

City of Hillsboro
Highland County, Ohio
Regular Audit
For the Year Ended December 31, 2014



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Dave Yost • Auditor of State

City Council
City of Hillsboro
130 N. High Street
Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of the City of Hillsboro, Highland County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 25, 2015

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City of Hillsboro
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Independent Auditor's Report

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

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 the City of Hillsboro, Highland County (the City), as of and for the year ended December 31, 2014, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Highland County, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows, and the respective budgetary comparisons for the General Fund and Street Fund thereof for the year then ended in accordance with 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 that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.

August 26, 2015

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2014
(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, 2014. 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 2014 are as follows:

- In total, net position increased \$569,066. Net position of governmental activities decreased \$350,257. Net position of business-type activities increased \$919,323.
- Governmental activities general revenues accounted for \$4,159,860 in revenue or 85 percent of all governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$756,999 or 15 percent of total governmental activities revenues of \$4,916,859. Business-type activities general revenues accounted for \$69,365 in revenue or 2 percent of all business-type activities revenues. Program specific revenues accounted for \$4,172,141 or 98 percent of total business-type activities revenues of \$4,241,506.
- The City had \$5,139,031 in expenses related to governmental activities; \$756,999 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,322,183 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 2014?" 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, 2014
(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 (wastewater treatment 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.

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, the Street 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, 2014
(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 2014 compared to the prior year:

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current and Other Assets	\$ 4,407,666	\$ 4,793,434	\$ 4,482,377	\$ 4,188,443	\$ 8,890,043	\$ 8,981,877
Capital Assets, Net	11,876,286	12,155,017	31,522,449	30,600,714	43,398,735	42,755,731
Total Assets	16,283,952	16,948,451	36,004,826	34,789,157	52,288,778	51,737,608
Liabilities						
Current and Other Liabilities	191,595	263,401	176,187	169,522	367,782	432,923
Long-Term Liabilities	2,884,439	3,116,976	14,235,169	13,945,488	17,119,608	17,062,464
Total Liabilities	3,076,034	3,380,377	14,411,356	14,115,010	17,487,390	17,495,387
Deferred Inflows of Resources						
Property Taxes not Levied to Finance Current Year Operations	277,498	287,397	-	-	277,498	287,397
Net Position						
Net Investment in Capital Assets	9,195,561	9,290,661	17,797,794	16,702,603	26,993,355	25,993,264
Restricted	2,068,875	2,166,795	-	-	2,068,875	2,166,795
Unrestricted	1,665,984	1,823,221	3,795,676	3,971,544	5,461,660	5,794,765
Total Net Position	\$ 12,930,420	\$ 13,280,677	\$ 21,593,470	\$ 20,674,147	\$ 34,523,890	\$ 33,954,824

Total governmental activities assets decreased \$664,499 primarily due to a decrease in capital assets, net, cash, accounts receivable, and intergovernmental receivable which were partially offset by an increase in taxes receivable. Business-type activities assets increased \$1,215,669, primarily due to increases in capital assets as a result of sewer project additions.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 83% 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 \$304,343 as a result of debt payments. Total liabilities of business-type activities increased \$296,346 as a result of new debt issuances which were partially offset by debt payments.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2014
(Unaudited)

Table 2 shows the changes in net position for the year 2014 compared to the prior year.

Table 2
Changes in Net Position

	Governmental Activities		Business Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 493,556	\$ 597,075	\$ 3,877,797	\$ 3,746,958	\$ 4,371,353	\$ 4,344,033
Operating Grants and Contributions	263,443	942,803	-	-	263,443	942,803
Capital Grants and Contributions	-	-	294,344	1,982,139	294,344	1,982,139
Total Program Revenues	756,999	1,539,878	4,172,141	5,729,097	4,929,140	7,268,975
General Revenues:						
Property & Income Taxes	3,946,440	3,880,392	-	-	3,946,440	3,880,392
Unrestricted Investment Earnings	13,292	13,845	2,626	950	15,918	14,795
Grants and Contributions Not Restricted to Specific Programs	142,489	248,550	-	-	142,489	248,550
Gain on Sale of Capital Assets	-	5,258	-	-	-	5,258
Other	57,639	386,211	66,739	36,301	124,378	422,512
Total General Revenues	4,159,860	4,534,256	69,365	37,251	4,229,225	4,571,507
Total Revenues	4,916,859	6,074,134	4,241,506	5,766,348	9,158,365	11,840,482
Program Expenses						
General Government -						
Legislative and Executive	971,318	1,058,489	-	-	971,318	1,058,489
Judicial	358,260	378,027	-	-	358,260	378,027
Security of Persons and Property	2,602,832	2,643,380	-	-	2,602,832	2,643,380
Public Health	19,485	19,750	-	-	19,485	19,750
Leisure Time Activities	64,096	61,330	-	-	64,096	61,330
Community Environment	191,503	292,581	-	-	191,503	292,581
Transportation	799,160	718,374	-	-	799,160	718,374
Interest and Fiscal Charges	132,377	138,774	-	-	132,377	138,774
Water Fund	-	-	1,577,118	1,524,314	1,577,118	1,524,314
Sewer Fund	-	-	1,745,065	1,770,929	1,745,065	1,770,929
Total Expenses	5,139,031	5,310,705	3,322,183	3,295,243	8,461,214	8,605,948
Special Item	(128,085)	-	-	-	(128,085)	-
Increase (Decrease) in Net Position	(350,257)	763,429	919,323	2,471,105	569,066	3,234,534
Beginning Net Position	13,280,677	12,517,248	20,674,147	18,203,042	33,954,824	30,720,290
Ending Net Position	\$ 12,930,420	\$ 13,280,677	\$ 21,593,470	\$ 20,674,147	\$ 34,523,890	\$ 33,954,824

Governmental Activities

Governmental activities net position decreased \$350,257 or 2.6% during 2014, due to expenses exceeding revenues partially as a result of a special item. 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 decreased due to a decreased in monies received for the Rehab program. Property and Income Taxes increased primarily due to an increase in income tax revenues. Legislative and executive decreased due to efforts by the City's administration to reduce expenditures.

