment Earnings	43,560	3,671	0	0	0	47,231	151,435
Rental	14,450	3,417	0	0	0	17,867	49,229
Other	17,451	48,083	0	0	2,041	67,575	84,495
Total Revenues	4,437,451	787,786	77,058	80,000	2,041	5,384,336	5,201,300
Expenditures:							
Current:							
General Government							
Legislative and Executive	899,112	186,512	0	0	0	1,085,624	1,526,471
Judicial	335,921	0	0	0	0	335,921	366,320
Health	21,732	1,743	0	0	0	23,475	33,263
Leisure Time Activity	0	93,095	0	0	0	93,095	222,820
Transportation	0	401,196	0	0	0	401,196	1,029,000
Security of Person & Property	2,669,466	375,120	0	0	0	3,044,586	2,997,737
Community Environment	30,829	264,288	0	0	0	295,117	302,124
Capital Outlay	0	0	0	416	0	416	241,835
Other	396	0	917	0	16	1,329	0
Debt Service:							
Principal Retirement	0	0	40,000	0	0	40,000	40,000
Interest and Fiscal Charges	0	0	10,925	0	0	10,925	12,825
Total Expenditures	3,957,456	1,321,954	51,842	416	16	5,331,684	6,772,395
Excess of Revenues Over (Under) Expenditures	479,995	(534,168)	25,216	79,584	2,025	52,652	(1,571,095)
Other Financing Sources (Uses):							
Proceeds from Sale of Assets	1,116	215,951	0	0	0	217,067	148
Operating Transfers - In	0	432,000	0	0	0	432,000	615,000
Operating Transfers - Out	(432,000)	0	0	0	0	(432,000)	(615,000)
Total Other Financing Sources (Uses)	(430,884)	647,951	0	0	0	217,067	148
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	49,111	113,783	25,216	79,584	2,025	269,719	(1,570,947)
Fund Balances (Deficit) at Beginning of Year	1,617,352	1,342,499	173,396	(472,367)	11,065	2,671,945	4,276,166
Increase (Decrease) in Reserve for Inventory	(5,138)	1,537	0	0	0	(3,601)	(33,274)
Fund Balances (Deficit) at End of Year	\$1,661,325	\$1,457,819	\$198,612	(\$392,783)	\$13,090	\$2,938,063	\$2,671,945

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, 2003

	-----General Fund-----			-----Special Revenue Funds-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						

Taxes	\$3,523,100	\$3,622,755	\$99,655	\$60,118	\$66,453	\$6,335
Charges for Services	262,800	317,621	54,821	10,000	8,918	(1,082)
License and Permits	13,100	18,390	5,290	70,000	70,915	915
Fines and Forfeitures	230,000	222,055	(7,945)	118,500	176,440	57,940
Intergovernmental	24,000	39,533	15,533	824,900	431,990	(392,910)
Investment Earnings	125,000	43,560	(81,440)	1,600	3,671	2,071
Rental	16,500	14,450	(2,050)	13,000	3,417	(9,583)
Other	5,500	16,461	10,961	146,100	147,087	987
Total Revenues	4,200,000	4,294,825	94,825	1,244,218	908,891	(335,327)
Expenditures:						

Current:						
General Government:						
Legislative and Executive	1,125,111	938,309	186,802	0	0	0
Judicial	345,278	343,256	2,022	238,310	185,005	53,305
Health	25,000	21,732	3,268	0	0	0
Leisure Time Activity	0	0	0	100,188	95,941	4,247
Transportation	0	0	0	533,316	426,123	107,193
Security of Person and Property	2,735,656	2,687,585	48,071	396,100	369,435	26,665
Community Environment	66,567	45,959	20,608	1,100,144	600,513	499,631
Capital Outlay	0	0	0	0	0	0
Other	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	4,297,612	4,036,841	260,771	2,368,058	1,677,017	691,041
Excess of Revenues Over (Under) Expenditures	(97,612)	257,984	355,596	(1,123,840)	(768,126)	355,714
Other Financing Sources (Uses):						

