

City of Hillsboro

Highland County

January 1, 2008 through December 31, 2008

Fiscal Year Audited Under GAGAS: 2008



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Hillsboro, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2008 through December 31, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 22, 2009

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City of Hillsboro
Table of Contents
For the Year Ended December 31, 2008

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	12
Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Street Fund.....	17
Statement of Net Assets – Enterprise Funds.....	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Enterprise Funds.....	19
Statement of Cash Flows – Enterprise Funds	20
Statement of Fiduciary Assets and Liabilities – Agency Fund	21
Notes to the Basic Financial Statements.....	22
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	50
Schedule of Findings and Responses	52

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

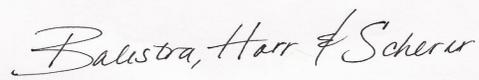
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of December 31, 2008, and the respective changes in financial position and where applicable cash flows, thereof, and the respective budgetary comparisons for the General and Street Funds, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City Council
City of Hillsboro
Independent Auditor's Report

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored, slightly textured background.

Balestra, Harr & Scherer, CPAs, Inc.
June 30, 2009

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(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, 2008. 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 2008 are as follows:

- In total, net assets increased \$709,194. Net assets of governmental activities increased \$30,062. Net assets of business-type activities increased \$679,132.
- Governmental activities general revenues accounted for \$4,452,866 in revenue or 69 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,034,626 or 31 percent of total revenues of \$6,487,492. Business-type activities general revenues accounted for \$74,124 in revenue or 2 percent of all revenues. Program specific revenues accounted for \$3,414,374 or 98 percent of total revenues of \$3,488,498.
- The City had \$6,449,996 in expenses related to governmental activities; \$2,034,626 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$2,816,800 in expenses related to business-type activities; \$3,414,374 of these expenses was 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 assets 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 Assets 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 2008?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities 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 assets and the changes in those assets. The change in assets 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, 2008
(Unaudited)

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents; however, fund financial statements focus on the City's most significant funds. The City of Hillsboro's major funds are the General Fund, 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 assets 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, 2008
(Unaudited)

The City as a Whole

The statement of net assets reviews the City as a whole. Table 1 provides a summary of the City's net assets for 2008 compared to the prior year:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007*	2008	2007*	2008	2007*
Assets						
Current and Other Assets	\$ 5,085,779	\$ 6,225,537	\$ 2,675,594	\$ 2,535,115	\$ 7,761,373	\$ 8,760,652
Capital Assets, Net	11,490,424	10,494,373	15,834,175	15,969,787	27,324,599	26,464,160
Total Assets	16,576,203	16,719,910	18,509,769	18,504,902	35,085,972	35,224,812
Liabilities						
Current and Other Liabilities	654,428	700,320	120,469	115,703	774,897	816,023
Long-Term Liabilities	1,220,238	1,348,115	9,262,145	9,941,176	10,482,383	11,289,291
Total Liabilities	1,874,666	2,048,435	9,382,614	10,056,879	11,257,280	12,105,314
Net Assets						
Invested in Capital Assets						
Net of Debt	10,602,285	9,519,293	6,616,035	6,198,872	17,218,320	15,718,165
Restricted	1,766,778	2,486,562	-	-	1,766,778	2,486,562
Unrestricted	2,332,474	2,665,620	2,511,120	2,249,151	4,843,594	4,914,771
Total Net Assets	\$ 14,701,537	\$ 14,671,475	\$ 9,127,155	\$ 8,448,023	\$ 23,828,692	\$ 23,119,498

* Amount Restated, See Note 19.

Total governmental activities assets decreased \$143,707 while business-type activities increased \$4,867.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 78% 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. Invested in capital assets, net of related debt for the City as a whole increased primarily due to the addition of assets and the paydown of debt balances, which is partially offset by depreciation expense. Current and Other Assets for the governmental activities of the City decreased due to cash less on hand at year end due to the increase in expenditures from the prior year.

Total liabilities for governmental activities decreased \$173,769 due mainly to principal payments on debt balances. Total liabilities of business-type activities decreased \$674,265 also as a result of debt payments.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)

Table 2 shows the changes in net assets for the year 2008 compared to the prior year.

Table 2
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2008	2007*	2008	2007*	2008	2007*
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 1,207,158	\$ 1,010,150	\$ 3,414,374	\$ 2,811,106	\$ 4,621,532	\$ 3,821,256
Operating Grants and Contributions	305,888	588,698	-	-	305,888	588,698
Capital Grants and Contributions	521,580	-	-	-	521,580	-
Total Program Revenues	2,034,626	1,598,848	3,414,374	2,811,106	5,449,000	4,409,954
General Revenues:						
Property & Income Taxes	3,918,304	4,149,962	-	-	3,918,304	4,149,962
Unrestricted Investment Earnings Grants and Contributions Not Restricted to Specific Programs	107,353	143,552	4,042	19,187	111,395	162,739
Other	299,018	437,212	-	-	299,018	437,212
	128,191	285,883	70,082	105,341	198,273	391,224
Total General Revenues	4,452,866	5,016,609	74,124	124,528	4,526,990	5,141,137
Total Revenues	6,487,492	6,615,457	3,488,498	2,935,634	9,975,990	9,551,091
Program Expenses						
General Government -						
Legislative and Executive	1,691,376	1,334,695	-	-	1,691,376	1,334,695
Judicial	353,429	261,476	-	-	353,429	261,476
Security of Persons and Property	3,472,278	3,282,169	-	-	3,472,278	3,282,169
Public Health	203,901	53,954	-	-	203,901	53,954
Leisure Time Activities	173,914	121,646	-	-	173,914	121,646
Community Environment	191,125	500,950	-	-	191,125	500,950
Transportation	316,924	558,282	-	-	316,924	558,282
Interest and Fiscal Charges	47,049	15,549	-	-	47,049	15,549
Water Fund	-	-	1,440,728	1,463,581	1,440,728	1,463,581
Sewer Fund	-	-	1,376,072	1,611,393	1,376,072	1,611,393
Total Expenses	6,449,996	6,128,721	2,816,800	3,074,974	9,266,796	9,203,695
Transfers	(7,434)	-	7,434	-	-	-
Increase (Decrease) in Net Assets	30,062	486,736	679,132	(139,340)	709,194	347,396
Beginning Net Assets	14,671,475	14,184,739	8,448,023	8,587,363	23,119,498	22,772,102
Ending Net Assets	\$ 14,701,537	\$ 14,671,475	\$ 9,127,155	\$ 8,448,023	\$ 23,828,692	\$ 23,119,498

* Amount Restated, See Note 19.

