



Dave Yost • Auditor of State

CITY OF HILLSBORO
HIGHLAND COUNTY

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INDEPENDENT AUDITOR'S REPORT

City of Hillsboro
Highland County
130 North High Street
Hillsboro, Ohio 45133

To City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Highland County, Ohio (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the, each major fund, and the aggregate remaining fund information of City of Hillsboro, Highland County, Ohio, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2015, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

March 26, 2015

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2013
(Unaudited)

The discussion and analysis of the City of Hillsboro's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net position increased \$3,234,534. Net position of governmental activities increased \$763,429. Net position of business-type activities increased \$2,471,105.
- Governmental activities general revenues accounted for \$4,534,256 in revenue or 75 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,539,878 or 25 percent of total revenues of \$6,074,134. Business-type activities general revenues accounted for \$37,251 in revenue or 1 percent of all revenues. Program specific revenues accounted for \$5,729,097 or 99 percent of total revenues of \$5,766,348.
- The City had \$5,310,705 in expenses related to governmental activities; \$1,539,878 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,295,243 in expenses related to business-type activities; all of these expenses were offset by program specific charges for services, grants and contributions.

Using the Annual Financial Report

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

The statement of net position and statement of activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what monies remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in a single column.

Reporting the City as a Whole

Statement of Net Position and Statement of Activities

While this report contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting basis used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the change in net position. The change in net position is important because it identifies whether the financial position of the City has improved or diminished for the City as a whole. However, in evaluating the overall position of the City, nonfinancial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2013
(Unaudited)

In the statement of net position and the statement of activities, the City is divided into two types of activities:

- **Governmental Activities** - Most of the City's services are reported as governmental activities including police, fire, administration, and all departments with the exception of business-type activities (sanitation, wastewater treatment, storm water utility and water services).
- **Business-Type Activities** - These services have a charge based upon usage. The City charges fees to recoup the cost of the entire operation of the Water Plant and Wastewater Treatment Plant as well as all capital expenses associated with these facilities. The City also charges fees to recoup the cost of disposal of solid waste, leaf and brush removal and also a fee to provide for improvements to the City's storm water removal system. These fees are accounted for in the Sewer Fund.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the year-end balances available for spending in the future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic services provided. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future on services provided to residents. The relationships between governmental activities reported in the statement of net position and the statement of activities and the governmental fund statements are reconciled in the financial statements.

Enterprise Funds - When the City charges customers for the services it provides, these services are generally reported in enterprise funds. Enterprise funds use the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

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

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2013
(Unaudited)

The City as a Whole

The statement of net position reviews the City as a whole. Table 1 provides a summary of the City's net position for 2013 compared to the prior year:

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and Other Assets	\$ 4,793,434	\$ 3,774,090	\$ 4,188,443	\$ 3,702,609	\$ 8,981,877	\$ 7,476,699
Capital Assets, Net	12,155,017	12,709,194	30,600,714	30,999,822	42,755,731	43,709,016
Total Assets	16,948,451	16,483,284	34,789,157	34,702,431	51,737,608	51,185,715
Liabilities						
Current and Other Liabilities	263,401	381,560	169,522	380,120	432,923	761,680
Long-Term Liabilities	3,116,976	3,297,629	13,945,488	16,119,269	17,062,464	19,416,898
Total Liabilities	3,380,377	3,679,189	14,115,010	16,499,389	17,495,387	20,178,578
Deferred Inflows of Resources						
Property Taxes not Levied to Finance Current Year Operations	287,397	286,847	-	-	287,397	286,847
Net Position						
Net Investment in Capital Assets	9,290,661	9,714,969	16,702,603	14,940,774	25,993,264	24,655,743
Restricted	2,166,795	1,414,378	-	-	2,166,795	1,414,378
Unrestricted	1,823,221	1,387,901	3,971,544	3,262,268	5,794,765	4,650,169
Total Net Position	\$ 13,280,677	\$ 12,517,248	\$ 20,674,147	\$ 18,203,042	\$ 33,954,824	\$ 30,720,290

Total governmental activities assets increased \$465,167 primarily due to increases in cash and cash equivalents, loans receivable, and intergovernmental receivables which were partially offset by capital assets current year depreciation and deletions exceeding current year additions. Business-type activities assets increased \$86,726, primarily due to increases in capital assets as a result of investment in radio read meters which were partially offset by a decrease in restricted cash as of December 31, 2013.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 73% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. Net investment in capital assets for the City as a whole increased primarily due to reduction of debt balances, which is partially offset by depreciation expense.

Total liabilities for governmental activities decreased \$298,812 as a result of debt payments. Total liabilities of business-type activities decreased \$2,384,379 due mainly to principal forgiveness from the American Reinvestment and Recovery Act which were partially offset by current year debt additions.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2013
(Unaudited)

Table 2 shows the changes in net position for the year 2013 compared to the prior year.

Table 2
Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 597,075	\$ 945,339	\$ 3,746,958	\$ 3,673,305	\$ 4,344,033	\$ 4,618,644
Operating Grants and Contributions	942,803	515,262	-	-	942,803	515,262
Capital Grants and Contributions	-	-	1,982,139	-	1,982,139	-
Total Program Revenues	1,539,878	1,460,601	5,729,097	3,673,305	7,268,975	5,133,906
General Revenues:						
Property & Income Taxes	3,880,392	3,748,155	-	-	3,880,392	3,748,155
Unrestricted Investment Earnings	13,845	13,922	950	1,135	14,795	15,057
Grants and Contributions Not Restricted to Specific Programs	248,550	395,443	-	-	248,550	395,443
Gain on Sale of Capital Assets	5,258	-	-	-	5,258	-
Other	386,211	168,359	36,301	48,262	422,512	216,621
Total General Revenues	4,534,256	4,325,879	37,251	49,397	4,571,507	4,375,276
Total Revenues	6,074,134	5,786,480	5,766,348	3,722,702	11,840,482	9,509,182
Program Expenses						
General Government -						
Legislative and Executive	1,058,489	1,009,462	-	-	1,058,489	1,009,462
Judicial	378,027	414,390	-	-	378,027	414,390
Security of Persons and Property	2,643,380	3,274,641	-	-	2,643,380	3,274,641
Public Health	19,750	12,553	-	-	19,750	12,553
Leisure Time Activities	61,330	111,391	-	-	61,330	111,391
Community Environment	292,581	329,314	-	-	292,581	329,314
Transportation	718,374	700,253	-	-	718,374	700,253
Interest and Fiscal Charges	138,774	142,221	-	-	138,774	142,221
Water Fund	-	-	1,524,314	1,532,408	1,524,314	1,532,408
Sewer Fund	-	-	1,770,929	2,431,919	1,770,929	2,431,919
Total Expenses	5,310,705	5,994,225	3,295,243	3,964,327	8,605,948	9,958,552
Increase (Decrease) in Net Position	763,429	(207,745)	2,471,105	(241,625)	3,234,534	(449,370)
Beginning Net Position	12,517,248	12,724,993	18,203,042	18,444,667	30,720,290	31,169,660
Ending Net Position	\$ 13,280,677	\$ 12,517,248	\$ 20,674,147	\$ 18,203,042	\$ 33,954,824	\$ 30,720,290

Governmental Activities

Governmental activities net position increased \$763,429 or 6% during 2013, due to revenues exceeding expenses. Charges for Services and Sales decreased primarily due to a decrease in Ambulance Services revenues. Grants and Contributions not Restricted to Specific Programs decreased primarily due to the elimination of estate taxes. Operating Grants and Contributions increased due to increased receivables recorded for the Rehab program. Property and Income Taxes increased primarily due to an increase in income tax revenues. Security of Persons decreased due to efforts by the City's administration to reduce expenditures.