Proceeds from Sale of Fixed Assets	0	1,116	1,116	200,500	215,951	15,451
Advances In	0	36,550	36,550	36,550	36,550	0
Advances Out	(41,677)	(36,550)	5,127	(36,550)	(36,550)	0
Operating Transfers In	0	0	0	432,000	432,000	0
Operating Transfers Out	(432,000)	(432,000)	0	0	0	0
Total Other Financing Sources (Uses)	(473,677)	(430,884)	42,793	632,500	647,951	15,451
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(571,289)	(172,900)	398,389	(491,340)	(120,175)	371,165
Fund Balances (Deficit) at Beginning of Year	509,993	509,993	0	511,577	511,577	0
Prior Year Encumbrances Appropriated	96,238	96,238	0	177,358	177,358	0
Fund Balances at End of Year	\$34,942	\$433,331	\$398,389	\$197,595	\$568,760	\$371,165

(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, 2003

	-----Debt Service Fund-----			-----Capital Projects Fund-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						

Taxes	\$30,059	\$73,808	\$43,749	\$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	3,143	143	100,000	80,000	(20,000)
Investment Earnings	0	0	0	0	0	0
Rental	0	0	0	0	0	0
Other	0	0	0	0	0	0
Total Revenues	33,059	76,951	43,892	100,000	80,000	(20,000)
Expenditures:						

Current:						
General Government:						
Legislative and Executive	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	149,075	78,726	70,349
Other	39,500	917	38,583	0	0	0
Debt Service:						
Principal Retirement	40,000	40,000	0	0	0	0
Interest and Fiscal Charges	12,000	10,925	1,075	0	0	0
Total Expenditures	91,500	51,842	39,658	149,075	78,726	70,349
Excess of Revenues Over (Under) Expenditures	(58,441)	25,109	83,550	(49,075)	1,274	50,349
Other Financing Sources (Uses):						

Proceeds from Sale of Fixed Assets	0	0	0	0	0	0
Advances In	0	0	0	0	0	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
Total Other Financing Sources (Uses)	0	0	0	0	0	0
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(58,441)	25,109	83,550	(49,075)	1,274	50,349
Fund Balances (Deficit) at Beginning of Year	172,704	172,704	0	(43,132)	(43,132)	0
Prior Year Encumbrances Appropriated	0	0	0	99,075	99,075	0
Fund Balances at End of Year	<u>\$114,263</u>	<u>\$197,813</u>	<u>83,550</u>	<u>\$6,868</u>	<u>\$57,217</u>	<u>\$50,349</u>

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, 2003

	2003	2002
	Enterprise	Enterprise
	-----	-----
Operating Revenues:		

Tap-in Fees	\$73,561	\$146,886
Sales	1,183	2,894
Charges for Services	2,267,217	2,167,061
Other Operating Revenues	17,616	57,785
	-----	-----
Total Operating Revenues	2,359,577	2,374,626
	-----	-----
Operating Expenses:		

Salaries	714,982	786,995
Fringe Benefits	326,568	245,093
Purchased Services	138,779	499,222
Materials and Supplies	146,657	177,530
Depreciation	396,222	395,396
Amortization	24,336	24,336
Contractual Services	238,384	184,554
Other Operating Expenses	48,488	32,794
	-----	-----
Total Operating Expenses	2,034,416	2,345,920
	-----	-----
Operating Income	325,161	28,706
	-----	-----
Non-Operating Revenues (Expenses):		

Grants	0	547,200
Other Non-Operating Revenues	0	9,199
Loss on Sale of Fixed Assets	(49,607)	(60,571)
Gain on Sale of Fixed Assets	0	282
Interest	16,653	41,599
Interest and Fiscal Charges	(429,243)	(341,320)
	-----	-----
Total Non-Operating Revenues (Expenses)	(462,197)	196,389
	-----	-----
Net Income (Loss)	(137,036)	225,095
	-----	-----
Retained Earnings		
at Beginning of Year (Restated - Note 15)	4,488,228	4,263,133
	-----	-----
Retained Earnings		
at End of Year	4,351,192	4,488,228
	-----	-----
Contributed Capital at Beginning and End of Year	459,136	459,136
	-----	-----
Total Fund Equity at End of Year	<u>\$4,810,328</u>	<u>\$4,947,364</u>