General revenues primarily consist of property and income tax revenue of \$3,946,440, which is 95% of total general revenues in 2014. General government expenses include legislative and executive and judicial programs, totaled \$1,329,578 which is 26% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 51% of total expenses.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2014
(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 \$1,644,219 and had operating expenses of \$1,273,766 and had interest expense of \$247,793. The wastewater treatment plant generated operating revenues of \$2,233,578 and had operating expenses of \$1,660,994, and interest expense of \$84,071. Operating revenues remained consistent between the two years for both the water and sewer funds. Operating expenses remained consistent between the two years for the Water and Sewer Funds. 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 \$5,785,696 and expenditures and other financing uses of \$5,882,896. The net change in fund balance for the year was most significant in the General Fund, as decrease of \$287,153. The majority of the decrease in fund balance is due to a decrease in revenues and a special item as a result of the closure of the EMS/Fire Station.

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 2014, 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 and final budgeted revenues and other financing sources were \$4,103,167. The City's actual revenues and other financing sources were \$53,611 more than the final budgeted revenues and other financing sources due primarily to additional license and permits and other revenue received. Original budgeted expenditures and other financing uses were \$4,574,362, while final budget amounts were \$4,716,362. The increase is due to an increase in transfers out.

The General Fund's actual expenditures were \$202,717 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, 2014
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the 2014 the City had \$43,398,735 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2014 and 2013 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 561,543	\$ 561,543	\$ 10,460	\$ 10,460	\$ 572,003	\$ 572,003
Land Improvements	735,503	773,275	118,622	131,077	854,125	904,352
Buildings and Improvements	3,271,274	3,417,226	27,930,042	26,930,268	31,201,316	30,347,494
Furniture and Equipment	475,346	537,528	618,972	369,758	1,094,318	907,286
Vehicles	402,898	516,918	281,486	310,547	684,384	827,465
Infrastructure/Water & Sewer Lines	6,309,042	6,285,782	2,562,867	2,644,396	8,871,909	8,930,178
Construction in Progress	120,680	62,745	-	204,208	120,680	266,953
Totals	<u>\$ 11,876,286</u>	<u>\$ 12,155,017</u>	<u>\$ 31,522,449</u>	<u>\$ 30,600,714</u>	<u>\$ 43,398,735</u>	<u>\$ 42,755,731</u>

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

Debt

At December 31, 2014, the City of Hillsboro had \$16,857,072 in bonds, loans, and leases outstanding, \$512,019 was due within one year.

Table 4
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
O.W.D.A. Loan	\$ -	\$ -	\$ 7,780,958	\$ 8,250,113	\$ 7,780,958	\$ 8,250,113
Capital Lease	25,725	49,356	126,254	203,414	151,979	252,770
OPWC Loan	-	-	463,135	125,000	463,135	125,000
Improvement Revenue Bonds	-	-	2,646,000	5,297,000	2,646,000	5,297,000
GO Refunding and Improvement Bonds	-	-	3,160,000	-	3,160,000	-
General Obligation Bonds	2,655,000	2,815,000	-	-	2,655,000	2,815,000
Total	<u>\$ 2,680,725</u>	<u>\$ 2,864,356</u>	<u>\$ 14,176,347</u>	<u>\$ 13,875,527</u>	<u>\$ 16,857,072</u>	<u>\$ 16,739,883</u>

The City's overall legal debt margin was \$9,132,442 at December 31, 2014.

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, 2014
(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.

City of Hillsboro
Statement of Net Position
December 31, 2014

	Governmental Activities	Business-Type Activities	Totals
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,383,407	\$ 3,943,839	\$ 6,327,246
Receivables:			
Taxes	1,250,858	-	1,250,858
Accounts	29,957	538,538	568,495
Accrued Interest	12	-	12
Due from Other Governments	439,817	-	439,817
Loans Receivable	303,615	-	303,615
Non-Depreciable Capital Assets	682,223	10,460	692,683
Depreciable Capital Assets, Net	<u>11,194,063</u>	<u>31,511,989</u>	<u>42,706,052</u>
<i>Total Assets</i>	<u>\$ 16,283,952</u>	<u>\$ 36,004,826</u>	<u>\$ 52,288,778</u>
LIABILITIES:			
Accounts Payable	\$ 51,124	\$ 69,492	\$ 120,616
Contracts Payable	-	9,163	9,163
Accrued Wages and Benefits	69,125	34,445	103,570
Due to Other Governments	61,123	26,902	88,025
Accrued Interest Payable	10,223	36,185	46,408
Long-Term Liabilities			
Due Within One Year	283,119	349,937	633,056
Due in More than One Year	<u>2,601,320</u>	<u>13,885,232</u>	<u>16,486,552</u>
<i>Total Liabilities</i>	<u>3,076,034</u>	<u>14,411,356</u>	<u>17,487,390</u>
DEFERRED INFLOWS OF RESOURCES:			
Property Taxes not Levied to Finance Current Year Operations	<u>277,498</u>	<u>-</u>	<u>277,498</u>
NET POSITION:			
Net Investment in Capital Assets	9,195,561	17,797,794	26,993,355
Restricted for:			
Debt Service	4,974	-	4,974
Capital Projects	659,648	-	659,648
Street	114,976	-	114,976
Recreation	111,243	-	111,243
Revolving Loan	505,005	-	505,005
Rehab	305,448	-	305,448
Other Purposes	367,581	-	367,581
Unrestricted	<u>1,665,984</u>	<u>3,795,676</u>	<u>5,461,660</u>
<i>Total Net Position</i>	<u>\$ 12,930,420</u>	<u>\$ 21,593,470</u>	<u>\$ 34,523,890</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2014