General revenues primarily consist of property and income tax revenue of \$3,880,392, or 86% of total general revenues in 2013.

General government expenses include legislative and executive and judicial programs, totaled \$1,436,516 or 27% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 50% of total expenses.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2013
(Unaudited)

Business-Type Activities

The City's business-type activities are its water and sewer departments. The water and wastewater treatment plants provide services to the City's residents. The water plant generated operating revenues of \$1,574,808 and had operating expenses of \$1,282,556 and had interest expense of \$240,845. The wastewater treatment plant generated operating revenues of \$2,172,150 and had operating expenses of \$1,710,474, and interest expense of \$59,542. Operating revenues remained consistent between the two years for both the water and sewer funds. Operating expenditures remained consistent between the two years for the water fund. The operating expenditures decreased for the sewer fund primarily due to a decrease in contractual services expense. The City's goal is to cover the costs of operations as well as to build the cash balance in these funds. The City is also generating funds for additional capital expansion to ensure continued capacity and capacity improvements for future growth and development.

The City's Funds

Information about the City's major funds starts on page 12. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$6,146,232 and expenditures and other financing uses of \$5,420,642. The net change in fund balance for the year was most significant in the General Fund, an increase of \$385,286. The majority of the increase in fund balance is due to revenues exceeding expenditures for the current year which was partially offset by transfers out.

General Fund Budgeting Highlights

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

During the course of 2013, the City amended its General Fund budget. With the General Fund supporting many of the major activities such as the City's police and fire departments, as well as most general government activities, the General Fund is monitored closely to prevent possible revenue shortfalls or overspending by individual departments.

For the General Fund, original budgeted revenues and other financing sources were \$4,110,861, while final budgeted revenues and other financing sources were \$4,359,725. The City's actual revenues and other financing sources were \$32,578 more than the final budgeted revenues and other financing sources due primarily to additional tax revenues received. Original budgeted expenditures and other financing uses were \$4,055,811, while final budget amounts were \$4,396,575. The decrease is primarily due to a decrease in security of persons and property expenditures.

The General Fund's actual expenditures were \$206,052 less than final budgeted expenditures mainly due to conservative budgeting by the City.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2013
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the 2013 the City had \$42,755,731 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2013 and 2012 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 561,543	\$ 561,650	\$ 10,460	\$ 10,460	\$ 572,003	\$ 572,110
Land Improvements	773,275	811,047	131,077	72,114	904,352	883,161
Buildings and Improvements	3,417,226	3,504,601	26,930,268	27,372,108	30,347,494	30,876,709
Furniture and Equipment	537,528	624,841	369,758	356,051	907,286	980,892
Vehicles	516,918	594,401	310,547	307,688	827,465	902,089
Infrastructure/Water & Sewer Lines	6,285,782	6,559,925	2,644,396	2,881,401	8,930,178	9,441,326
Construction in Progress	62,745	52,729	204,208	-	266,953	52,729
Totals	<u>\$ 12,155,017</u>	<u>\$ 12,709,194</u>	<u>\$ 30,600,714</u>	<u>\$ 30,999,822</u>	<u>\$ 42,755,731</u>	<u>\$ 43,709,016</u>

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

Debt

At December 31, 2013, the City of Hillsboro had \$16,739,883 in bonds, loans, and leases outstanding, \$500,422 was due within one year.

Table 4
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
O.W.D.A. Loan	\$ -	\$ -	\$ 8,250,113	\$ 10,437,828	\$ 8,250,113	\$ 10,437,828
Capital Lease	49,356	34,225	203,414	49,220	252,770	83,445
OPWC Loan	-	-	125,000	140,000	125,000	140,000
Mortgage Revenue Bonds	-	-	5,297,000	5,432,000	5,297,000	5,432,000
General Obligation Bonds	2,815,000	2,960,000	-	-	2,815,000	2,960,000
Total	<u>\$ 2,864,356</u>	<u>\$ 2,994,225</u>	<u>\$ 13,875,527</u>	<u>\$ 16,059,048</u>	<u>\$ 16,739,883</u>	<u>\$ 19,053,273</u>

The City's overall legal debt margin was \$8,972,442 at December 31, 2013.

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

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2013
(Unaudited)

The Future

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

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

Contacting the City's Finance Department

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

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City of Hillsboro
Statement of Net Position
December 31, 2013

	Governmental Activities	Business-Type Activities	Totals
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,486,454	\$ 3,620,228	\$ 6,106,682
Receivables:			
Taxes	1,198,554	-	1,198,554
Accounts	170,671	563,215	733,886
Accrued Interest	11	-	11
Due from Other Governments	600,337	-	600,337
Loans Receivable	337,407	-	337,407
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	-	5,000	5,000
Non-Depreciable Capital Assets	624,288	214,668	838,956
Depreciable Capital Assets, Net	11,530,729	30,386,046	41,916,775
<i>Total Assets</i>	<u>\$ 16,948,451</u>	<u>\$ 34,789,157</u>	<u>\$ 51,737,608</u>
LIABILITIES:			
Accounts Payable	\$ 69,278	\$ 40,237	\$ 109,515
Contracts Payable	-	17,584	17,584
Accrued Wages and Benefits	116,001	41,543	157,544
Due to Other Governments	67,340	25,977	93,317
Retainage Payable	-	5,000	5,000
Accrued Interest Payable	10,782	39,181	49,963
Long-Term Liabilities			
Due Within One Year	253,724	323,729	577,453
Due in More than One Year	2,863,252	13,621,759	16,485,011
<i>Total Liabilities</i>	<u>3,380,377</u>	<u>14,115,010</u>	<u>17,495,387</u>
DEFERRED INFLOWS OF RESOURCES:			
Property Taxes not Levied to Finance Current Year Operations	287,397	-	287,397
NET POSITION:			
Net Investment in Capital Assets	9,290,661	16,702,603	25,993,264
Restricted for:			
Debt Service	6,015	-	6,015
Capital Projects	624,437	-	624,437
Street	144,526	-	144,526
Revolving Loan	512,834	-	512,834
Rehab	444,381	-	444,381
Other Purposes	434,602	-	434,602
Unrestricted	1,823,221	3,971,544	5,794,765
<i>Total Net Position</i>	<u>\$ 13,280,677</u>	<u>\$ 20,674,147</u>	<u>\$ 33,954,824</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 1,058,489	\$ 122,298	\$ 26,477	\$ -	\$ (909,714)		\$ (909,714)
Judicial	378,027	50,493	89,497	-	(238,037)		(238,037)
Security of Persons and Property	2,643,380	307,106	235,589	-	(2,100,685)		(2,100,685)
Public Health	19,750	2,317	-	-	(17,433)		(17,433)
Leisure Time Activities	61,330	3,303	17,053	-	(40,974)		(40,974)
Community Environment	292,581	49,348	254,455	-	11,222		11,222
Transportation	718,374	61,918	319,718	-	(336,738)		(336,738)
Interest and Fiscal Charges	138,774	292	14	-	(138,468)		(138,468)
Total Governmental Activities	5,310,705	597,075	942,803	-	(3,770,827)		(3,770,827)
Business-Type Activities:							
Sewer	1,770,929	2,172,150	-	1,982,139	-	2,383,360	2,383,360
Water	1,524,314	1,574,808	-	-	-	50,494	50,494
Total Business-Type Activities	3,295,243	3,746,958	-	1,982,139	-	2,433,854	2,433,854
Total Primary Government	\$ 8,605,948	\$ 4,344,033	\$ 942,803	\$ 1,982,139	(3,770,827)	2,433,854	(1,336,973)
General Revenues:							
Taxes:							
Property Taxes Levied for:							
General Purposes					320,168	-	320,168
Special Purposes					61,030	-	61,030
Debt Service					35,916	-	35,916
Capital Projects					125,287	-	125,287
Income Taxes					3,337,991	-	3,337,991
Grants and Contributions Not Restricted							
to Specific Programs					248,550	-	248,550
Unrestricted Investment Earnings					13,845	950	14,795
Gain on Sale of Capital Assets					5,258	-	5,258
Miscellaneous					386,211	36,301	422,512
Total General Revenues					4,534,256	37,251	4,571,507
Change in Net Position					763,429	2,471,105	3,234,534
Net Position, Beginning of the Year					12,517,248	18,203,042	30,720,290
Net Position, End of the Year					\$ 13,280,677	\$ 20,674,147	\$ 33,954,824