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, 2003

	Enterprise		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Operating Revenues:			
Tap-In Fees	\$55,000	\$73,561	\$18,561
Sales	0	1,183	1,183
Charges for Services	2,232,000	2,313,446	81,446
Other Operating Revenues	2,000	17,616	15,616
Total Operating Revenue	2,289,000	2,405,806	116,806
Operating Expenses:			
Salaries	786,451	751,341	35,110
Fringe Benefits	324,935	314,429	10,506
Purchased Services	4,219,748	3,931,808	287,940
Materials and Supplies	190,314	158,141	32,173
Contractual Services	2,689,848	153,236	2,536,612
Other Operating Expenses	65,678	48,488	17,190
Total Operating Expenses	8,276,974	5,357,443	2,919,531
Operating Income (Loss)	(5,987,974)	(2,951,637)	3,036,337
Non-Operating Revenues (Expenses):			
Proceeds from Sale of Bonds	2,500,000	0	(2,500,000)
Proceed from Short Term Notes	2,960,000	2,960,000	0
Operating Grants	840,000	81,000	(759,000)
Proceeds from Sale of Fixed Assets	0	69	69
Interest	1,000	14,874	13,874
Payment on Principal	(296,493)	(3,231,200)	(2,934,707)
Interest and Fiscal Charges	(553,248)	(425,129)	128,119
Total Non-Operating Revenues (Expenses)	5,451,259	(600,386)	(6,051,645)
Income (Loss) Before Operating Transfers	(536,715)	(3,552,023)	(3,015,308)
Operating Transfers In	50,000	0	(50,000)
Operating Transfers Out	(95,749)	0	95,749
Net Loss	(582,464)	(3,552,023)	(2,969,559)
Retained Earnings at Beginning of Year	(244,668)	(244,668)	0
Prior Year Encumbrances Appropriated	3,520,425	3,520,425	0
Retained Earnings at Year End	\$2,693,293	(\$276,266)	(\$2,969,559)

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, 2003

	2003 Enterprise	2002 Enterprise
	-----	-----
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>		
<i>Cash Flows from Operating Activities:</i>		
Cash Received from Customers	\$2,388,190	\$2,239,826
Cash Received from Other Operating Sources	17,616	57,785
Cash Payments to Suppliers for Goods and Services	(475,723)	(681,725)
Cash Payments to Employees for Services	(742,393)	(770,844)
Cash Payments for Employee Benefits	(306,810)	(229,542)
	-----	-----
<i>Net Cash Provided by (Used for) Operating Activities</i>	880,880	615,500
	-----	-----
<i>Cash Flows from Noncapital Financing Activities:</i>		
Operating Grants Received	81,000	466,200
	-----	-----
<i>Net Cash Provided by Noncapital Financing Activities</i>	81,000	466,200
	-----	-----
<i>Cash Flows from Capital and Related Financing Activities:</i>		
Proceeds from Sale of Investments	0	256,726
Proceeds from Sale of Short Term Notes	2,960,000	2,960,000
Proceeds from Sales of Capital Assets	69	282
Payments for Capital Acquisitions	(2,304,272)	(2,076,747)
Principal Payments	(3,231,200)	(258,600)
Interest Payments	(436,616)	(274,032)
	-----	-----
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	(3,012,019)	607,629
	-----	-----
<i>Cash Flows from Investing Activities</i>		
Interest on Investments	16,653	31,638
	-----	-----
<i>Net Cash Provided by Investing Activities</i>	16,653	31,638
	-----	-----
Net Decrease in Cash and Cash Equivalents	(2,033,486)	1,720,967
Cash and Cash Equivalents at Beginning of Year	3,690,486	1,969,519
	-----	-----
Cash and Cash Equivalents at End of Year	<u>1,657,000</u>	<u>3,690,486</u>
 <i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>		
Operating Income	325,161	32,433
 <i>Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:</i>		
Depreciation	396,222	395,396
Amortization	24,336	24,336
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	46,229	(77,015)
(Increase) Decrease in Materials and Supplies Inventory	(2,035)	21,876
(Increase) Decrease in Prepaid Items	(6,132)	(5,610)
Increase (Decrease) in Accounts Payable	(14,351)	24,403
Increase in Contracts Payable	119,103	171,706
Increase (Decrease) in Accrued Wages and Benefits	(5,690)	2,625
Increase (Decrease) in Compensated Absences Payable	(2,263)	8,508
Increase in Due to Other Governments	300	16,842
	-----	-----
Total Adjustments	555,719	583,067
	-----	-----
Net Cash Provided by Operating Activities	<u>\$880,880</u>	<u>\$615,500</u>

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, 2003

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

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 provide support to service providers.