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	\$ 971,318	\$ 84,075	\$ 11,830	\$ -	\$ (875,413)		\$ (875,413)
Judicial	358,260	42,605	25,475	-	(290,180)		(290,180)
Security of Persons and Property	2,602,832	226,554	47,645	-	(2,328,633)		(2,328,633)
Public Health	19,485	1,633	-	-	(17,852)		(17,852)
Leisure Time Activities	64,096	5,208	6,728	-	(52,160)		(52,160)
Community Environment	191,503	41,967	53,664	-	(95,872)		(95,872)
Transportation	799,160	91,194	117,806	-	(590,160)		(590,160)
Interest and Fiscal Charges	132,377	320	295	-	(131,762)		(131,762)
Total Governmental Activities	5,139,031	493,556	263,443	-	(4,382,032)		(4,382,032)
Business-Type Activities:							
Sewer	1,745,065	2,233,578	-	294,344	-	782,857	782,857
Water	1,577,118	1,644,219	-	-	-	67,101	67,101
Total Business-Type Activities	3,322,183	3,877,797	-	294,344	-	849,958	849,958
Total Primary Government	\$ 8,461,214	\$ 4,371,353	\$ 263,443	\$ 294,344	(4,382,032)	849,958	(3,532,074)
General Revenues:							
Taxes:							
Property Taxes Levied for:							
					329,099	-	329,099
					63,574	-	63,574
					37,187	-	37,187
					114,586	-	114,586
					3,401,994	-	3,401,994
Grants and Contributions Not Restricted to Specific Programs							
					142,489	-	142,489
Unrestricted Investment Earnings							
					13,292	2,626	15,918
Miscellaneous							
					57,639	66,739	124,378
					4,159,860	69,365	4,229,225
Special Item - Closure of EMS/Fire Station							
					(128,085)	-	(128,085)
Change in Net Position							
					(350,257)	919,323	569,066
Net Position, Beginning of the Year							
					13,280,677	20,674,147	33,954,824
Net Position, End of the Year							
					\$ 12,930,420	\$ 21,593,470	\$ 34,523,890

See accompanying notes to the basic financial statements.

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2014

	General	Street	All Other Governmental Funds	Total Governmental Funds
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 943,479	\$ 58,848	\$ 1,381,080	\$ 2,383,407
Accounts Receivable	19,306	-	10,651	29,957
Accrued Interest Receivable	12	-	-	12
Taxes Receivable	1,164,413	-	86,445	1,250,858
Due from Other Governments	67,153	95,430	277,234	439,817
Loans Receivable	-	-	303,615	303,615
<i>Total Assets</i>	<u>\$ 2,194,363</u>	<u>\$ 154,278</u>	<u>\$ 2,059,025</u>	<u>\$ 4,407,666</u>
LIABILITIES:				
Accounts Payable	\$ 31,105	\$ 13,335	\$ 6,684	\$ 51,124
Accrued Wages and Benefits	60,153	7,310	1,662	69,125
Due to Other Governments	41,170	6,090	13,863	61,123
<i>Total Liabilities</i>	<u>132,428</u>	<u>26,735</u>	<u>22,209</u>	<u>181,372</u>
DEFERRED INFLOWS OF RESOURCES:				
Property Taxes not Levied to Finance Current Year Operations	194,581	-	82,917	277,498
Unavailable Revenue - Delinquent Taxes	8,276	-	3,528	11,804
Unavailable Revenue - Income Taxes	629,501	-	-	629,501
Unavailable Revenue - Grants	48,378	63,620	268,935	380,933
<i>Total Deferred Inflows of Resources</i>	<u>880,736</u>	<u>63,620</u>	<u>355,380</u>	<u>1,299,736</u>
FUND BALANCES:				
Nonspendable	25,616	-	-	25,616
Restricted	-	63,923	1,681,436	1,745,359
Assigned	146,021	-	-	146,021
Unassigned	1,009,562	-	-	1,009,562
<i>Total Fund Balances</i>	<u>1,181,199</u>	<u>63,923</u>	<u>1,681,436</u>	<u>2,926,558</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 2,194,363</u>	<u>\$ 154,278</u>	<u>\$ 2,059,025</u>	<u>\$ 4,407,666</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, 2014

Total Governmental Fund Balances		\$ 2,926,558
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,876,286
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	641,305	
Intergovernmental	<u>380,933</u>	
Total		1,022,238
Long-term liabilities, including accrued interest payable 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	(10,223)	
Capital Lease Payable	(25,725)	
Compensated Absences	(203,714)	
General Obligation Bonds	<u>(2,655,000)</u>	
Total		<u>(2,894,662)</u>
Net Position of Governmental Activities		<u><u>\$ 12,930,420</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, 2014

	General	Street	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 3,652,790	\$ -	\$ 214,870	\$ 3,867,660
Charges for Services	567	-	-	567
Licenses and Permits	51,818	47,917	3,885	103,620
Fines and Forfeitures	229,239	-	130,487	359,726
Intergovernmental	131,920	189,348	242,781	564,049
Interest	2,345	50	10,897	13,292
Rent	8,000	-	21,643	29,643
Other	48,172	3,897	5,570	57,639
<i>Total Revenues</i>	<u>4,124,851</u>	<u>241,212</u>	<u>630,133</u>	<u>4,996,196</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	878,290	-	44,914	923,204
Judicial	271,528	-	88,532	360,060
Security of Persons and Property	2,289,374	-	165,579	2,454,953
Public Health	19,243	-	-	19,243
Leisure Time Activities	-	-	23,380	23,380
Community Environment	5,006	-	186,497	191,503
Transportation	-	407,299	-	407,299
Capital Outlay	15,334	266,424	115,929	397,687
Debt Service:				
Principal Retirements	15,556	8,075	160,000	183,631
Interest and Fiscal Charges	1,088	1,025	130,823	132,936
<i>Total Expenditures</i>	<u>3,495,419</u>	<u>682,823</u>	<u>915,654</u>	<u>5,093,896</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>629,432</u>	<u>(441,611)</u>	<u>(285,521)</u>	<u>(97,700)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	413,000	376,000	789,000
Proceeds from Sale of Capital Assets	500	-	-	500
Transfers Out	(789,000)	-	-	(789,000)
<i>Total Other Financing Sources and Uses</i>	<u>(788,500)</u>	<u>413,000</u>	<u>376,000</u>	<u>500</u>
Special Item - Closure of EMS/Fire Station	(128,085)	-	-	(128,085)
<i>Net Change in Fund Balances</i>	(287,153)	(28,611)	90,479	(225,285)
<i>Fund Balances at Beginning of Year</i>	<u>1,468,352</u>	<u>92,534</u>	<u>1,590,957</u>	<u>3,151,843</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,181,199</u>	<u>\$ 63,923</u>	<u>\$ 1,681,436</u>	<u>\$ 2,926,558</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, 2014

Net Change in Fund Balances - Total Governmental Funds \$ (225,285)

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 amount by which depreciation exceeded capital asset additions in the current period.