Governmental Activities

Governmental activities increased \$30,062 or 0.2% during 2008.

General revenues primarily consist of property and income tax revenue of \$3,918,304, or 88% of total general revenues in 2008. Grants and contributions decreased due primarily to a decrease in intergovernmental revenue in the rehab program. Charges for services and sales increased from the prior year due to an increase in revenues received from EMS squad runs. Capital Grants and Contributions increased due to donations of assets to the recreation program.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)

General government expenses include legislative and executive and judicial programs, totaled \$2,044,805 or 32% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 54% of total expenses. Community environment expenses decreased as a direct result of the decrease in revenue to the rehab program. Transportation expenses decreased due to significant non-capitalizable capital outlay expenses in 2007.

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 \$1,405,151 and had operating expenses of \$1,156,636 and had interest expenses of \$282,682. The wastewater treatment plant generated operating revenues of \$2,079,305 and had operating expenses of \$1,256,334, and had interest expense of \$63,409. The increase in Charges for services is due to an increase in sewer revenue and tap in fees. The decrease in expenses is due to a decrease in contractual services. The City's goal is to cover the costs of operations as well as to build a 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 \$7,613,801 and expenditures and other financing uses of \$8,569,463. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$385,165. The majority of the decrease in fund balance is due to significant transfers out. The Street Fund had a fund balance decrease of \$290,851, which was due mainly to capital outlay expenditures exceeding current revenues.

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 2008, the City amended its General Fund budget. With the General Fund supporting many of the major activities such as the City's police and fire departments, as well as most general government activities, the General Fund is monitored closely to prevent possible revenue shortfalls or overspending by individual departments.

For the General Fund, original budgeted revenues were \$4,888,950, while final budgeted revenues were \$7,806,890. The increase to final budgeted revenues were due primarily to anticipated tax revenue. The City's actual revenues were \$2,951,797 less than the final budgeted revenues primarily due to less tax revenues being received than anticipated. Original budgeted expenditures were \$6,363,581, and final budgeted expenditures were \$6,787,629.

The General Fund's actual expenditures were \$661,657 less than final budgeted expenditures mainly due to legislative and executive, judicial system and security of persons and property expenditures being lower than estimated.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the 2008 the City had \$27,324,599 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2008 and 2007 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007*	2008	2007
Land	\$ 515,396	\$ 505,936	\$ 10,460	\$ -	\$ 525,856	\$ 505,936
Land Improvements	947,952	958,492	85,772	94,824	1,033,724	1,053,316
Buildings and Improvements	1,628,751	1,172,861	11,792,863	11,834,306	13,421,614	13,007,167
Furniture and Equipment	754,395	747,871	364,802	415,121	1,119,197	1,162,992
Vehicles	995,925	951,634	237,538	250,864	1,233,463	1,202,498
Infrastructure/Water & Sewer Lines	6,648,005	6,033,989	3,170,488	3,256,884	9,818,493	9,290,873
Construction in Progress	-	123,590	172,252	117,788	172,252	241,378
Totals	\$ 11,490,424	\$ 10,494,373	\$ 15,834,175	\$ 15,969,787	\$ 27,324,599	\$ 26,464,160

* Amount Restated, See Note 19.

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

Debt

At December 31, 2008, the City of Hillsboro had \$10,106,279 in bonds, loans, and leases outstanding, \$431,064 due within one year.

Table 4
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
O.W.D.A. Loan	\$ -	\$ -	\$ 2,477,973	\$ 2,720,582	\$ 2,477,973	\$ 2,720,582
Capital Lease	223,139	275,080	-	-	223,139	275,080
OPWC Loan	-	-	180,000	190,000	180,000	190,000
Mortgage Revenue Bonds	-	-	5,910,167	6,310,000	5,910,167	6,310,000
Notes	-	-	650,000	650,000	650,000	650,000
General Obligation Bonds	665,000	700,000	-	-	665,000	700,000
Total	\$ 888,139	\$ 975,080	\$ 9,218,140	\$ 9,870,582	\$ 10,106,279	\$ 10,845,662

The City's overall legal debt margin was \$4,127,637 at December 31, 2008.

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

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.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2008
(Unaudited)