See accompanying notes to the basic financial statements.

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2013

	General	All Other Governmental Funds	Total Governmental Funds
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,132,287	\$ 1,354,167	\$ 2,486,454
Accounts Receivable	162,290	8,381	170,671
Accrued Interest Receivable	11	-	11
Taxes Receivable	1,109,622	88,932	1,198,554
Due from Other Governments	67,060	533,277	600,337
Loans Receivable	-	337,407	337,407
<i>Total Assets</i>	<u>\$ 2,471,270</u>	<u>\$ 2,322,164</u>	<u>\$ 4,793,434</u>
LIABILITIES:			
Accounts Payable	\$ 42,327	\$ 26,951	\$ 69,278
Accrued Wages and Benefits	102,610	13,391	116,001
Due to Other Governments	48,658	18,682	67,340
<i>Total Liabilities</i>	<u>193,595</u>	<u>59,024</u>	<u>252,619</u>
DEFERRED INFLOWS OF RESOURCES:			
Property Taxes not Levied to Finance Current Year Operations	201,516	85,881	287,397
Unavailable Revenue - Delinquent Taxes	7,158	3,051	10,209
Unavailable Revenue - Income Taxes	552,316	-	552,316
Unavailable Revenue - Grants	48,333	490,717	539,050
<i>Total Deferred Inflows of Resources</i>	<u>809,323</u>	<u>579,649</u>	<u>1,388,972</u>
FUND BALANCES:			
Nonspendable	24,826	-	24,826
Restricted	-	1,683,491	1,683,491
Assigned	201,745	-	201,745
Unassigned	1,241,781	-	1,241,781
<i>Total Fund Balances</i>	<u>1,468,352</u>	<u>1,683,491</u>	<u>3,151,843</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 2,471,270</u>	<u>\$ 2,322,164</u>	<u>\$ 4,793,434</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2013

Total Governmental Fund Balances		\$ 3,151,843
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,155,017
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	562,525	
Intergovernmental	<u>539,050</u>	
Total		1,101,575
Long-term liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(10,782)	
Capital Lease Payable	(49,356)	
Compensated Absences	(252,620)	
General Obligation Bonds	<u>(2,815,000)</u>	
Total		<u>(3,127,758)</u>
Net Position of Governmental Activities		<u><u>\$ 13,280,677</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General	All Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes	\$ 3,660,505	\$ 225,503	\$ 3,886,008
Charges for Services	190,754	-	190,754
Licenses and Permits	16,246	49,825	66,071
Fines and Forfeitures	199,488	111,119	310,607
Intergovernmental	237,762	537,110	774,872
Interest	13,393	452	13,845
Rent	8,000	21,643	29,643
Other	14,734	371,477	386,211
<i>Total Revenues</i>	<u>4,340,882</u>	<u>1,317,129</u>	<u>5,658,011</u>
EXPENDITURES:			
Current:			
General Government:			
Legislative and Executive	972,222	47,825	1,020,047
Judicial	278,498	102,704	381,202
Security of Persons and Property	2,219,967	270,354	2,490,321
Public Health	19,241	-	19,241
Leisure Time Activities	-	19,570	19,570
Community Environment	576	292,005	292,581
Transportation	-	366,070	366,070
Capital Outlay	52,339	27,274	79,613
Debt Service:			
Principal Retirements	18,669	154,100	172,769
Interest and Fiscal Charges	2,393	136,879	139,272
<i>Total Expenditures</i>	<u>3,563,905</u>	<u>1,416,781</u>	<u>4,980,686</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>776,977</u>	<u>(99,652)</u>	<u>677,325</u>
OTHER FINANCING SOURCES AND USES:			
Transfers In	-	439,956	439,956
Proceeds from Sale of Capital Assets	5,365	-	5,365
Inception of Capital Lease	42,900	-	42,900
Transfers Out	(439,956)	-	(439,956)
<i>Total Other Financing Sources and Uses</i>	<u>(391,691)</u>	<u>439,956</u>	<u>48,265</u>
<i>Net Change in Fund Balances</i>	385,286	340,304	725,590
<i>Fund Balances at Beginning of Year</i>	<u>1,083,066</u>	<u>1,343,187</u>	<u>2,426,253</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,468,352</u>	<u>\$ 1,683,491</u>	<u>\$ 3,151,843</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended December 31, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 725,590

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the difference between depreciation and capital asset additions in the current period.

Capital Asset Additions	79,613	
Current Year Depreciation	(633,683)	
Total		(554,070)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the activity related to disposals.