Capital Asset Additions	403,870	
Current Year Depreciation	<u>(621,350)</u>	
Total		(217,480)

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. These are the amounts of the proceeds and loss on the disposal of capital assets.

Proceeds from Sale of Capital Assets	(500)	
Loss on Sale of Capital Assets	<u>(60,751)</u>	
Total		(61,251)

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

Taxes	78,780	
Intergovernmental	<u>(158,117)</u>	
Total		(79,337)

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.

160,000

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.

23,631

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	48,906	
Decrease in Accrued Interest Payable	<u>559</u>	
Total		<u>49,465</u>

Net Change in Net Position of Governmental Activities \$ (350,257)

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, 2014

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,675,327	\$ 3,675,327	\$ 3,669,367	\$ (5,960)
Charges for Services	21,000	21,000	19,448	(1,552)
Licenses and Permits	24,875	24,875	51,818	26,943
Fines and Forfeitures	227,000	227,000	225,257	(1,743)
Intergovernmental	122,000	122,000	131,872	9,872
Interest	2,365	2,365	2,344	(21)
Rent	8,000	8,000	8,000	-
Other	17,600	17,600	48,172	30,572
<i>Total Revenues</i>	<u>4,098,167</u>	<u>4,098,167</u>	<u>4,156,278</u>	<u>58,111</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,122,864	1,122,864	1,012,154	110,710
Judicial	323,845	323,845	288,563	35,282
Security of Persons and Property	2,429,963	2,429,963	2,379,861	50,102
Public Health	19,500	19,500	19,243	257
Community Environment	22,736	22,736	16,370	6,366
Capital Outlay	8,454	8,454	8,454	-
<i>Total Expenditures</i>	<u>3,927,362</u>	<u>3,927,362</u>	<u>3,724,645</u>	<u>202,717</u>
<i>Excess of Revenues Over Expenditures</i>	<u>170,805</u>	<u>170,805</u>	<u>431,633</u>	<u>260,828</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Capital Assets	5,000	5,000	500	(4,500)
Transfers Out	(647,000)	(789,000)	(789,000)	-
<i>Total Other Financing Sources and Uses</i>	<u>(642,000)</u>	<u>(784,000)</u>	<u>(788,500)</u>	<u>(4,500)</u>
<i>Net Change in Fund Balance</i>	(471,195)	(613,195)	(356,867)	256,328
<i>Fund Balance at Beginning of Year</i>	897,089	897,089	897,089	-
<i>Prior Year Encumbrances Appropriated</i>	210,361	210,361	210,361	-
<i>Fund Balance at End of Year</i>	<u>\$ 636,255</u>	<u>\$ 494,255</u>	<u>\$ 750,583</u>	<u>\$ 256,328</u>

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
Street Fund
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and Permits	\$ 45,000	\$ 45,000	\$ 47,917	\$ 2,917
Intergovernmental	296,000	296,000	188,766	(107,234)
Interest	1,800	1,800	50	(1,750)
Other	-	-	3,897	3,897
<i>Total Revenues</i>	<u>342,800</u>	<u>342,800</u>	<u>240,630</u>	<u>(102,170)</u>
EXPENDITURES:				
Current:				
Transportation	342,255	469,503	453,230	16,273
Capital Outlay	203,745	279,497	269,809	9,688
<i>Total Expenditures</i>	<u>546,000</u>	<u>749,000</u>	<u>723,039</u>	<u>25,961</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(203,200)</u>	<u>(406,200)</u>	<u>(482,409)</u>	<u>(76,209)</u>
OTHER FINANCING SOURCES:				
Transfers In	210,000	409,000	413,000	4,000
<i>Total Other Financing Sources</i>	<u>210,000</u>	<u>409,000</u>	<u>413,000</u>	<u>4,000</u>
<i>Net Change in Fund Balance</i>	6,800	2,800	(69,409)	(72,209)
<i>Fund Balance at Beginning of Year</i>	46,286	46,286	46,286	-
<i>Prior Year Encumbrances Appropriated</i>	<u>50,338</u>	<u>50,338</u>	<u>50,338</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 103,424</u>	<u>\$ 99,424</u>	<u>\$ 27,215</u>	<u>\$ (72,209)</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Net Position
Proprietary Funds
December 31, 2014

	Water	Sewer	Total
ASSETS:			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,400,728	\$ 2,543,111	\$ 3,943,839
Accounts Receivable	228,576	309,962	538,538
Total Current Assets	1,629,304	2,853,073	4,482,377
<i>Noncurrent Assets</i>			
Non-Depreciable Capital Assets	5,230	5,230	10,460
Depreciable Capital Assets, Net	7,155,657	24,356,332	31,511,989
Total Noncurrent Assets	7,160,887	24,361,562	31,522,449
Total Assets	\$ 8,790,191	\$ 27,214,635	\$ 36,004,826
LIABILITIES:			
<i>Current Liabilities</i>			
Accounts Payable	\$ 14,638	\$ 54,854	\$ 69,492
Contracts Payable	-	9,163	9,163
Accrued Wages and Benefits	17,769	16,676	34,445
Due to Other Governments	13,597	13,305	26,902
Accrued Interest Payable	36,185	-	36,185
Compensated Absences - Current Portion	5,619	5,619	11,238
Capital Leases Payable - Current Portion	31,095	31,095	62,190
OWDA Loans - Current Portion	-	89,509	89,509
Revenue Bonds Payable - Current Portion	42,000	-	42,000
OPWC Loans - Current Portion	-	10,000	10,000
General Obligation Refunding and Improvement Bonds - Current Portion	135,000	-	135,000
Total Current Liabilities	295,903	230,221	526,124
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
OWDA Loans Payable - Net of Current Portion	-	7,691,449	7,691,449
Compensated Absences Payable - Net of Current Portion	13,875	33,709	47,584
Revenue Bonds Payable - Net of Current Portion	2,604,000	-	2,604,000
Capital Leases Payable - Net of Current Portion	32,032	32,032	64,064
OPWC Loans - Net of Current Portion	-	453,135	453,135
General Obligation Refunding and Improvement Bonds - Net of Current Portion	3,025,000	-	3,025,000
Total Noncurrent Liabilities	5,674,907	8,210,325	13,885,232
Total Liabilities	5,970,810	8,440,546	14,411,356
NET POSITION:			
Net Investment in Capital Assets Unrestricted	1,743,452	16,054,342	17,797,794
	1,075,929	2,719,747	3,795,676
Total Net Position	\$ 2,819,381	\$ 18,774,089	\$ 21,593,470