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 Assets
December 31, 2008

	Governmental Activities	Business-Type Activities	Totals
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,767,223	\$ 2,030,752	\$ 4,797,975
Investments	6,553	-	6,553
Cash and Cash Equivalents in Segregated Accounts	-	121,909	121,909
Receivables:			
Taxes	1,459,278	-	1,459,278
Accounts	379,428	522,933	902,361
Due From Other Governments	242,742	-	242,742
Loans Receivable	230,555	-	230,555
Non-Depreciable Capital Assets	515,396	182,712	698,108
Depreciable Capital Assets, Net	10,975,028	15,651,463	26,626,491
<i>Total Assets</i>	<u>\$ 16,576,203</u>	<u>\$ 18,509,769</u>	<u>\$ 35,085,972</u>
LIABILITIES:			
Accounts Payable	\$ 41,674	\$ 16,300	\$ 57,974
Matured Compensated Absences Payable	5,138	-	5,138
Accrued Wages and Benefits	98,098	14,467	112,565
Due to Other Governments	190,972	21,834	212,806
Deferred Revenue	316,030	-	316,030
Accrued Interest Payable	2,516	67,868	70,384
Long-Term Liabilities			
Due Within One Year	124,711	853,027	977,738
Due in More than One Year	1,095,527	8,409,118	9,504,645
<i>Total Liabilities</i>	<u>1,874,666</u>	<u>9,382,614</u>	<u>11,257,280</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	10,602,285	6,616,035	17,218,320
Restricted for:			
Debt Service	336,147	-	336,147
Street	497,212	-	497,212
Other Purposes	933,419	-	933,419
Unrestricted	2,332,474	2,511,120	4,843,594
<i>Total Net Assets</i>	<u>\$ 14,701,537</u>	<u>\$ 9,127,155</u>	<u>\$ 23,828,692</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 1,691,376	\$ 200,514	\$ 19,677	\$ -	\$ (1,471,185)		\$ (1,471,185)
Judicial	353,429	50,743	22,757	-	(279,929)		(279,929)
Security of Persons and Property	3,472,278	933,715	125,415	-	(2,413,148)		(2,413,148)
Public Health	203,901	6,570	52,565	-	(144,766)		(144,766)
Leisure Time Activities	173,914	1,901	37,614	521,580	387,181		387,181
Community Environment	191,125	11,136	40,979	-	(139,010)		(139,010)
Transportation	316,924	326	6,458	-	(310,140)		(310,140)
Interest and Fiscal Charges	47,049	2,253	423	-	(44,373)		(44,373)
Total Governmental Activities	6,449,996	1,207,158	305,888	521,580	(4,415,370)		(4,415,370)
Business-Type Activities:							
Sewer	1,376,072	2,066,268	-	-		690,196	690,196
Water	1,440,728	1,348,106	-	-		(92,622)	(92,622)
Total Business-Type Activities	2,816,800	3,414,374	-	-	-	597,574	597,574
Total Primary Government	\$ 9,266,796	\$ 4,621,532	\$ 305,888	\$ 521,580	\$ (4,415,370)	\$ 597,574	\$ (3,817,796)
General Revenues and Transfers:							
Taxes:							
Property taxes levied for:							
General Purposes					318,750	-	318,750
Special Purposes					58,406	-	58,406
Debt Service					90,406	-	90,406
Capital Projects					112,831	-	112,831
Income Taxes					3,337,911	-	3,337,911
Grants and Contributions Not Restricted							
to Specific Programs					299,018	-	299,018
Unrestricted Investment Earnings					107,353	4,042	111,395
Miscellaneous					128,191	70,082	198,273
Transfers					(7,434)	7,434	-
Total General Revenues and Transfers					4,445,432	81,558	4,526,990
Change in Net Assets					30,062	679,132	709,194
Net assets - January 1, 2008 - Restated					14,671,475	8,448,023	23,119,498
Net assets - December 31, 2008					\$ 14,701,537	\$ 9,127,155	\$ 23,828,692

See accompanying notes to the basic financial statements.

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2008

	<u>General</u>	<u>Street</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,000,674	\$ 423,967	\$ 1,342,582	\$ 2,767,223
Investments	6,553	-	-	6,553
Accounts Receivable	379,428	-	-	379,428
Interfund Receivable	265,000	-	-	265,000
Taxes Receivable	1,348,215	-	111,063	1,459,278
Due from Other Governments	121,956	101,172	19,614	242,742
Loans Receivable	-	-	230,555	230,555
<i>Total Assets</i>	<u>\$ 3,121,826</u>	<u>\$ 525,139</u>	<u>\$ 1,703,814</u>	<u>\$ 5,350,779</u>
LIABILITIES:				
Accounts Payable	\$ 30,318	\$ 10,746	\$ 610	\$ 41,674
Accrued Wages and Benefits	92,695	3,416	1,987	98,098
Matured Compensated Absences Payable	5,138	-	-	5,138
Due to Other Governments	61,594	4,557	124,821	190,972
Interfund Payable	-	-	265,000	265,000
Deferred Revenue	757,639	67,448	125,915	951,002
<i>Total Liabilities</i>	<u>947,384</u>	<u>86,167</u>	<u>518,333</u>	<u>1,551,884</u>
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	505,774	321,375	6,105	833,254
Reserved for Loans Receivable	-	-	230,555	230,555
Unreserved, Undesignated, Reported in:				
General Fund	1,668,668	-	-	1,668,668
Special Revenue Funds	-	117,597	677,361	794,958
Debt Service Funds	-	-	331,210	331,210
Capital Projects Funds	-	-	(59,750)	(59,750)
<i>Total Fund Balances</i>	<u>2,174,442</u>	<u>438,972</u>	<u>1,185,481</u>	<u>3,798,895</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,121,826</u>	<u>\$ 525,139</u>	<u>\$ 1,703,814</u>	<u>\$ 5,350,779</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2008

Total Governmental Fund Balances		\$ 3,798,895
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,490,424
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	467,618	
Intergovernmental	167,354	
Total	<u>634,972</u>	634,972
Long-term liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(2,516)	
Capital Lease Payable	(223,139)	
Compensated Absences	(332,099)	
General Obligation Bonds	(665,000)	
Total	<u>(1,222,754)</u>	<u>(1,222,754)</u>
Net Assets of Governmental Activities		<u><u>\$ 14,701,537</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, 2008