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

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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, 2003

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, 2003

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, 2003, but which were levied to finance fiscal year 2004 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, 2003

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 2003.

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 2003 by Council.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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 2003, investments were limited to repurchase agreements, money market accounts, and donated common stock.

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

For purposes of the 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 2003, the City held retainage monies for the construction of the water plant expansion project. Retainage amounts at December 31, 2003 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, 2003

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, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond December 31, 2003, 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 employees 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, 2003**

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, 2003 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.

CITY OF HILLSBORO, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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, 2003

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, 2003

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 \$2,443,016 and the bank balance was \$2,676,871. Of the bank balance:

1. \$601,252 was covered by federal depository insurance; and
2. \$2,075,619 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		
Investments:					
Money Market	N/A	N/A	N/A	\$ 405,021	\$ 405,021
Stocks	\$ 0	\$ 3,396	\$ 0	3,396	3,396
Repurchase Agreements	0	0	356,534	356,534	356,534
Total Investments	\$ 0	\$ 3,396	\$ 356,534	\$ 764,951	\$ 764,951

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, 2003**

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 & Cash Equivalents</u>	<u>Investments</u>
GASB 9 Balances	\$ 3,204,571	\$3,396
Repurchase Agreements	(356,534)	356,534
Money Market	<u>(405,021)</u>	<u>405,021</u>
 GASB 3	 <u>\$ 2,443,016</u>	 <u>\$ 764,951</u>

3. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis), All Proprietary Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

3. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$49,111	\$113,783	\$25,216	\$79,584
Adjustments:				
Revenue Accrual	(106,076)	157,655	(107)	0
Expenditure Accrual	4,532	(343,288)	0	(78,310)
Encumbrances	(120,467)	(48,325)	0	0
Budget Basis	<u>\$172,900</u>	<u>\$120,175</u>	<u>\$25,109</u>	<u>\$1,274</u>

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

	Net Loss Proprietary Fund Type
	<u>Enterprise</u>
GAAP Basis	\$ (137,036)
Increases (Decreases) Due To:	
Revenue Accruals	125,450
Expense Accruals	(1,899,881)
Encumbrances	<u>(1,640,556)</u>
Budget Basis	<u><u>\$(3,552,023)</u></u>

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

4. LONG-TERM DEBT OBLIGATIONS

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

<u>Types / Issues</u>	<u>Outstanding at 12/31/02</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding at 12/31/03</u>
<i>General Long-Term Obligations</i>				
Compensated Absences	\$ 235,705	\$ 10,761	\$ 0	\$ 246,466
Street Improvement Bonds	<u>230,000</u>	<u>0</u>	<u>40,000</u>	<u>190,000</u>
Total Long-Term Obligations	<u>\$ 465,705</u>	<u>\$ 10,761</u>	<u>\$ 40,000</u>	<u>\$ 436,466</u>
<i>Enterprise Fund Obligations</i>				
Water Fund				
Mortgage Revenue Bond	3,327,700	0	46,200	3,281,500
Sewer Fund				
Mortgage Revenue Bonds	<u>1,515,000</u>	<u>0</u>	<u>225,000</u>	<u>1,290,000</u>
Total Enterprise Fund Obligations	<u>\$4,842,700</u>	<u>\$ 0</u>	<u>\$ 271,200</u>	<u>\$4,571,500</u>

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

Mortgage revenue bonds were issued 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.

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 Street Improvement Bonds were issued for the improvement of city streets. General obligation bonds are 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.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

4. LONG-TERM DEBT OBLIGATIONS (Continued)

The annual requirement to amortize all bonded debt outstanding as of December 31, 2003, including interest payments of \$3,641,721 are as follows:

	<u>Mortgage Revenue Bonds</u>
2004	\$532,158
2005	531,010
2006	529,059
2007	531,743
2008	533,415
2009-2013	1,207,528
2014-2018	1,207,770
2019-2023	1,207,655
Thereafter	<u>1,932,883</u>
Totals	<u><u>\$8,213,221</u></u>

The City has utilized trustees (Fifth/Third Bank) to service the mortgage revenue bonds. Payments to the trustees are recorded as disbursements in the year they are deposited with the trustees. At December 31, 2003, the trustees have accumulated \$405,021 toward the redemption of these bonds. Of the \$405,021, \$251,605 is held as a reserve for debt service to meet the requirements of the United States Department of Agriculture.