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, 2014

	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 1,619,719	\$ 2,215,278	\$ 3,834,997
Tap-In Fees	24,500	18,300	42,800
<i>Total Operating Revenues</i>	1,644,219	2,233,578	3,877,797
OPERATING EXPENSES			
Salaries and Wages	452,596	438,832	891,428
Fringe Benefits	189,756	174,479	364,235
Contractual Services	238,386	164,995	403,381
Materials & Supplies	90,137	75,380	165,517
Utilities	76,348	167,232	243,580
Other	8,425	685	9,110
Depreciation Expense	218,118	639,391	857,509
<i>Total Operating Expenses</i>	1,273,766	1,660,994	2,934,760
<i>Operating Income</i>	370,453	572,584	943,037
NONOPERATING REVENUES (EXPENSES)			
Bond Issuance Costs	(55,559)	-	(55,559)
Interest	2,384	242	2,626
Other Non-Operating Revenues	60,645	6,094	66,739
Interest and Fiscal Charges	(247,793)	(84,071)	(331,864)
<i>Total Nonoperating Revenues (Expenses)</i>	(240,323)	(77,735)	(318,058)
<i>Changes in Net Position Before Capital Contributions</i>	130,130	494,849	624,979
Capital Contribution - Intergovernmental	-	294,344	294,344
<i>Changes in Net Postion</i>	130,130	789,193	919,323
<i>Net Position at Beginning of Year</i>	2,689,251	17,984,896	20,674,147
<i>Net Position at End of Year</i>	<u>\$ 2,819,381</u>	<u>\$ 18,774,089</u>	<u>\$ 21,593,470</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

	<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	\$ 1,651,640	\$ 2,250,834	\$ 3,902,474
Cash Payments to Suppliers for Goods and Services	(408,985)	(396,769)	(805,754)
Cash Payments to Employees for Services and Benefits	(646,023)	(626,952)	(1,272,975)
<i>Net Cash Provided by Operating Activities</i>	<u>596,632</u>	<u>1,227,113</u>	<u>1,823,745</u>
<i>Cash Flows from Noncapital Financing Activities:</i>			
Other Nonoperating Revenues	60,645	6,094	66,739
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>60,645</u>	<u>6,094</u>	<u>66,739</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Receipts from Capital Grants	-	294,344	294,344
Proceeds GO Refunding and Improvement Bonds	3,225,000	-	3,225,000
Proceeds from OWDA Loan	-	348,135	348,135
Payments for Capital Acquisitions	(168,392)	(1,610,852)	(1,779,244)
Principal Payments	(2,754,580)	(517,735)	(3,272,315)
Interest Payments	(306,348)	(84,071)	(390,419)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(4,320)</u>	<u>(1,570,179)</u>	<u>(1,574,499)</u>
<i>Cash Flows from Investing Activities:</i>			
Interest on Investments	2,384	242	2,626
<i>Net Cash Provided by Investing Activities</i>	<u>2,384</u>	<u>242</u>	<u>2,626</u>
Net Increase (Decrease) in Cash and Cash Equivalents	655,341	(336,730)	318,611
Cash and Cash Equivalents at Beginning of Year	<u>745,387</u>	<u>2,879,841</u>	<u>3,625,228</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,400,728</u>	<u>\$ 2,543,111</u>	<u>\$ 3,943,839</u>

(Continued)

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>			
Operating Income	\$ 370,453	\$ 572,584	\$ 943,037
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>			
Depreciation	218,118	639,391	857,509
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	7,421	17,256	24,677
Increase in Accounts Payable	4,311	24,944	29,255
Decrease in Contracts Payable	-	(8,421)	(8,421)
Decrease in Accrued Wages and Benefits	(3,051)	(4,047)	(7,098)
Decrease in Compensated Absences Payable	(1,088)	(10,051)	(11,139)
Decrease in Retainage Payable	-	(5,000)	(5,000)
Increase in Due to Other Governments	468	457	925
Total Adjustments	<u>226,179</u>	<u>654,529</u>	<u>880,708</u>
Net Cash Provided by Operating Activities	<u>\$ 596,632</u>	<u>\$ 1,227,113</u>	<u>\$ 1,823,745</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2014

	<u>Agency</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 104,651
Receivables:	
Accounts	<u>165,744</u>
<i>Total Assets</i>	<u><u>\$ 270,395</u></u>
LIABILITIES :	
Due to Other Governments	\$ 97,789
Undistributed Monies	67,834
Deposits Held and Due to Others	<u>104,772</u>
<i>Total Liabilities</i>	<u><u>\$ 270,395</u></u>

See accompanying notes to the basic financial statements.
See accountant's compilation report.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2014

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.

The City has contracted with the Paint Creek Joint EMS/Fire District to provide EMS and fire protection services for the City. During 2014, the City paid approximately \$554,000 to the Paint Creek Joint EMS/Fire District.

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.

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 are the City's major governmental funds:

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.

Street Fund - This fund is established to account for resources devoted to financing street repairs and construction. The primary source of revenue is intergovernmental gasoline tax monies.

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 financing 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. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements of governmental 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. Governmental 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 year end: interest and grants.

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, 2014. 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, 2014, but which were levied to finance fiscal year 2015 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, 2014

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 2014, 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, 2014

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, 2014.