	General	Street	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 3,753,329	\$ -	\$ 291,913	\$ 4,045,242
Charges for Services	748,319	-	-	748,319
Licenses and Permits	24,125	-	3,883	28,008
Fines and Forfeitures	236,930	-	167,390	404,320
Intergovernmental	306,488	254,432	55,621	616,541
Interest	97,080	-	10,273	107,353
Rent	14,957	11,554	-	26,511
Contributions and Donations	-	-	521,580	521,580
Other	39,271	2,476	86,444	128,191
<i>Total Revenues</i>	<u>5,220,499</u>	<u>268,462</u>	<u>1,137,104</u>	<u>6,626,065</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,110,763	-	67,617	1,178,380
Judicial	275,274	-	78,198	353,472
Security of Persons and Property	2,942,258	-	430,964	3,373,222
Public Health	21,724	-	180,627	202,351
Lesiure Time Activities	-	-	129,253	129,253
Community Environment	50,310	-	140,815	191,125
Transportation	-	20,170	-	20,170
Capital Outlay	352,153	1,110,709	529,099	1,991,961
Debt Service:				
Principal Retirements	51,941	-	35,000	86,941
Interest and Fiscal Charges	12,505	-	34,913	47,418
<i>Total Expenditures</i>	<u>4,816,928</u>	<u>1,130,879</u>	<u>1,626,486</u>	<u>7,574,293</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>403,571</u>	<u>(862,417)</u>	<u>(489,382)</u>	<u>(948,228)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	579,000	408,736	987,736
Transfers Out	(788,736)	(7,434)	(199,000)	(995,170)
<i>Total Other Financing Sources and Uses</i>	<u>(788,736)</u>	<u>571,566</u>	<u>209,736</u>	<u>(7,434)</u>
<i>Net Change in Fund Balances</i>	(385,165)	(290,851)	(279,646)	(955,662)
<i>Fund Balances at Beginning of Year - Restated</i>	<u>2,559,607</u>	<u>729,823</u>	<u>1,465,127</u>	<u>4,754,557</u>
<i>Fund Balance at End of Year</i>	<u>\$ 2,174,442</u>	<u>\$ 438,972</u>	<u>\$ 1,185,481</u>	<u>\$ 3,798,895</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, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (955,662)

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

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

Capital Asset Additions	2,021,681	
Current Year Depreciation	<u>(563,192)</u>	
Total		1,458,489

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

Loss on Disposal of Capital Assets	<u>(462,438)</u>	
Total		(462,438)

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

Taxes	(126,938)	
Intergovernmental	<u>(11,635)</u>	
Total		(138,573)

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

35,000

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

51,941

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	40,936	
Decrease in Accrued Interest Payable	<u>369</u>	
Total		<u>41,305</u>

Net Change in Net Assets of Governmental Activities **\$ 30,062**

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, 2008

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,586,684	\$ 5,663,841	\$ 3,746,428	\$ (1,917,413)
Charges for Services	571,775	956,700	597,241	(359,459)
Licenses and Permits	23,096	52,592	24,125	(28,467)
Fines and Forfeitures	226,828	363,532	236,930	(126,602)
Intergovernmental	296,700	513,061	309,914	(203,147)
Interest	84,312	142,167	88,067	(54,100)
Rent	14,319	16,690	14,957	(1,733)
Other	60,236	73,307	44,271	(29,036)
<i>Total Revenues</i>	<u>4,863,950</u>	<u>7,781,890</u>	<u>5,061,933</u>	<u>(2,719,957)</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,216,842	1,494,133	1,164,736	329,397
Judicial	318,051	333,346	281,024	52,322
Security of Persons and Property	3,956,724	4,082,996	3,819,442	263,554
Public Health	25,100	25,617	21,724	3,893
Community Environment	58,128	62,801	50,310	12,491
<i>Total Expenditures</i>	<u>5,574,845</u>	<u>5,998,893</u>	<u>5,337,236</u>	<u>661,657</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(710,895)</u>	<u>1,782,997</u>	<u>(275,303)</u>	<u>(2,058,300)</u>
OTHER FINANCING SOURCES AND USES:				
Advances In	25,000	25,000	25,000	-
Transfers Out	(788,736)	(788,736)	(788,736)	-
<i>Total Other Financing Sources and Uses</i>	<u>(763,736)</u>	<u>(763,736)</u>	<u>(763,736)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(1,474,631)	1,019,261	(1,039,039)	(2,058,300)
<i>Fund Balance at Beginning of Year - Restated</i>	1,297,881	1,297,881	1,297,881	-
<i>Prior Year Encumbrances Appropriated</i>	<u>240,482</u>	<u>240,482</u>	<u>240,482</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 63,732</u>	<u>\$ 2,557,624</u>	<u>\$ 499,324</u>	<u>\$ (2,058,300)</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, 2008

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 195,422	\$ 328,158	\$ 256,357	\$ (71,801)
Rent	8,808	14,790	11,554	(3,236)
Other	1,887	3,169	2,476	(693)
<i>Total Revenues</i>	<u>206,117</u>	<u>346,117</u>	<u>270,387</u>	<u>(75,730)</u>
EXPENDITURES:				
Current:				
Transportation	832,328	842,512	756,952	85,560
Capital Outlay	802,275	812,091	729,620	82,471
<i>Total Expenditures</i>	<u>1,634,603</u>	<u>1,654,603</u>	<u>1,486,572</u>	<u>168,031</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,428,486)</u>	<u>(1,308,486)</u>	<u>(1,216,185)</u>	<u>92,301</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	579,000	579,000	579,000	-
Transfers Out	(7,434)	(7,434)	(7,434)	-
<i>Total Other Financing Sources and Uses</i>	<u>571,566</u>	<u>571,566</u>	<u>571,566</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(856,920)	(736,920)	(644,619)	92,301
<i>Fund Balance at Beginning of Year - Restated</i>	439,283	439,283	439,283	-
<i>Prior Year Encumbrances Appropriated</i>	<u>301,250</u>	<u>301,250</u>	<u>301,250</u>	<u>-</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (116,387)</u>	<u>\$ 3,613</u>	<u>\$ 95,914</u>	<u>\$ 92,301</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Net Assets
Proprietary Funds
December 31, 2008