Proceeds from Sale of Capital Assets	(5,365)	
Gain on Sale of Capital Assets	5,258	
Total		(107)

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

Taxes	(5,616)	
Intergovernmental	416,481	
Total		410,865

Proceeds from the inception of capital lease in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (42,900)

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net position and does not result in an expense in the statement of activities. 145,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net position and does not result in an expense in the statement of activities. 27,769

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Decrease in Compensated Absences	50,784	
Decrease in Accrued Interest Payable	498	
Total		51,282

Net Change in Net Position of Governmental Activities \$ 763,429

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,419,757	\$ 3,626,788	\$ 3,653,889	\$ 27,101
Charges for Services	210,261	222,990	224,656	1,666
Licenses and Permits	15,205	16,126	16,246	120
Fines and Forfeitures	199,647	211,734	213,316	1,582
Intergovernmental	222,394	235,858	237,620	1,762
Interest	16,058	17,030	17,157	127
Rent	7,487	7,941	8,000	59
Other	15,025	15,933	16,054	121
<i>Total Revenues</i>	<u>4,105,834</u>	<u>4,354,400</u>	<u>4,386,938</u>	<u>32,538</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,025,704	1,111,882	1,059,772	52,110
Judicial	287,172	311,299	296,710	14,589
Security of Persons and Property	2,287,125	2,479,286	2,363,091	116,195
Public Health	19,729	21,387	20,384	1,003
Community Environment	591	640	610	30
Capital Outlay	9,677	10,492	10,000	492
<i>Total Expenditures</i>	<u>3,629,998</u>	<u>3,934,986</u>	<u>3,750,567</u>	<u>184,419</u>
<i>Excess of Revenues Over Expenditures</i>	<u>475,836</u>	<u>419,414</u>	<u>636,371</u>	<u>216,957</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Capital Assets	5,027	5,325	5,365	40
Transfers Out	(425,813)	(461,589)	(439,956)	21,633
<i>Total Other Financing Sources and Uses</i>	<u>(420,786)</u>	<u>(456,264)</u>	<u>(434,591)</u>	<u>21,673</u>
<i>Net Change in Fund Balance</i>	55,050	(36,850)	201,780	238,630
<i>Fund Balance at Beginning of Year</i>	509,018	509,018	509,018	-
<i>Prior Year Encumbrances Appropriated</i>	186,291	186,291	186,291	-
<i>Fund Balance at End of Year</i>	<u>\$ 750,359</u>	<u>\$ 658,459</u>	<u>\$ 897,089</u>	<u>\$ 238,630</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Net Position
Proprietary Funds
December 31, 2013

	Water	Sewer	Total
ASSETS:			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 745,387	\$ 2,874,841	\$ 3,620,228
Accounts Receivable	235,997	327,218	563,215
Total Current Assets	981,384	3,202,059	4,183,443
<i>Noncurrent Assets</i>			
Restricted Cash and Cash Equivalents	-	5,000	5,000
Non-Depreciable Capital Assets	98,542	116,126	214,668
Depreciable Capital Assets, Net	7,112,071	23,273,975	30,386,046
Total Noncurrent Assets	7,210,613	23,395,101	30,605,714
Total Assets	\$ 8,191,997	\$ 26,597,160	\$ 34,789,157
LIABILITIES:			
<i>Current Liabilities</i>			
Accounts Payable	\$ 10,327	\$ 29,910	\$ 40,237
Retainage Payable	-	5,000	5,000
Contracts Payable	-	17,584	17,584
Accrued Wages and Benefits	20,820	20,723	41,543
Due to Other Governments	13,129	12,848	25,977
Accrued Interest Payable	39,181	-	39,181
Compensated Absences - Current Portion	3,469	3,469	6,938
Capital Leases Payable - Current Portion	38,580	38,580	77,160
OWDA Loans - Current Portion	-	88,631	88,631
Revenue Bonds Payable - Current Portion	141,000	-	141,000
OPWC Loans - Current Portion	-	10,000	10,000
Total Current Liabilities	266,506	226,745	493,251
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
OWDA Loans Payable - Net of Current Portion	-	8,161,482	8,161,482
Compensated Absences Payable - Net of Current Portion	17,113	45,910	63,023
Revenue Bonds Payable - Net of Current Portion	5,156,000	-	5,156,000
Capital Leases Payable - Net of Current Portion	63,127	63,127	126,254
OPWC Loans - Net of Current Portion	-	115,000	115,000
Total Noncurrent Liabilities	5,236,240	8,385,519	13,621,759
Total Liabilities	5,502,746	8,612,264	14,115,010
NET POSITION:			
Net Investment in Capital Assets	1,811,906	14,890,697	16,702,603
Unrestricted	877,345	3,094,199	3,971,544
Total Net Position	\$ 2,689,251	\$ 17,984,896	\$ 20,674,147

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenses and
Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2013

	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 1,555,344	\$ 2,170,789	\$ 3,726,133
Tap-In Fees	9,300	-	9,300
Other	10,164	1,361	11,525
<i>Total Operating Revenues</i>	1,574,808	2,172,150	3,746,958
OPERATING EXPENSES			
Salaries and Wages	480,344	491,501	971,845
Fringe Benefits	195,262	182,535	377,797
Contractual Services	148,180	173,016	321,196
Materials & Supplies	100,568	54,901	155,469
Utilities	88,194	184,423	272,617
Other	59,188	604	59,792
Depreciation Expense	210,820	623,494	834,314
<i>Total Operating Expenses</i>	1,282,556	1,710,474	2,993,030
<i>Operating Income</i>	292,252	461,676	753,928
NONOPERATING REVENUES (EXPENSES)			
Loss on Disposal of Capital Assets	(913)	(913)	(1,826)
Interest	-	950	950
Other Non-Operating Revenues	36,301	-	36,301
Interest and Fiscal Charges	(240,845)	(59,542)	(300,387)
<i>Total Nonoperating Revenues (Expenses)</i>	(205,457)	(59,505)	(264,962)
<i>Changes in Net Position Before Capital Contributions</i>	86,795	402,171	488,966
Capital Contribution - Intergovernmental	-	1,982,139	1,982,139
<i>Changes in Net Postion</i>	86,795	2,384,310	2,471,105
<i>Net Position at Beginning of Year</i>	2,602,456	15,600,586	18,203,042
<i>Net Position at End of Year</i>	<u>\$ 2,689,251</u>	<u>\$ 17,984,896</u>	<u>\$ 20,674,147</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>			
<i>Cash Flows from Operating Activities:</i>			
Cash Received from Customers	\$ 1,568,478	\$ 2,164,649	\$ 3,733,127
Cash Payments to Suppliers for Goods and Services	(418,250)	(614,529)	(1,032,779)
Cash Payments to Employees for Services and Benefits	(663,796)	(661,889)	(1,325,685)
<i>Net Cash Provided by Operating Activities</i>	<u>486,432</u>	<u>888,231</u>	<u>1,374,663</u>
<i>Cash Flows from Noncapital Financing Activities:</i>			
Other Nonoperating Revenues	<u>36,301</u>	<u>-</u>	<u>36,301</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>36,301</u>	<u>-</u>	<u>36,301</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Receipts from Capital Grants	-	1,982,139	1,982,139
Proceeds from OWDA Loan	-	145,255	145,255
Payments for Capital Acquisitions	(75,943)	(208,828)	(284,771)
Principal Payments	(135,000)	(2,347,970)	(2,482,970)
Interest Payments	(240,988)	(58,576)	(299,564)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(451,931)</u>	<u>(487,980)</u>	<u>(939,911)</u>
<i>Cash Flows from Investing Activities:</i>			
Interest on Investments	<u>-</u>	<u>950</u>	<u>950</u>
<i>Net Cash Provided by Investing Activities</i>	<u>-</u>	<u>950</u>	<u>950</u>
Net Increase in Cash and Cash Equivalents	70,802	401,201	472,003
Cash and Cash Equivalents at Beginning of Year	<u>674,585</u>	<u>2,478,640</u>	<u>3,153,225</u>
Cash and Cash Equivalents at End of Year	<u>\$ 745,387</u>	<u>\$ 2,879,841</u>	<u>\$ 3,625,228</u>