The amount to repay note debt outstanding as of December 31, 2003, including interest payments of \$31,525 are as follows:

	<u>General Obligation Bonds</u>
2004	\$ 57,350
2005	54,425
2006	56,500
2007	<u>53,250</u>
Total	<u><u>\$ 221,525</u></u>

CITY OF HILLSBORO, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

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, 2003. 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 2003 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, 2003, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$100,707,750
Public Utility Personal Property	3,737,100
Tangible Personal Property	<u>28,370,142</u>
Total Property Taxes	<u>\$132,814,992</u>

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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, 2003 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 \$1,286,054. Due to the age of many of these accounts, the amount of \$586,675 is considered uncollectable.

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

<u>General</u>	
Local Government	\$141,286
Homestead & Rollback	11,481
Sales Tax	<u>148,159</u>
Total General	<u>300,926</u>
<u>Special Revenue</u>	
Street Constr., Maint. & Repair Fund	
Gasoline Tax	63,360
State Highway	
Gasoline Tax	5,137
Police Pension	
Homestead & Rollback	1,640
Fire Pension	
Homestead & Rollback	1,640
Municipal Motor Vehicle Fund	
Permissive Tax	<u>7,309</u>
Total Special Revenue	<u>79,086</u>
<u>Debt Service</u>	
Bond Retirement	
Homestead & Rollback	<u>1,640</u>
<u>Enterprise</u>	
Water Fund	
Grant	<u>1,240,000</u>
 Total	 <u>\$1,621,652</u>

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

8. FIXED ASSETS

General Fixed Assets: Changes in general fixed assets during 2003 were as follows:

	<u>Balance at 12/31/02*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/03</u>
Infrastructure	\$ 8,819,692	\$ 27,105	\$ 0	\$ 8,846,797
Land Improvements	2,319,014	78,310	0	2,397,324
Buildings & Improvements	1,827,161	17,046	11,056	1,833,151
Furniture & Equipment	1,078,067	96,765	25,939	1,148,893
Construction in Progress	23,515	0	23,515	0
Vehicles	<u>1,628,761</u>	<u>0</u>	<u>28,151</u>	<u>1,600,610</u>
Total	<u>\$15,696,210</u>	<u>\$ 219,226</u>	<u>\$ 88,661</u>	<u>\$15,826,775</u>

* Restated - See Note 15

Proprietary Fund Fixed Assets: A summary of the Proprietary Fund Types fixed assets as of December 31, 2003, follows:

	<u>Balance at 12/31/03</u>
Land Improvements	\$ 273,604
Mechanic Equipment	708,863
Vehicles	156,601
Plant Buildings & Equipment	7,209,408
Construction in Progress	3,972,493
Water/Sewer Lines	<u>5,021,716</u>
 Total Assets	 17,342,685
Accumulated Depreciation	<u>(6,309,906)</u>
 Net Value of Assets	 <u>\$11,032,779</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). OPERS administers three separate pension plans:

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

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

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

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. The Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contributions rates were consistent across all three plans (TP, MD, and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan. 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 2003 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.

The City's contributions to the PERS of Ohio for the years ending December 31, 2001, 2002, and 2003 were \$208,591, \$242,879, and \$296,149 respectively. These contributions were equal to the required contributions for each of the years.

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

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24% respectively for police officers and firefighters. The City's contributions to OP&F for the years ended December 31, 2001, 2002, and 2003 were \$144,927, \$201,253, and \$154,710 for policemen and \$176,478, \$227,200, and \$190,155 for firefighters, respectively, equal to required contributions for each year.

10. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System: Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple employer defined pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan that has elements of both defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying member of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have 1 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 System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

10. POSTEMPLOYMENT BENEFITS (Continued)

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 for employer contributions. The OPERS law enforcement and public safety with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employer units was 13.55% of covered payroll, and 5% was used to fund health care for the year. For both the public safety and law enforcement divisions, the 2003 employer rate was 16.70%, and 5% was used to fund health care. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2002. 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 2002 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.