	Water	Sewer	Total
ASSETS:			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 356,790	\$ 1,673,962	\$ 2,030,752
Cash and Cash Equivalents in Segregated Accounts	-	121,909	121,909
Accounts Receivable	211,706	311,227	522,933
Total Current Assets	568,496	2,107,098	2,675,594
<i>Noncurrent Assets</i>			
Non-Depreciable Capital Assets	5,230	177,482	182,712
Depreciable Capital Assets, Net	7,590,171	8,061,292	15,651,463
Total Noncurrent Assets	7,595,401	8,238,774	15,834,175
Total Assets	\$ 8,163,897	\$ 10,345,872	\$ 18,509,769
LIABILITIES:			
<i>Current Liabilities</i>			
Accounts Payable	\$ 8,347	\$ 7,953	\$ 16,300
Accrued Wages and Benefits	7,342	7,125	14,467
Due to Other Governments	10,768	11,066	21,834
Accrued Interest Payable	56,462	11,406	67,868
Notes Payable	-	650,000	650,000
OWDA Loans - Current Portion	-	75,194	75,194
Revenue Bonds Payable - Current Portion	114,000	-	114,000
OPWC Loans - Current Portion	-	10,000	10,000
Unamortized Charge - Current Portion	3,833	-	3,833
Total Current Liabilities	200,752	772,744	973,496
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
OWDA Loans Payable - Net of Current Portion	-	2,402,779	2,402,779
Compensated Absences Payable	14,085	29,920	44,005
Revenue Bonds Payable - Net of Current Portion	5,711,832	-	5,711,832
OPWC Loans - Net of Current Portion	-	170,000	170,000
Unamortized Charge - Refunding Bonds - Net of Current Portion	80,502	-	80,502
Total Noncurrent Liabilities	5,806,419	2,602,699	8,409,118
Total Liabilities	6,007,171	3,375,443	9,382,614
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	1,685,234	4,930,801	6,616,035
Unrestricted	471,492	2,039,628	2,511,120
Total Net Assets	\$ 2,156,726	\$ 6,970,429	\$ 9,127,155

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenses and
Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2008

	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 1,328,906	\$ 1,952,884	\$ 3,281,790
Tap-In Fees	19,200	113,384	132,584
Other	57,045	13,037	70,082
<i>Total Operating Revenues</i>	1,405,151	2,079,305	3,484,456
OPERATING EXPENSES			
Salaries and Wages	364,170	387,092	751,262
Fringe Benefits	186,221	188,062	374,283
Contractual Services	145,741	144,162	289,903
Materials & Supplies	105,354	116,205	221,559
Utilities	95,091	101,927	197,018
Other	60,709	47,078	107,787
Depreciation Expense	199,350	271,808	471,158
<i>Total Operating Expenses</i>	1,156,636	1,256,334	2,412,970
<i>Operating Income</i>	248,515	822,971	1,071,486
NONOPERATING REVENUES (EXPENSES)			
Interest Earnings	-	4,042	4,042
Loss on Disposal of Capital Assets	(1,410)	(56,329)	(57,739)
Interest and Fiscal Charges	(282,682)	(63,409)	(346,091)
<i>Total Nonoperating Revenues (Expenses)</i>	(284,092)	(115,696)	(399,788)
<i>Changes in Net Assets Before Transfers</i>	(35,577)	707,275	671,698
Transfers In	586	6,848	7,434
<i>Changes in Net Assets</i>	(34,991)	714,123	679,132
<i>Net Assets at Beginning of Year - Restated</i>	2,191,717	6,256,306	8,448,023
<i>Net Assets at End of Year</i>	<u>\$ 2,156,726</u>	<u>\$ 6,970,429</u>	<u>\$ 9,127,155</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2008

	Water	Sewer	Total
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>			
<i>Cash Flows from Operating Activities:</i>			
Cash Received from Customers	\$ 1,290,105	\$ 1,988,437	\$ 3,278,542
Cash Received from Other Operating Sources	57,045	13,037	70,082
Cash Payments to Suppliers for Goods and Services	(411,979)	(414,329)	(826,308)
Cash Payments to Employees for Services and Benefits	(577,059)	(581,343)	(1,158,402)
<i>Net Cash Provided by Operating Activities</i>	<u>358,112</u>	<u>1,005,802</u>	<u>1,363,914</u>
<i>Cash Flows from Noncapital Financing Activities:</i>			
Operating Transfers-In	586	6,848	7,434
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>586</u>	<u>6,848</u>	<u>7,434</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Payments for Capital Acquisitions	(10,296)	(382,989)	(393,285)
Principal Payments	(111,000)	(537,609)	(648,609)
Interest Payments	(264,269)	(64,580)	(328,849)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(385,565)</u>	<u>(985,178)</u>	<u>(1,370,743)</u>
<i>Cash Flows from Investing Activities:</i>			
Interest on Investments	-	4,042	4,042
<i>Net Cash Provided by Investing Activities</i>	<u>-</u>	<u>4,042</u>	<u>4,042</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(26,867)	31,514	4,647
Cash and Cash Equivalents at Beginning of Year - Restated	<u>383,657</u>	<u>1,764,357</u>	<u>2,148,014</u>
Cash and Cash Equivalents at End of Year	<u>\$ 356,790</u>	<u>\$ 1,795,871</u>	<u>\$ 2,152,661</u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>			
Operating Income	\$ 248,515	\$ 822,971	\$ 1,071,486
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>			
Depreciation	199,350	271,808	471,158
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(58,001)	(77,831)	(135,832)
Decrease in Accounts Payable	(5,084)	(4,957)	(10,041)
Decrease in Accrued Wages and Benefits	(3,273)	(3,586)	(6,859)
Decrease in Compensated Absences Payable	(23,744)	(2,845)	(26,589)
Increase in Due to Other Governments	349	242	591
Total Adjustments	<u>109,597</u>	<u>182,831</u>	<u>292,428</u>
Net Cash Provided by Operating Activities	<u>\$ 358,112</u>	<u>\$ 1,005,802</u>	<u>\$ 1,363,914</u>
<i>Noncash Transactions</i>			
Proceed from Issuance of Notes	\$ -	\$ 650,000	\$ 650,000
Principal Payments on Notes	-	(650,000)	(650,000)