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, 2014.

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.

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 \$2,068,875 of restricted net position, none was restricted by enabling legislation.

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.

SPECIAL ITEM

Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. The City reported one special item for the closure of its EMS/Fire station as of the beginning of 2014.

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.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

3. DEPOSITS AND INVESTMENTS (Continued)

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and 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, 2014

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 \$6,574,036 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		
Market Mutual Funds	\$ 57,694	\$ 57,694
	\$ 57,694	\$ 57,694

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 account was rated AAAM by Standard & Poor’s.

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, 2014.

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, 2014

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 and the Street 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 and the Street Major Special Revenue Fund.

Net Change in Fund Balance		
	General	Street
GAAP Basis	\$ (287,153)	\$ (28,611)
Revenue Accruals	32,217	(582)
Expenditure Accruals	66,139	(8,583)
Prospective Difference:		
Activity of Funds Reclassified for GAAP Reporting Purposes	(790)	-
Encumbrances	(167,280)	(31,633)
Budgetary Basis	\$ (356,867)	\$ (69,409)

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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, 2014. 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 2014 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, 2014, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2014 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, 2014

7. INTERFUND TRANSACTIONS (Continued)

Transfers made during the year ended December 31, 2014, were as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ -	\$ 789,000
Street	413,000	-
Non-Major Special Revenue Funds		
Police Pension	126,000	-
Fire Pension	-	-
Recreation	-	-
Total Non-Major Special Revenue Funds	126,000	-
Non-Major General Bond Retirement Fund	250,000	-
Total All Funds	<u>\$ 789,000</u>	<u>\$ 789,000</u>

8. RECEIVABLES

Receivables at December 31, 2014 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 businesses under the Community Development Program.

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

<u>General</u>	
Local Government	\$56,325
Homestead & Rollback	10,828
<u>Street Fund</u>	
Gasoline Tax	95,430
<u>Non-Major Special Revenue</u>	
State Highway Fund	
Gasoline Tax	7,737
Municipal Motor Vehicle Fund	
Permissive Tax	6,648
Victim's Rights Office	
VOCA Grant	19,232
Rehab	
CHIP Grant	238,487
Police Pension Fund	
Homestead & Rollback	1,710
Fire Pension Fund	
Homestead & Rollback	1,710
<u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,710</u>
Total Governmental Activities	<u>\$439,817</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, but less than, 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 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 2014, 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 officers participate in only the Traditional Pension Plan.

The 2014, 2013, and 2012 member contribution rates were 10.0%, 10.0%, and 10.0%, respectively, for members in state and local classifications and 12.0% and 13.0%, 12.0% and 12.6%, and 11.5% and 12.10%, respectively for members in public safety and law enforcement.

The 2014, 2013, and 2012 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, 2014, 2013, and 2012 were \$265,996, \$267,027, and \$280,522 respectively. 93% has been contributed for 2014, and 100% for 2013 and 2012. \$19,748 represents the unpaid contribution for fiscal year 2014 and is recorded as a liability within the respective funds.

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, 2014 to July 1, 2014, plan members were required to contribute 10.75% of their annual covered salary. From July 2, 2014 through December 31, 2014, plan members were required to contribute 11.5% 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, 2014, 2013, and 2012 were \$142,469, \$130,592, and \$148,045 for policemen and \$5,441, \$108,653, and \$178,082 for firefighters, respectively. 93% has been contributed for 2014. 100% has been contributed for 2013 and 2012. \$10,934 represents the unpaid contribution for fiscal year 2014 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. OPERS' eligibility requirements for post-employment health care coverage changed for those retiring on and after January 1, 2015. Please see the Plan Statement in the OPERS 2013 CAFR for details.

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. Interested 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.

10. POSTEMPLOYMENT BENEFITS (Continued)

- 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.

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2014, 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and the Combined Plan was 2.0% during calendar year 2014. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at 2.0% for both plans, as recommended by OPERS' actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. 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 \$37,984 for 2014, \$106,811 for 2013, and \$80,145 for 2012. 93% has been contributed for 2014, and 100% for 2013 and 2012.
- 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.

10. POSTEMPLOYMENT BENEFITS (Continued)

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.

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 2014, 2013, and 2012, 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 .5% of covered payroll from January 2014 through December 31, 2014. 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 year ended December 31, 2012, 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.

The City's actual contributions for 2014 that were used to fund postemployment benefits were \$3,818. For 2013 and 2012, the contributions were \$40,683 and \$101,265, respectively. 93% has been contributed for 2014. 100% has been contributed for 2013 and 2012.

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, 2014

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, 2014, PEP retained \$350,000 for casualty claims and \$100,000 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, 2013 and 2014:

<u>Casualty and Property Coverage</u>	<u>2013</u>	<u>2014</u>
Assets	\$34,411,883	\$35,402,177
Liabilities	(12,760,194)	(12,363,257)
Net Position	<u>\$21,651,689</u>	<u>\$23,038,920</u>

At December 31, 2013 and 2014, respectively, the liabilities above include approximately \$11.6 million and \$11.1 million of estimated incurred claims payable. The assets above also include approximately \$11.1 million and \$10.8 million of unpaid claims to be billed. The Pool's membership increased from 475 members in 2013 to 488 members in 2014. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Government's share of these unpaid claims collectible in future years is approximately \$55,973.

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.