The portion of the 2003 employer contribution rate that was used to fund health care for the year 2003 for local government employer was \$79,285, 5% of covered payroll.

OPEBs are advance-funded on an actuarially determined basis. The number of active contributing participants was 364,881. \$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 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 Medical Spending Accounts.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

10. POSTEMPLOYMENT BENEFITS (Continued)

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending ~~AChoices@type~~ cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

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

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

Health care funding and accounting is on a pay-as-you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2002 and 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors had monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2002, (the latest information available) was 13,527 for Police and 10,396 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 ended December 31, 2002 were \$141,028,006, which was net of member contributions \$12,623,875.

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 \$10,000,000 for each occurrence and \$3,000,000 in the general aggregate. Other liability insurances includes \$10,000,000 employers liability coverage (which provides additional coverage to the State's Workers Compensation Program), \$10,000,000 for law enforcement professional liability, \$10,000,000 for public official errors and omissions liability and \$10,000,000 for automobile liability. In addition the City maintains replacement cost insurance on building and contents in the blanket amount of \$15,711,839. 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 \$242,000. The City pays all elected officials' bonds by statute. The City insures an employee health benefits program through Humana Insurance Company.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

11. RISK MANAGEMENT (Continued)

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

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

12. OTHER EMPLOYEE BENEFITS

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

Compensated Absences: Vacation leave is earned at rates 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 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, 2003 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 \$41,970 and \$246,466 respectively. The liability for compensated absences in the enterprise funds was \$54,416.

13. 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, 2003.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

13. CONTINGENCIES (Continued)

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.

14. SEGMENT INFORMATION - ENTERPRISE FUNDS

Financial segment information as of and for the year ended December 31, 2003 for the Enterprise Funds presented as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue	\$1,186,029	\$1,173,548	\$ 2,359,577
Depreciation Expense	123,713	272,509	396,222
Amortization Expense	0	24,336	24,336
Operating Income	242,761	82,400	325,161
Net Income/(Loss)	(153,308)	16,272	(137,036)
Net Working Capital	165,393	1,143,656	1,309,049
Total Assets	8,988,498	5,445,670	14,434,168
Revenue Bonds Payable	3,281,500	1,290,000	4,571,500
Bond Anticipation Note Payable	2,960,000	0	2,960,000
Total Equity	752,215	4,058,113	4,810,328
Encumbrances at 12/31/2003	1,485,975	154,581	1,640,556

15. RESTATEMENT OF FUND BALANCES

Restatement of Fund Balances In the prior year, fixed assets were misstated in the Enterprise Funds and General Fixed Asset Account Group. Cash was also misstated in the Enterprise Funds. These restatements had the following effect on Balances/Retained Earnings as it was previously reported as of December 31, 2002:

	<u>Enterprise</u>	<u>General Fixed Assets</u>
Balance/Retained Earnings at December 31, 2002	\$4,491,955	\$15,692,836
Restatement Amount	(3,727)	3,374
Adjusted Balance/Retained Earnings at January 1, 2003	\$4,488,228	\$15,696,210

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

16. ACCOUNTABILITY

The following funds had a fund balance deficit as of December 31, 2003:

<i>Special Revenue Fund</i>	
Police Pension Fund	\$31,744
Fire Pension Fund	32,234
<i>Capital Project Fund</i>	
Tax Increment Fund	\$392,783

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

17. INTERFUND TRANSACTIONS

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$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 2003, the City re-newed the \$2,960,000 in Bond Anticipation Notes for the purpose of water system improvements. These notes will be repaid with the issuance of bonded debt. The note liability is reflected in the Water Enterprise Fund, which received the proceeds.

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

	Principal Outstanding 12/31/02	Additions	Deductions	Principal Outstanding 12/31/03
Water System Bond Anticipation Note - 3.25%	\$2,960,000	\$2,960,000	\$2,960,000	\$2,960,000

CITY OF HILLSBORO, OHIO

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

19. CONTRACT COMMITMENTS

As of December 31, 2003, the City had contractual commitments for the completion of the expansion of the water plant and South High Street water to school.