(Continued)

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>			
Operating Income	\$ 292,252	\$ 461,676	\$ 753,928
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>			
Depreciation	210,820	623,494	834,314
Changes in Assets and Liabilities:			
(Increase) in Accounts Receivable	(6,330)	(7,501)	(13,831)
Decrease in Accounts Payable - Operating	(22,120)	(7,324)	(29,444)
Decrease in Contracts Payable - Operating	-	(122,271)	(122,271)
Increase in Accrued Wages and Benefits	9,235	9,250	18,485
Increase in Compensated Absences Payable	4,559	5,181	9,740
Decrease in Retainage Payable	-	(71,990)	(71,990)
Decrease in Due to Other Governments	(1,984)	(2,284)	(4,268)
Total Adjustments	<u>194,180</u>	<u>426,555</u>	<u>620,735</u>
Net Cash Provided by Operating Activities	<u>\$ 486,432</u>	<u>\$ 888,231</u>	<u>\$ 1,374,663</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2013

	<u>Agency</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 73,987
Receivables:	
Accounts	<u>157,312</u>
<i>Total Assets</i>	<u><u>\$ 231,299</u></u>
LIABILITIES :	
Due to Other Governments	\$ 92,814
Undistributed Monies	64,377
Deposits Held and Due to Others	<u>74,108</u>
<i>Total Liabilities</i>	<u><u>\$ 231,299</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

1. FINANCIAL REPORTING ENTITY

The financial statements of the City of Hillsboro have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

CITY GOVERNMENT AND REPORTING ENTITY

The City of Hillsboro (the "City"), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City, named in honor of Lord Hillsborough, was founded in 1807 by David Hayes and was named the county seat of Highland County. On January 1, 1952, Hillsboro was first organized as a city under the laws of the State of Ohio.

The City of Hillsboro is a home rule municipal corporation established under the laws of the State of Ohio. The legislative authority is vested in a seven member council three of whom are elected at-large and four by ward for four year terms. The presiding officer is the president, who is elected by the Council for a two year term. Council enacts ordinances and resolutions relating to tax levies, city services, and licensing, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes. The mayor is elected at-large and is the Chief Executive Officer of the City. The Mayor supervises the administration of all departments and appoints their directors and all other employees in accordance with civil service requirements.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are fairly presented and completed. The primary government consists of all funds, departments, boards and commissions that are not legally separate from the City. The City departments include a public safety department, a public service department, a parks and recreation department, a planning and zoning department, income tax department, utility departments including sewer and water, and staff to provide support to service providers.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The City's basic financial statements consist of government-wide statements, including a statement of net position and statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type.

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues not classified as program revenues are presented as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies that extent to which each governmental function or business segment is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

FUND ACCOUNTING

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

General Fund - This fund is established to account for resources devoted to financing the general services that the City performs for its residents that are not accounted for or reported in another fund. Municipal income tax, general tax revenues, as well as other sources of revenue used to finance the fundamental operations of the City are included in this fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the City account for grants and other resources, debt service and capital projects that are generally restricted to use for a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - This fund accounts for the provision of water treatment and distribution to residential and commercial users within the City.

Sewer Fund - This fund accounts for the provision of wastewater treatment services to residential and commercial users within the City.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the City as a trustee or as an agent for individuals, private organizations, or other units of government. The fiduciary fund category is split into four classifications: agency funds, pension trust funds, investment trust funds, and private purpose trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's fiduciary fund consists only of an agency fund which is used to account for the activities of the Hillsboro Municipal Court.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, all liabilities and all deferred inflows of resources associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and liabilities and deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities on the government-wide financial statements are prepared. Government fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of government funds.

Like the government-wide financial statements, all enterprise funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

BASIS OF ACCOUNTING

Accounting basis determines when transactions and economic events are reflected in its financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting; proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of unavailable revenue and in the presentation of expenses versus expenditures.

Revenues-Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements and donations 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 yearend: interest and grants.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Deferred Inflows of Resources Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expenses) until then. The City did not have any deferred outflows as of December 31, 2013. The City reports a deferred inflow of resources which represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the City these amounts consist of income taxes and delinquent property taxes which are not collected in the available period, and intergovernmental receivables which are not collected in the available period. Property taxes for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance fiscal year 2014 operations, have also been recorded as deferred inflows of resources.

The difference between deferred inflows on the statement of net position and the balance sheet is due to delinquent property taxes, income taxes, and intergovernmental grants, not received during the available period. These were reported as revenues on the statement of activities and not recorded as deferred inflows on the statement of net position.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

BUDGETS AND BUDGETARY ACCOUNTING

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources in effect when the final appropriations were passed by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND INVESTMENTS

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

During 2013, investments were limited to certificates of deposit and U.S. Treasury money market funds.

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

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

CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the enterprise funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of five hundred dollars. The City's infrastructure consists of streets, bridges, storm and sanitary sewer lines and water lines. Improvements are capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTERFUND ASSETS AND LIABILITIES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and business-type activities. These amounts are reflected as "Internal Balances"; however, there were no internal balances at December 31, 2013.

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 basic financial statements.

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

On the fund financial statements for governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid as a result of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability. The City had no matured compensated absences payable at December 31, 2013.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND BALANCE

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in the spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the City Council. Those committed amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the City Council.

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

NET POSITION

Net position represents the difference between assets, liabilities and deferred outflows/inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowings and the effect of deferred outflows and inflows related to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for other purposes represents balances of state and federal grants and other restricted purposes in Special Revenue funds. The City’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Of the City’s \$2,166,795 of restricted net position, none was restricted by enabling legislation.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OPERATING REVENUES AND EXPENSES

Operating revenue are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for sewer and water utility services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are classified as nonoperating.

INTERFUND TRANSACTIONS

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Transfers within governmental activities and within business-type activities are eliminated on the statement of activities.

ESTIMATES

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

3. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be 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 monies. Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

3. DEPOSITS AND INVESTMENTS (Continued)

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 other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code.

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 City Auditor by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Auditor 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
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

3. DEPOSITS AND INVESTMENTS (Continued)

Deposits:

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

The City’s bank balance of \$5,188,899 is either covered by FDIC or collateralized by the financial institutions’ public entity deposit pools in the manner as described above.

Investments:

Investment type	Fair Value	Maturities 6 months or less
U.S. Government Money	\$ 1,049,503	\$ 1,049,503
Market Mutual Funds	\$ 1,049,503	\$ 1,049,503
	\$ 1,049,503	\$ 1,049,503

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

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

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. The City does have an investment policy. All of the City’s investments are in money market funds as of December 31, 2013.

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

4. BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balance - budget (non-GAAP budgetary basis) and actual, for the General Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are as follows:

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 restriction, commitment, or assignment of fund balance for governmental fund types (GAAP basis).
4. Funds reported as part of the General Fund on the GAAP basis are not included on the budgetary basis.