<u>Contributions to PEP</u>	
<u>2014</u>	<u>2013</u>
\$84,807	\$81,509

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 \$5,000 with a no 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, 2014

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. 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, 2014

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014:

	Beginning Balance 12/31/2013	Additions	Deletions	Ending Balance 12/31/2014
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 561,543	\$ -	\$ -	\$ 561,543
Construction in Progress	62,745	57,935	-	120,680
Total Capital Assets, Not Being Depreciated	<u>624,288</u>	<u>57,935</u>	<u>-</u>	<u>682,223</u>
Capital Assets Being Depreciated				
Land Improvements	1,986,261	-	-	1,986,261
Buildings and Improvements	4,177,087	-	(87,500)	4,089,587
Furniture and Equipment	1,822,786	29,392	(6,864)	1,845,314
Vehicles	2,113,324	-	(22,711)	2,090,613
Infrastructure	11,396,255	316,543	-	11,712,798
Total Capital Assets Being Depreciated	21,495,713	345,935	(117,075)	21,724,573
Less Accumulated Depreciation				
Land Improvements	(1,212,986)	(37,772)	-	(1,250,758)
Buildings and Improvements	(759,861)	(84,701)	26,249	(818,313)
Furniture and Equipment	(1,285,258)	(91,574)	6,864	(1,369,968)
Vehicles	(1,596,406)	(114,020)	22,711	(1,687,715)
Infrastructure	(5,110,473)	(293,283)	-	(5,403,756)
Total Accumulated Depreciation	<u>(9,964,984)</u>	<u>(621,350)</u>	<u>55,824</u>	<u>(10,530,510)</u>
Total Capital Assets Being Depreciated, Net	<u>11,530,729</u>	<u>(275,415)</u>	<u>(61,251)</u>	<u>11,194,063</u>
Governmental Activities Capital Assets, Net	<u>\$12,155,017</u>	<u>\$ (217,480)</u>	<u>\$ (61,251)</u>	<u>\$ 11,876,286</u>

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$31,139
Security of Persons & Property	179,561
Health	242
Leisure Time Activities	40,716
Transportation	<u>369,692</u>
Total Depreciation Expense	<u>\$621,350</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2014:

	Ending Balance 12/31/2013	Additions	Deletions	Ending Balance 12/31/2014
<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>214,668</u>	<u>-</u>	<u>(204,208)</u>	<u>10,460</u>
Capital Assets Being Depreciated				
Land Improvements	347,177	-	-	347,177
Buildings and Improvements	33,202,317	1,496,642	-	34,698,959
Mechanical Equipment	1,175,510	333,416	-	1,508,926
Vehicles	638,759	-	-	638,759
Infrastructure	4,022,622	153,394	-	4,176,016
Total Capital Assets Being Depreciated	<u>39,386,385</u>	<u>1,983,452</u>	<u>-</u>	<u>41,369,837</u>
Less Accumulated Depreciation				
Land Improvements	(216,100)	(12,455)	-	(228,555)
Buildings and Improvements	(6,272,049)	(496,868)	-	(6,768,917)
Mechanical Equipment	(805,752)	(84,202)	-	(889,954)
Vehicles	(328,212)	(29,061)	-	(357,273)
Infrastructure	(1,378,226)	(234,923)	-	(1,613,149)
Total Accumulated Depreciation	<u>(9,000,339)</u>	<u>(857,509)</u>	<u>-</u>	<u>(9,857,848)</u>
Total Capital Assets Being Depreciated, Net	<u>30,386,046</u>	<u>1,125,943</u>	<u>-</u>	<u>31,511,989</u>
Business Type Activities Capital Assets, Net	<u>\$ 30,600,714</u>	<u>\$ 1,125,943</u>	<u>\$ (204,208)</u>	<u>\$ 31,522,449</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

14. LONG-TERM OBLIGATIONS

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

	Outstanding 12/31/2013	Issued	Retired	Outstanding 12/31/2014	Due In One Year
Governmental Activities					
Compensated Absences	\$ 252,620	\$ 250,513	\$ 299,419	\$ 203,714	\$ 109,799
2007 - 6.0% Street Improvement Bonds	470,000	-	45,000	425,000	45,000
2009 - Various Purpose General Obligation Bonds	2,345,000	-	115,000	2,230,000	120,000
Capital Lease	49,356	-	23,631	25,725	8,320
Total Governmental Activities	<u>\$ 3,116,976</u>	<u>\$ 250,513</u>	<u>\$ 483,050</u>	<u>\$ 2,884,439</u>	<u>\$ 283,119</u>
Business-Type Activities					
Compensated Absences	\$ 69,961	\$ 96,351	\$ 107,490	\$ 58,822	\$ 11,238
Water					
2014 General Obligation Refunding and Improvement Bonds 3.53%	-	2,610,000	50,000	2,560,000	110,000
2014 General Obligation Refunding and Improvement Bonds 3.53%	-	615,000	15,000	600,000	25,000
2004 - 2% Mortgage Revenue Bond	2,610,000	-	2,610,000	-	-
2005 - Water System Improvement Revenue Bonds - 4.25%	508,000	-	7,000	501,000	8,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,179,000	-	34,000	2,145,000	34,000
Capital Lease	101,707	-	38,580	63,127	31,095
Total Water Fund	<u>5,398,707</u>	<u>3,225,000</u>	<u>2,754,580</u>	<u>5,869,127</u>	<u>208,095</u>
Sewer					
2004 - OWDA Loan - 1%	236,542	-	20,447	216,095	20,652
2005 - OWDA Loan - 1%	864,728	-	68,173	796,555	68,857
2010 - OWDA Loan - 1%	7,148,843	-	380,535	6,768,308	-
2007 - OPWC Loan - 0%	125,000	-	10,000	115,000	10,000
2014 - OPWC Loan - 0%	-	348,135	-	348,135	-
Capital Lease	101,707	-	38,580	63,127	31,095
Total Sewer Fund	<u>8,476,820</u>	<u>348,135</u>	<u>517,735</u>	<u>8,307,220</u>	<u>130,604</u>
Total Business-Type Activities	<u>\$ 13,945,488</u>	<u>\$ 3,669,486</u>	<u>\$ 3,379,805</u>	<u>\$ 14,235,169</u>	<u>\$ 349,937</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. This debt was refunded during 2014.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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 amount of \$700,000 was issued in 2007 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 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 2014 OPWC loan was issued at a zero percent interest rate for the replacement of sanitary sewer infrastructure. The Sewer Fund is being used to repay these loans.

The 2010 OWDA loan and the 2014 OPWC loan were still open as of December 31, 2014 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 \$4,811,326. The net revenue available for these bonds was \$588,571 and principal and interest paid was \$155,198. The coverage ratio for these bonds was 3.77 for the year ended December 31, 2014. The remaining principal to be paid on the OWDA loans was \$7,780,958 and \$58,133 in interest for those loans with established amortization schedules. One of these loans has not been fully drawn and as such an amortization schedule has not yet been provided to the City. The net revenue available for these loans was \$1,211,975 and principal and interest paid was \$534,947. The coverage ratio for the loans was 2.27 for the year ended December 31, 2014.