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2008

	<u>Agency</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 95,782
Receivables:	
Accounts	<u>84,947</u>
<i>Total Assets</i>	<u><u>\$ 180,729</u></u>
LIABILITIES :	
Due to Other Governments	\$ 50,118
Undistributed Monies	34,708
Deposits Held and Due to Others	<u>95,903</u>
<i>Total Liabilities</i>	<u><u>\$ 180,729</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 (U.S. 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 City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. 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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Fund Financial Statements

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

FUND ACCOUNTING

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 liabilities 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. 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 fund is charged with all costs of operating the government for which a separate fund has not been established.

Street Fund - This fund is established to account for resources devoted to financing street repairs and construction.

The other governmental funds of the City account for grants and other resources 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 assets, 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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

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

BASIS OF ACCOUNTING

Accounting basis determines when transactions and economic events are reflected in its financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Government funds use the modified accrual basis of accounting; proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred 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 property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: interest and grants.

Deferred Revenue Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On the governmental fund financial statements, receivables that were not collected within the available period are also reflected as deferred revenue.

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

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. For the General Fund, Council appropriations are budgeted for fund and function level. For all other funds, Council appropriations are budgeted to the fund level. Any budgetary modifications at this level may only be made by resolution of the members of Council. The City follows these procedures in establishing the budgetary data reported in the financial statements.

Tax Budget: By July 15, the Auditor submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources: The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The revised budget then serves as the basis for the annual appropriation measure. Further amendments may be made during the year if the Council determines that revenue to be collected will be greater than or less than prior estimates and the budget commission finds the revised estimate to be reasonable. The amounts set forth in the financial statements represent estimates from the original and final amended certificates in effect when the original and final appropriations were adopted.

Appropriations: A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. Supplemental appropriations may be adopted by Council. Amounts shown in the financial statements as original appropriations represent the first appropriation measure adopted that covered the entire year. Final appropriations represent the final appropriations measure adopted for 2008. Supplemental appropriations were adopted during 2008 by the Council.

Budgeted Level of Expenditure: Administrative control is maintained through the establishment of budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. The appropriations allocations may be made by the City Auditor as long as the allocations are within Council's appropriated amount.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of funds are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve the portion of the applicable appropriation and determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance and subsequent year expenditures for governmental funds.

Lapsing of Appropriations: At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

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 2008, investments were limited to certificates of deposit, U.S. Treasury money market funds, and donated stock.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 assets 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 assets 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 assets 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

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 assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances"; however, there were no internal balances at December 31, 2008.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Notes, loans, capital leases, and bonds are recognized as liabilities on the fund financial statements when due.

RESERVES OF FUND BALANCES

The City records reservations for those portions of fund balance which are legally segregated for specific future use or which do not represent available, spendable resources and, therefore, are not available for expenditure. Undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances and for loans, which represent community development monies loaned to local businesses and homeowners.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are 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 assets are available.

Of the City's \$1,766,778 of restricted net assets, none was restricted by enabling legislation.

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.

CAPITAL CONTRIBUTIONS

Capital contributions in the enterprise fund financial statements arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction.

INTERFUND TRANSACTIONS

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

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

ESTIMATES

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

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

3. DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

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

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

3. DEPOSITS AND INVESTMENTS (Continued)

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.

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 \$3,392,600 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner as described above.

Investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturities 6 months or less</u>
Common Stock	\$ 6,553	\$ 6,553
U.S. Government Money Market Mutual Funds	1,615,586	1,615,586
	<u>\$ 1,622,139</u>	<u>\$ 1,622,139</u>

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 and stocks. The City's money market accounts are not rated.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

3. DEPOSITS AND INVESTMENTS (Continued)

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. More than 99 percent of the City’s investments are in money market funds as of December 31, 2008.

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.

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 and Street Funds 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 reservation of fund balance for governmental fund types (GAAP basis).

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

Net Change in Fund Balance		
	General	Street
GAAP Basis	\$ (385,165)	\$ (290,851)
Adjustments:		
Revenue Accrual	(133,566)	1,925
Expenditure Accrual	(4,003)	(27,640)
Encumbrances	(516,305)	(328,053)
Budget Basis	\$ (1,039,039)	\$ (644,619)

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

5. PROPERTY TAX

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the County. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last reappraisal was completed in 2003. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 12.5 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to 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, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2008. 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 2008 operations. The receivable is therefore offset by a credit to deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2008, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$121,486,020
Public Utility Personal Property	<u>3,719,190</u>
Total Property Taxes	<u>\$125,205,210</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.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

7. RECEIVABLES

Receivables at December 31, 2008 consisted of taxes, accounts (billings for user charged services including unbilled utility services), interfund, loans, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services.

Loans receivable represents low interest loans for development projects and home improvements granted to eligible City residents and business under the Community Development Program.