The following table summarizes the adjustments necessary to reconcile the GAAP basis and budgetary basis for the General Fund.

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$ 385,286
Revenue Accruals	4,326
Expenditure Accruals	21,199
Prospective Difference:	
Activity of Funds Reclassified for	
GAAP Reporting Purposes	1,330
Encumbrances	<u>(210,361)</u>
Budgetary Basis	<u><u>\$ 201,780</u></u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

5. PROPERTY TAX

Property taxes include amounts levied against all real and public utility property located in the County. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value.

All property is required to be revalued every six years. The last reappraisal was completed in 2009. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

Public utility real and 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 the City its share of the taxes collected. The City records receipt of these taxes in various funds.

Accrued property taxes receivable represent delinquent taxes outstanding and real and public utility taxes which were measurable and unpaid as of December 31, 2013. 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 2013 operations. The receivable is therefore offset by deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2013, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2013 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$107,100,910
Public Utility Personal Property	<u>5,160,440</u>
Total Property Taxes	<u>\$112,261,350</u>

6. LOCAL INCOME TAX

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

7. INTERFUND TRANSACTIONS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

7. INTERFUND TRANSACTIONS (Continued)

Transfers made during the year ended December 31, 2013, were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 439,956
Non-Major Special Revenue Funds		
Street	80,000	
Police Pension	123,456	-
Fire Pension	105,000	-
Recreation	-	-
Total Non-Major Special Revenue Funds	308,456	-
Non-Major General Bond Retirement Fund	131,500	-
Total All Funds	\$ 439,956	\$ 439,956

8. RECEIVABLES

Receivables at December 31, 2013 consisted of taxes, accounts (billings for user charged services including unbilled utility services), accrued interest, loans, 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.

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

<u>General</u>	
Local Government	\$56,181
Homestead & Rollback	10,879
<u>Non-Major Special Revenue</u>	
Street Fund	
Gasoline Tax	93,684
State Highway Fund	
Gasoline Tax	7,596
Municipal Motor Vehicle Fund	
Permissive Tax	6,597
Victim's Rights Office	
VOCA Grant	20,246
Rehab	
CHIP Grant	400,000
Police Pension Fund	
Homestead & Rollback	1,718
Fire Pension Fund	
Homestead & Rollback	1,718
<u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	1,718
Total Governmental Activities	<u>\$600,337</u>

9. DEFINED BENEFIT RETIREMENT PLANS

Ohio Public Employees Retirement System:

- A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:
- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
 - 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
 - 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension 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.
- B. OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to qualifying members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.
- C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.
- D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/carf.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.
- E. The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. While members in state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

The 2013, 2012, and 2011 member contribution rates were 10.0%, 10.0%, and 10.0%, respectively, for members in state and local classifications and 12.0% and 12.6%, 11.5% and 12.10%, and 11.0% and 11.6%, respectively for members in public safety and law enforcement.

The 2013, 2012, and 2011 employer contribution rates for members in state and local classifications were 14.0%, 14.0%, and 14.0%, respectively, of covered payroll. For both public safety and law enforcement divisions, the employer contribution rates were 18.10%, 18.10%, and 18.10%, respectively.

The City's contributions to the PERS of Ohio for the years ending December 31, 2013, 2012, and 2011 were \$267,027, \$280,522, and \$282,981 respectively. 91% has been contributed for 2013, and 100% for 2012 and 2011.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

Ohio Police and Fire Pension Fund:

The City 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. That report is also available on OP&F's website at www.op-f.org.

For January 1, 2013 to July 1, 2013, plan members were required to contribute 10.00% of their annual covered salary. From July 2, 2013 through December 31, 2013 plan members were required to contribute 10.75% of their annual covered salary. Employers were 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, 2013, 2012, and 2011 were \$130,592, \$148,045, and \$154,639 for policemen and \$108,653, \$178,082, and \$192,828 for firefighters, respectively. 96% has been contributed for 2013. 100% has been contributed for 2012 and 2011. \$10,285 represents the unpaid contribution for fiscal year 2013 and is recorded as a liability within the respective funds.

10. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System:

- A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit 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 a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interest parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care coverage.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

10. POSTEMPLOYMENT BENEFITS (Continued)

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2013, state and local employers contributed at a rate of 14.0% of covered payroll and public safety and law enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2013, the employer contribution allocated to the health care for members of the Traditional and Combined plans were 1.0%. For 2012 and 2011, the employer contributions allocated to the health care for members in the Traditional was 4.0%. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar years 2012 and 2011. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2.0% for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

- C. The employer contributions that were used to fund post-employment benefits were \$106,811 for 2013, \$80,145 for 2012, and \$80,848 for 2011. 91% has been contributed for 2013, and 100% for 2012 and 2011.
- D. Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Fire Pension Fund:

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined postemployment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

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 statutory survivor benefit or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is 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. That report is also available on OP&F's website at www.op-f.org.

10. POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00%, of covered payroll for police and fire employers, for 2013, 2012, and 2011, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. The portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 through May 31, 2013 and 2.85% of covered payroll from June 1, 2013 through December 31, 2013. For the years ended December 31, 2012 and 2011, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll or 34.62% of the total employer contributions. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

11. RISK MANAGEMENT

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

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

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

11. RISK MANAGEMENT (Continued)

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2013, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011 (the latest information available):

Casualty and Property Coverage	2012	2011
Assets	\$34,389,569	\$33,362,404
Liabilities	(14,208,353)	(14,187,273)
Net Position	\$20,181,216	\$19,175,131

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Government's share of these unpaid claims collectible in future years is approximately \$68,000.

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

Contributions to PEP		
2013	2012	2011
\$81,509	\$76,433	\$79,053

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

The City also maintains a blanket crime bond in the amount of \$2,500. In addition the City carries employee dishonesty coverage for items over the amount of \$2,500 with a \$100 deductible. The City pays all elected officials' bonds by statute. The City insures an employee health benefits program through Anthem Blue Cross/Blue Shield.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

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 participate in the ING Deferred Compensation Program, Ohio Deferred Compensation, or Security Benefits which were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis.

These plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries.