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance as of 12/31/03</u>
Gilbert & Sons	\$4,708,631	\$3,326,689	\$1,381,942
G & R Plumbing	82,315	57,559	24,756

20. SUBSEQUENT EVENTS

On February 3rd, 2004 the City renewed the short term bond anticipation note in the amount of \$2,960,000 with an interest rate of 3.25% per annum through Fifth Third Bank. The bond anticipation note will mature June 2004.

City of Hillsboro
Highland County

Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
United States Department of Agriculture			
<i>Direct from the Federal Government</i>			
Water & Waste Disposal Systems for Rural Communities	N	10.760	\$2,041,086
United States Department of Housing & Urban Development			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grant	G30438 J850	14.228	90,210
Home Investment Partnership Program	G30439 J846	14.239	104,029
<i>Passed through Highland County</i>			
Community Development Block Grant	N/A	14.228	<u>36,550</u>
Total United States Department of Housing & Urban Development			230,789
United States Department of Justice			
<i>Passed through the Governor's Office of Criminal Justice Services</i>			
Drug Control & Systems Improvement Formula Grant	N/A	16.579	16,684
United States Department of EPA			
<i>Passed through U.S. Army Corps of Engineers</i>			
Capitalization Grants for Drinking Water State Revolving Fund	N/A	66.468	<u>81,000</u>
Total Federal Financial Assistance			<u><u>\$2,369,559</u></u>

NA - Pass Through Entity Number is Not Available

N - Direct from the Federal Government

See Accompanying Notes to the Schedule of Federal Awards Expenditures

City of Hillsboro
Notes to Schedule of Federal Awards Expenditures
For the Fiscal Year Ended December 31, 2003

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, 2003 the total amount of loans outstanding was \$878,013. 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, 2003 the total amount of these loans outstanding was \$49,364

NOTE C - MATCHING REQUIREMENTS

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

BALESTRA, HARR & SCHERER, CPAs, Inc.

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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, 2003, and have issued our report thereon dated May 18, 2004. 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hillsboro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Hillsboro in a separate letter dated May 18, 2004.

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 federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

May 18, 2004

BALESTRA, HARR & SCHERER, CPAs, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we 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 its major federal program for the year ended December 31, 2003. However, the results of our audit procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10760-2003-01 and 14228-2003-02.

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. We noted an other matter involving the internal control over financial reporting, which we have reported to management of the City of Hillsboro in a separate letter dated May 18, 2004.

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, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

May 18, 2004

**CITY OF HILLSBORO
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003**

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):	Water and Waste Disposal Systems For Rural Communities, CFDA #10.760
(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, 2003**

**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	10760-2003-01
CFDA Title and Number	Water & Waste Disposal Systems for Rural Communities, CFDA #10.760
Federal Award Number/Year	2003
Federal Agency	U.S. Department of Agriculture
Pass-Through Agency	Direct from the Federal Government

Davis Bacon Act

The City was monitoring for compliance with the Davis -Bacon Act by obtaining and verifying certified payrolls to prevailing wage rates. However, the City did not obtain the Engineer's log sheets for the time periods to ensure that the labor classifications were correct. This resulted in the U.S . Department of Labor requesting for the voluntary transfer of contract funds to satisfy back wages found due under the provisions of the Davis -Bacon and related acts in the amount of \$189,063, regarding contract number 11-9152200. The authorization to transfer Davis -Bacon and related act funds to the U.S. Department of Labor, Wage and Hour Division and for the Wage and Hour Division to disburse funds to affected employees has been authorized by the Contractor, however, funds have not been transferred by the City. These funds should be transferred according to the U.S. Department of Labor instructions immediately.

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
10760-2003-01	Management has attended updated training regarding monitoring prevailing wage rates, intends to monitor prevailing wage rates to include engineering log sheets and intends to transfer the money upon approval of the audit committee.	December 31, 2004	Kirby Ellison, Mayor's Clerk

**CITY OF HILLSBORO
SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 SECTION .505
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003 (Continued)**

3. FINDINGS FOR FEDERAL AWARDS (Continued)

Finding Number	14228-2003-02
CFDA Title and Number	Community Development Block Grant Program, CFDA #14.228
Federal Award Number/Year	2003
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
14228-2003-02	Management will develop and monitor a cash management system to ensure compliance with the 15 day rule.	December 31, 2004	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 14228-2003-02. Initial finding occurred in 2000.

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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
JUNE 29, 2004**