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

<u>General</u>	
Local Government	\$110,706
Homestead & Rollback	11,250
 <u>Major Special Revenue</u>	
Street Major Special Revenue Fund	
Gasoline Tax	101,172
 <u>Non-Major Special Revenue</u>	
State Highway Fund	
Gasoline Tax	8,202
Police Pension Fund	
Homestead & Rollback	1,776
Fire Pension Fund	
Homestead & Rollback	1,776
Municipal Motor Vehicle Fund	
Permissive Tax	6,084
 <u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,776</u>
 Total Governmental Activities	 <u>\$242,742</u>

8. INTERFUND TRANSACTIONS

Interfund balances at December 31, 2008, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
<i>Major Fund:</i>		
General Fund	\$265,000	\$0
<i>Non-Major Fund:</i>		
Tax Increment Capital Projects Fund	0	265,000
Total All Funds	\$265,000	\$265,000

The above balance resulted from an advance to cover shortfalls which will be repaid with future revenues.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

8. INTERFUND TRANSACTIONS (Continued)

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.

Transfers made during the year ended December 31, 2008, were as follows:

Fund	Transfer In	Transfer Out
General	\$ -	\$ 788,736
Major Special Revenue Fund		
Street	579,000	7,434
Non-Major Special Revenue Funds		
State Highway	-	109,000
Police Pension	87,000	-
Fire Pension	113,000	-
Recreation	95,736	-
Municipal Vehicle Improvement	-	90,000
Life Squad Improvement	113,000	-
Total Non-Major Special Revenue	408,736	199,000
Major Enterprise Funds		
Water Fund	586	-
Sewer Fund	6,848	-
Total All Funds	\$ 995,170	\$ 995,170

9. DEFINED BENEFIT RETIREMENT PLANS

Ohio Public Employees Retirement System: The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2008, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the traditional pension plan. City employees are required to contribute 10.0%, 9.5%, and 9.0%, respectively, of their annual covered salary to fund pension obligations and the City is required to contribute 14.00%, 13.85%, and 13.70%, respectively, for the years ended December 31, 2008, 2007, and 2006.

The City's contributions to the PERS of Ohio for the years ending December 31, 2008, 2007, and 2006 were \$234,276, \$255,668, and \$240,488 respectively. These contributions were equal to the required contributions for each of the years.

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

Plan members were required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer was required to contribute 19.5 percent for police officers and 24 percent for firefighters, for each of the years ended December 31, 2008, 2007, and 2006. Contributions are authorized by State statute.

The City's contributions to OP&F for the years ended December 31, 2008, 2007, and 2006 were \$162,577, \$166,808, and \$151,149 for policemen and \$221,445, \$244,391, and \$200,489 for firefighters, respectively, equal to required contributions for each year.

10. POSTEMPLOYMENT BENEFITS

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

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

10. POSTEMPLOYMENT BENEFITS (Continued)

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

OPERS issues a stand-alone financial report. Interest parties may obtain a copy by writing OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care 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 benefits.

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2008, the County contributed at 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14.0% of covered payroll. 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 Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2008, the employer contributions allocated to the health care plan was 7.0% of covered payroll. For 2007, these percentages were 5.0% for January through June 2007 and 6.0% for July through December 2007. For 2006, this percentage was 4.5%. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The employer contributions that were used to fund post-employment benefits were \$81,288 for 2008, \$101,953 for 2007, and \$79,000 for 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

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 survivor benefit check 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.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

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.

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 2008, 2007, and 2006, 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. For the year ended December 31, 2008, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. 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 number of participants eligible to receive health care benefits as of December 31, 2007, (the latest information available) was 14,295 for Police and 10,583 for Firefighters. The City's actual contributions for 2008, 2007, and 2006 that were used to fund postemployment benefits were \$56,252, \$57,716, and \$60,006, respectively, for Police, and \$62,226, \$68,674, and \$64,874, respectively, for Firefighters. The Fund's total health care expenses for the year ended December 31, 2007 (the latest information available) were \$93,205,319, which was net of member contributions of \$56,031,875.

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.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

11. RISK MANAGEMENT (Continued)

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. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$10,000,000. Governments can elect additional coverage, from \$3,000,000 to \$13,000,000 through General Reinsurance Corporation.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined PEP members' to insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600,000,000 per occurrence limit.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

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, 2008 and 2007.

<u>Casualty and Property Coverage</u>	<u>2008</u>	<u>2007</u>
Assets	\$35,769,535	\$37,560,071
Liabilities	(15,310,206)	(17,340,825)
Retained Earnings	\$20,459,329	\$20,219,246

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

11. RISK MANAGEMENT (Continued)

At December 31, 2008 and 2007, respectively, casualty coverage liabilities noted above include approximately \$12.9 million and \$15.0 million of estimated incurred claims payable. The casualty coverage assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member governments in the future, as of December 31, 2008 and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$196,816. This payable includes the subsequent year's contribution due if the City terminates participation, as described in the last paragraph of this Note below.

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>	
2006	\$103,176
2007	103,261
2008	98,408

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

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

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.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

12. OTHER EMPLOYEE BENEFITS (Continued)

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

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

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008:

	Beginning Balance 12/31/2007	Additions	Deletions	Ending Balance 12/31/2008
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 505,936	\$ 9,460	\$ -	\$ 515,396
Construction in Progress	123,590	-	(123,590)	-
Total Capital Assets, Not Being Depreciated	<u>629,526</u>	<u>9,460</u>	<u>(123,590)</u>	<u>515,396</u>
Capital Assets Being Depreciated				
Land Improvements	1,942,447	27,300	-	1,969,747
Buildings and Improvements	1,702,886	511,480	(11,000)	2,203,366
Furniture and Equipment	1,644,315	145,122	(166,198)	1,623,239
Vehicles	2,012,157	205,763	(181,066)	2,036,854
Infrastructure	9,579,082	1,246,146	(418,396)	10,406,832
Total Capital Assets Being Depreciated	<u>16,880,887</u>	<u>2,135,811</u>	<u>(776,660)</u>	<u>18,240,038</u>
Less Accumulated Depreciation				
Land Improvements	(983,955)	(37,840)	-	(1,021,795)
Buildings and Improvements	(530,025)	(55,590)	11,000	(574,615)
Furniture and Equipment	(896,444)	(115,776)	143,376	(868,844)
Vehicles	(1,060,523)	(140,252)	159,846	(1,040,929)
Infrastructure	(3,545,093)	(213,734)	-	(3,758,827)
Total Accumulated Depreciation	<u>(7,016,040)</u>	<u>(563,192)</u>	<u>314,222</u>	<u>(7,265,010)</u>
Total Capital Assets Being Depreciated, Net	<u>9,864,847</u>	<u>1,572,619</u>	<u>(462,438)</u>	<u>10,975,028</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,494,373</u>	<u>\$1,582,079</u>	<u>\$ (586,028)</u>	<u>\$ 11,490,424</u>