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

The Police Department earns sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with not less than 10 years of service at retirement shall be paid the value of his/her sick leave credit for up to one-third of the leave up to a maximum of 400 hours upon termination. The Fire Department earns sick leave at a rate of 6.44 hours for each completed pay period. Those employees with not less than 10 years of service at retirement shall be paid the value of his/her sick leave credit for up to one-third of their leave balance. All other City employees earn sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with at least ten years of service at the time of separation shall be paid the value of his/her sick credit for up to one-fourth of the leave up to 300 hours. Such payment shall be based on the employee's rate of pay at the time of separation, or the full balance may be transferred to another governmental agency.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013:

	Beginning Balance 12/31/2012	Additions	Deletions	Ending Balance 12/31/2013
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 561,650	\$ -	\$ (107)	\$ 561,543
Construction in Progress	52,729	10,016	-	62,745
Total Capital Assets, Not Being Depreciated	<u>614,379</u>	<u>10,016</u>	<u>(107)</u>	<u>624,288</u>
Capital Assets Being Depreciated				
Land Improvements	1,986,261	-	-	1,986,261
Buildings and Improvements	4,177,087	-	-	4,177,087
Furniture and Equipment	1,797,574	25,212	-	1,822,786
Vehicles	2,074,439	44,385	(5,500)	2,113,324
Infrastructure	11,396,255	-	-	11,396,255
Total Capital Assets Being Depreciated	<u>21,431,616</u>	<u>69,597</u>	<u>(5,500)</u>	<u>21,495,713</u>
Less Accumulated Depreciation				
Land Improvements	(1,175,214)	(37,772)	-	(1,212,986)
Buildings and Improvements	(672,486)	(87,375)	-	(759,861)
Furniture and Equipment	(1,172,733)	(112,525)	-	(1,285,258)
Vehicles	(1,480,038)	(121,868)	5,500	(1,596,406)
Infrastructure	(4,836,330)	(274,143)	-	(5,110,473)
Total Accumulated Depreciation	<u>(9,336,801)</u>	<u>(633,683)</u>	<u>5,500</u>	<u>(9,964,984)</u>
Total Capital Assets Being Depreciated, Net	<u>12,094,815</u>	<u>(564,086)</u>	<u>-</u>	<u>11,530,729</u>
Governmental Activities Capital Assets, Net	<u>\$12,709,194</u>	<u>\$ (554,070)</u>	<u>\$ (107)</u>	<u>\$ 12,155,017</u>

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$37,863
Security of Persons & Property	202,075
Health	509
Leisure Time Activities	41,760
Transportation	<u>351,476</u>
Total Depreciation Expense	<u>\$633,683</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2013:

	Ending Balance 12/31/2012	Additions	Deletions	Ending Balance 12/31/2013
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,460	\$ -	\$ -	\$ 10,460
Construction in Progress	-	204,208	-	204,208
Total Capital Assets, Not Being Depreciated	<u>10,460</u>	<u>204,208</u>	<u>-</u>	<u>214,668</u>
Capital Assets Being Depreciated				
Land Improvements	275,760	71,417	-	347,177
Buildings and Improvements	33,161,800	40,517	-	33,202,317
Mechanical Equipment	1,086,540	88,970	-	1,175,510
Vehicles	606,839	31,920	-	638,759
Infrastructure	4,029,472	-	(6,850)	4,022,622
Total Capital Assets Being Depreciated	<u>39,160,411</u>	<u>232,824</u>	<u>(6,850)</u>	<u>39,386,385</u>
Less Accumulated Depreciation				
Land Improvements	(203,646)	(12,454)	-	(216,100)
Buildings and Improvements	(5,789,692)	(482,357)	-	(6,272,049)
Mechanical Equipment	(730,489)	(75,263)	-	(805,752)
Vehicles	(299,151)	(29,061)	-	(328,212)
Infrastructure	(1,148,071)	(235,179)	5,024	(1,378,226)
Total Accumulated Depreciation	<u>(8,171,049)</u>	<u>(834,314)</u>	<u>5,024</u>	<u>(9,000,339)</u>
Total Capital Assets Being Depreciated, Net	<u>30,989,362</u>	<u>(601,490)</u>	<u>(1,826)</u>	<u>30,386,046</u>
Business Type Activities Capital Assets, Net	<u>\$ 30,999,822</u>	<u>\$ (397,282)</u>	<u>\$ (1,826)</u>	<u>\$ 30,600,714</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

14. LONG-TERM OBLIGATIONS

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

	Outstanding 12/31/2012	Issued	Retired	Outstanding 12/31/2013	Due In One Year
Governmental Activities					
Compensated Absences	\$ 303,404	\$ 324,919	\$ 375,703	\$ 252,620	\$ 70,093
2007 - 6.0% Street Improvement Bonds	510,000	-	40,000	470,000	45,000
2009 - Various Purpose General Obligation Bonds	2,450,000	-	105,000	2,345,000	115,000
Capital Lease	34,225	42,900	27,769	49,356	23,631
Total Governmental Activities	<u>\$ 3,297,629</u>	<u>\$ 367,819</u>	<u>\$ 548,472</u>	<u>\$ 3,116,976</u>	<u>\$ 253,724</u>
Business-Type Activities					
Compensated Absences	\$ 60,221	\$ 82,606	\$ 72,866	\$ 69,961	\$ 6,938
Water					
2004 - 2% Mortgage Revenue Bond	2,705,000	-	95,000	2,610,000	100,000
2005 - Water System Improvement Revenue Bonds - 4.25%	516,000	-	8,000	508,000	7,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,211,000	-	32,000	2,179,000	34,000
Capital Lease	24,610	93,312	16,215	101,707	38,580
Total Water Fund	<u>5,456,610</u>	<u>93,312</u>	<u>151,215</u>	<u>5,398,707</u>	<u>179,580</u>
Sewer					
2004 - OWDA Loan - 1%	256,786	-	20,244	236,542	20,447
2005 - OWDA Loan - 1%	932,225	-	67,497	864,728	68,184
2007 - OWDA Loan - 1%	29,819	-	29,819	-	-
2010 - OWDA Loan - 1%	9,218,998	145,255	2,215,410	7,148,843	-
2007 - OPWC Loan - 0%	140,000	-	15,000	125,000	10,000
Capital Lease	24,610	93,312	16,215	101,707	38,580
Total Sewer Fund	<u>10,602,438</u>	<u>238,567</u>	<u>2,364,185</u>	<u>8,476,820</u>	<u>137,211</u>
Total Business-Type Activities	<u>\$ 16,119,269</u>	<u>\$ 414,485</u>	<u>\$ 2,588,266</u>	<u>\$ 13,945,488</u>	<u>\$ 323,729</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 in the amount of \$3,385,000 were issued in 2004 to refund water mortgage revenue bonds of \$3,281,500 issued in 1991. Property and revenue of the utility facilities have been pledged to repay these debts.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

14. LONG-TERM OBLIGATIONS (Continued)

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

The Street Improvement Bonds in the amounts of \$700,000 and \$400,000 were issued in 2007 and 1997, respectively, for the improvement of city streets. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Property tax monies will be received in and the debt is being repaid from a General Obligation Bond Retirement Fund.

The 2004 OWDA loan was issued at an interest rate of 1% during 2004 and 2005 to pay for the costs of sanitary sewer lining. The 2005 OWDA loan is to pay for the costs of a lift station, equalization basin, and relief sewers. The 2007 OWDA loan was issued at an interest rate of 1% in 2007 for a portion of the costs of the wastewater treatment plant bypass elimination. The 2007 OPWC loan was issued at a zero percent interest rate for a portion of the costs of the wastewater treatment plant bypass elimination. The 2010 OWDA loan was issued at an interest rate of 1% to pay for the costs of the Wastewater Treatment Plant upgrade. The Sewer Fund is being used to repay these loans.

The 2007 and 2010 OWDA loans were still open as of December 31, 2013 and no amortization schedules had been established for these loans.