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.

The City issued \$3,225,000 in general obligation refunding and improvement bonds for the purpose of refunding \$2,510,000 of the 2004 Mortgage Revenue Bonds and providing funds for \$615,000 in improvements. The entire amount of these bonds is term bonds. The bonds were issued for an 18 year period with final maturity on May 1, 2031. Properties and revenues of the utility facilities have been pledged to repay these debts. The \$2,510,000 was called and paid during fiscal year 2014 using the monies that were received from the refunding. The un-refunded portion of the bonds in the amount of \$100,000 was also paid in 2014. The refunding resulted in an economic gain in the amount of \$215,629 and an aggregate difference between the refunding debt and the refunded debt in the amount of \$294,892. These bonds were issued with bond issuance costs of \$55,559. These issuance costs were expensed during the current fiscal year.

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, 2014

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, 2014 were as follows:

	General Obligation Bonds		OPWC
	Principal	Interest	Principal
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	235,000	95,702	10,000
2020-2024	595,000	351,786	50,000
2025-2029	1,185,000	197,824	15,000
Total	\$2,655,000	\$1,099,282	\$115,000

Principal and interest requirements to retire Mortgage Revenue Bonds and the OWDA Loan at December 31, 2014 were as follows:

	Water System Improvement Bonds		OWDA Loan		Refunding and Improvement Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$42,000	\$112,455	\$89,509	\$9,905	\$135,000	\$109,165
2016	45,000	110,973	90,417	9,007	140,000	104,311
2017	47,000	108,758	91,324	8,101	150,000	99,193
2018	48,000	106,760	92,239	7,185	155,000	93,810
2019	50,000	104,720	93,164	6,260	160,000	88,250
2020-2024	287,000	490,136	480,018	17,104	895,000	350,265
2025-2029	352,000	423,525	75,979	571	1,050,000	179,323
2030-2034	434,000	342,099	0	0	475,000	16,856
2035-2039	534,000	241,630	0	0	0	0
2040-2044	658,000	117,937	0	0	0	0
2045	149,000	6,333	0	0	0	0
Total	\$2,646,000	\$2,165,326	\$1,012,650	\$58,133	\$3,160,000	\$1,041,173

The amortization schedules for the OWDA and OPWC loans does not match the outstanding debt amounts listed due to the 2010 OWDA and 2014 OPWC loans which have not been finalized.

The City's overall legal debt margin was \$9,132,442 at December 31, 2014.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

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, 2014.

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 previous years, the City entered into a capital lease for computer equipment, a vac truck, police cruisers, a bucket truck, and radio read meters. The leases meet the criteria of a capital lease as defined by Governmental Accounting Standards Board No. 62, 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 2014 totaled \$23,631 in the governmental funds, \$38,580 in the Water Fund and \$38,580 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, 2014.

Year Ending December 31,	Capitalized Lease Obligation
2015	\$ 74,605
2016	74,605
2017	9,100
Total Minimum Lease Payments	158,310
Less: Amount Representing Interest	(6,331)
Present Value of Minimum Lease Payments	\$ 151,979

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

17. NEW ACCOUNTING PRINCIPLES

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The total pension liability will be computed on a different basis than the current actuarial accrued liability and the method of allocating this liability to each participating employer has not yet been determined; while the precise impact is not known, it is deemed likely that this pronouncement would have a material impact on the City. The provisions of this statement will be effective for the fiscal year ending December 31, 2015, and therefore will be adopted in the next fiscal year.

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 funds and all other governmental funds are presented below:

Fund Balances	General	Street	All Other Governmental	Total Governmental Funds
Nonspendable				
Unclaimed Monies	\$25,616	\$0	\$0	\$25,616
Total Nonspendable	<u>25,616</u>	<u>0</u>	<u>0</u>	<u>25,616</u>
Restricted for				
Street Improvement	0	63,923	6,867	70,790
Municipal Court Special Project	0	0	37,420	37,420
Alcohol Treatment	0	0	41,460	41,460
Other Purpose	0	0	191,051	191,051
Recreation	0	0	111,243	111,243
Rehab	0	0	68,686	68,686
Revolving Loan	0	0	562,973	562,973
Debt Services Payments	0	0	2,088	2,088
Capital Improvements	0	0	659,648	659,648
Total Restricted	<u>0</u>	<u>63,923</u>	<u>1,681,436</u>	<u>1,745,359</u>
Assigned to				
Other Purposes	146,021	0	0	146,021
Unassigned				
	<u>1,009,562</u>	<u>0</u>	<u>0</u>	<u>1,009,562</u>
Total Fund Balances	<u>\$1,181,199</u>	<u>\$63,923</u>	<u>\$1,681,436</u>	<u>\$2,926,558</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2014

19. SUBSEQUENT EVENTS

In February 2015, the City entered into a lease agreement for the purpose of purchasing police vehicles. The lease is in the amount of \$65,640 with an interest rate of 2.29% and a maturity of February 2018.

In February 2015, the City entered into a lease agreement for the purpose of purchasing a tractor. The lease is in the amount of \$89,286 with an interest rate of 2.65% and a maturity of February 2020.

In February 2015, the City entered into a lease agreement for the purpose of purchasing a Vac-Con. The lease is in the amount of \$229,988 with an interest rate of 2.95% and a maturity of February 2022.

20. SIGNIFICANT COMMITMENTS

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 significant encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$167,280
Street Fund	31,633
Water Improvement Fund	454,961
Wastewater (Sewer) Improvement Fund	339,157
Total	<u><u>\$993,031</u></u>

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hillsboro, Highland County (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.

August 26, 2015

City of Hillsboro
Schedule of Prior Audit Findings
For the Year Ended December 31, 2014

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding 2013-001	Noncompliance/Material Weakness – Ohio Administrative Code Section 117-2-02	Yes	Fully Corrected



Dave Yost • Auditor of State

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
DECEMBER 8, 2015**