In connection with the mortgage revenue bonds and OWDA loans, the City has pledged future customer revenues of the Water and Sewer Funds, respectively, net of specified operating expenses, to repay these bonds and loans. The bonds and loans are payable, through final maturities, from net revenues applicable to the Water and Sewer Funds, respectively. Total principal and interest remaining to be paid on the bonds is \$8,875,941. The net revenue available for these bonds was \$503,072 and principal and interest paid was \$374,691. The coverage ratio for these bonds was 1.34 for the year ended December 31, 2013. The remaining principal to be paid on the OWDA loans was \$8,250,113. Two of these loans have not been fully drawn and as such amortization schedules have not yet been provided to the City. The net revenue available for these loans was \$1,085,170 and principal and interest paid was \$2,391,358. The coverage ratio for the loans was .45 for the year ended December 31, 2013.

The 2009 Various Purpose General Obligation Bonds were issued in the amount of \$2,730,000 for the purpose of constructing a new fire station. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City. Property tax monies will be received in and the debt is being repaid from a General Obligation Bond Retirement Fund.

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

14. LONG-TERM DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire General Obligation Bonds (Governmental Activities) and principal requirements to retire OPWC (Business-Type Activities) debt at December 31, 2013 were as follows:

	General Obligation Bonds		OPWC
	Principal	Interest	Principal
2014	\$160,000	\$130,822	\$10,000
2015	165,000	124,038	10,000
2016	125,000	116,928	10,000
2017	225,000	111,552	10,000
2018	125,000	101,452	10,000
2019-2023	830,000	389,826	50,000
2024-2028	635,000	227,986	25,000
2029-2032	550,000	27,500	0
Total	\$2,815,000	\$1,230,104	\$125,000

Principal and interest requirements to retire Mortgage Revenue Bonds and the OWDA Loan at December 31, 2013 were as follows:

	Mortgage Revenue Bonds		OWDA Loan	
	Principal	Interest	Principal	Interest
2014	\$141,000	\$235,204	\$88,631	\$10,793
2015	142,000	229,336	89,520	9,905
2016	150,000	223,702	90,417	9,007
2017	157,000	217,024	91,324	8,101
2018	163,000	210,201	92,239	7,185
2019-2023	930,000	935,538	475,254	21,868
2024-2028	1,163,000	695,269	173,885	2,067
2029-2033	1,015,000	405,737	0	0
2034-2038	513,000	263,432	0	0
2039-2043	632,000	144,764	0	0
2044-2045	291,000	18,734	0	0
Total	\$5,297,000	\$3,578,941	\$1,101,270	\$68,926

The amortization schedule for the OWDA loans does not match the outstanding debt amounts listed due to the 2007 and 2010 OWDA loans which have not been finalized.

The City's overall legal debt margin was \$8,972,442 at December 31, 2013.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

15. CONTINGENCIES

Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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, 2013.

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.

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

During a previous year, the City entered into a capital lease for computer equipment, a vac truck, and police cruisers. During fiscal year 2013, the City entered into a capital lease for the purchase of a bucket truck and radio read meters. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the General Fund and as reductions of capital lease obligations in the Water and Sewer Funds. These expenditures are reflected as program/object expenditures on a budgetary basis in the General Fund.

The capital assets acquired by the leases have been capitalized in the statement of net position for governmental activities and business-type activities in the amount of \$491,717 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net position for governmental activities and business-type activities. Principal payments in fiscal year 2013 totaled \$27,769 in the governmental funds, \$16,215 in the Water Fund and \$16,215 in the Sewer Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2013.

Year Ending December 31,	Capitalized Lease Obligation
2014	\$ 108,431
2015	74,605
2016	74,605
2017	9,100
Total Minimum Lease Payments	266,741
Less: Amount Representing Interest	(13,971)
Present Value of Minimum Lease Payments	\$ 252,770

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

17. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF BALANCES

For 2013, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 66, “Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,” GASB Statement No. 69, “Government Combinations and Disposals of Government Operations,” and GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees.”

Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* include a variety of transactions referred to as mergers, and transfers of operations.

Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive non exchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The implementation of GASB Statements No. 66, 69, and 70 had no effect on the financial statements.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

18. FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on the fund balance for the major governmental fund and all other governmental funds are presented below:

Fund Balances	General	All Other Governmental	Total Governmental Funds
Nonspendable			
Unclaimed Monies	\$24,826	\$0	\$24,826
Total Nonspendable	24,826	0	24,826
Restricted for			
Street Improvement	0	92,534	92,534
Municipal Court Special Project	0	51,189	51,189
Alcohol Treatment	0	41,216	41,216
Other Purpose	0	255,978	255,978
Rehab	0	44,381	44,381
Revolving Loan	0	570,476	570,476
Debt Services Payments	0	3,280	3,280
Capital Improvements	0	624,437	624,437
Total Restricted	0	1,683,491	1,683,491
Assigned to			
Other Purposes	201,745	0	201,745
Unassigned	1,241,781	0	1,241,781
Total Fund Balances	\$1,468,352	\$1,683,491	\$3,151,843

19. SUBSEQUENT EVENTS

Discontinuation of Fire Service

Beginning January 1, 2014 the City discontinued its internal fire department services and began outsourcing to the Paint Creek Fire District for fire services.

Refunding of Bonds/Issuance of New Bonds

On February 10, 2014, the City approved to issue \$615,000 of bonds for the purpose of constructing improvements to the water system and to issue \$2,620,000 of bonds for the purpose of refunding water system refunding bonds for a total of \$3,235,000.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

20. SIGNIFICANT COMMITMENTS

Contractual Commitments

During the fiscal year, the County entered into the following contracts for the purpose of various improvements:

Contractor	Contract Amount	Amount Paid as of 12/31/13	Remaining Balance
Sanitary Sewer Replacement project			
Stantec Consulting Inc.	\$ 66,413	\$ -	\$ 66,413

Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$210,361
Wastewater (Sewer) Improvement	<u>568,622</u>
Total	<u><u>\$778,983</u></u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Hillsboro
Highland County
130 North High Street
Hillsboro, Ohio 45133

To City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Highland County, (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 26, 2015.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 described in the accompanying schedule of to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

Entity's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 26, 2015

**CITY OF HILLSBORO
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013**

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

FINDING NUMBER 2013-001

Noncompliance/Material Weakness

Ohio Administrative Code section 117-2-02 requires all public officials to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for related assets, document compliance with finance related legal and contractual requirements and prepare financial statements.

The City failed to report \$264,318 of loans receivable on the financial statements. Also, the City did not maintain a loans receivable schedule.

The City recorded audit adjustments to the financial statements and accounting records to correct the error identified above.

Failure to accurately post and report transactions could result in material errors in the City's financial statements and reduces the City's ability to monitor financial activity and to make informed financial decisions. We recommend that the City maintain a loans receivable schedule and review annual financial statements to ensure the all loan transactions and balances are reflected on the financial statements.

Officials' Response:

I concur with the necessity for the City to maintain a loans receivable schedule of the various small businesses who have taken advantage of funds made available to them where they might not otherwise qualify for a loan through conventional financing methods. I wish to clarify, however, that the City maintains accurate posting of all payments made by the loan recipients. I wish to also note that the changes, though material, did not change the increase in net position of business-type activities.

The City encourages entrepreneurs and other businesses to explore the opportunities that these funds could make available to them.

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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
APRIL 9, 2015**