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$54,034
Security of Persons & Property	168,214
Public Health	1,550
Leisure Time Activities	44,661
Transportation	<u>294,733</u>
Total Depreciation Expense	<u>\$563,192</u>

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2008:

	Ending* Balance 12/31/2007	Additions	Deletions	Ending Balance 12/31/2008
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ -	\$ 10,460	\$ -	\$ 10,460
Construction in Progress	117,788	54,464	-	172,252
Total Capital Assets, Not Being Depreciated	<u>117,788</u>	<u>64,924</u>	<u>-</u>	<u>182,712</u>
Capital Assets Being Depreciated				
Land Improvements	277,066	-	-	277,066
Buildings and Equipment	16,484,408	301,963	(75,668)	16,710,703
Mechanical Equipment	1,065,025	6,698	(40,315)	1,031,408
Vehicles	421,085	12,500	(15,216)	418,369
Water/Sewer Lines	5,535,827	7,200	(5,657)	5,537,370
Total Capital Assets Being Depreciated	<u>23,783,411</u>	<u>328,361</u>	<u>(136,856)</u>	<u>23,974,916</u>
Less Accumulated Depreciation				
Land Improvements	(182,242)	(9,052)	-	(191,294)
Buildings and Equipment	(4,650,102)	(295,903)	28,165	(4,917,840)
Mechanical Equipment	(649,904)	(48,303)	31,601	(666,606)
Vehicles	(170,221)	(24,304)	13,694	(180,831)
Water/Sewer Lines	(2,278,943)	(93,596)	5,657	(2,366,882)
Total Accumulated Depreciation	<u>(7,931,412)</u>	<u>(471,158)</u>	<u>79,117</u>	<u>(8,323,453)</u>
Total Capital Assets Being Depreciated, Net	<u>15,851,999</u>	<u>(142,797)</u>	<u>(57,739)</u>	<u>15,651,463</u>
Business Type Activities Capital Assets, Net	<u>\$15,969,787</u>	<u>\$ (77,873)</u>	<u>\$ (57,739)</u>	<u>\$ 15,834,175</u>

* As Restated, See Note 19.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

14. LONG-TERM OBLIGATIONS

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

	Outstanding 12/31/2007	Issued	Retired	Outstanding 12/31/2008	Due In One Year
<i>Governmental Activities</i>					
Compensated Absences	\$ 373,035	\$ 332,099	\$ 373,035	\$ 332,099	\$ 34,880
2007 - 6.0% Street Improvement Bonds	700,000	-	35,000	665,000	35,000
Capital Lease	275,080	-	51,941	223,139	54,831
Total Governmental Activities	<u>\$ 1,348,115</u>	<u>\$ 332,099</u>	<u>\$ 459,976</u>	<u>\$ 1,220,238</u>	<u>\$ 124,711</u>
<i>Business Activities</i>					
Compensated Absences	\$ 70,594	\$ 44,005	\$ 70,594	\$ 44,005	\$ -
Water					
2004 - 2% Mortgage Revenue Bond	3,036,832	-	80,000	2,956,832	80,000
2005 - Water System Improvement Revenue Bonds - 4.25%	549,000	-	6,000	543,000	7,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,351,000	-	25,000	2,326,000	27,000
Unamortized Charge	88,168	-	3,833	84,335	3,833
Total Water Fund	<u>6,025,000</u>	<u>-</u>	<u>114,833</u>	<u>5,910,167</u>	<u>117,833</u>
Sewer					
2004 - OWDA Loan - 1%	345,089	-	11,293	333,796	11,291
2005 - OWDA Loan - 1%	1,259,792	-	64,213	1,195,579	63,903
2007 - OWDA Loan - 1%	1,115,701	-	167,103	948,598	-
2007 - OPWC Loan - 0%	190,000	-	10,000	180,000	10,000
2007 - 4.65% Notes	650,000	650,000	650,000	650,000	650,000
1997 - 4.65% Mortgage Revenue Bond	285,000	-	285,000	-	-
Total Sewer Fund	<u>3,845,582</u>	<u>650,000</u>	<u>1,187,609</u>	<u>3,307,973</u>	<u>735,194</u>
Total Business-Type Activities	<u>\$ 9,941,176</u>	<u>\$ 694,005</u>	<u>\$ 1,373,036</u>	<u>\$ 9,262,145</u>	<u>\$ 853,027</u>

Mortgage revenue bonds were issued for payment of water system improvements, construction of a 150,000,000 gallon reservoir, and a water storage tank. Properties and revenues of the utility facilities have been pledged to repay these debts. Mortgage revenue bonds in the amount of \$3,385,000 were issued in 2004 to refund water mortgage revenue bonds of \$3,281,500 issued in 1991. Property and revenue of the utility facilities have been pledged to repay these debts.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

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 1997 Mortgage Revenue Bonds were issued in the amount of \$2,510,000. These bonds are special obligations of the City, payable solely from the net revenues of its wastewater treatment and sewer system and the revenue fund created under the trust indenture.

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

The 2008 Bond Anticipation Note was issued in the amount of \$650,000 on August 26, 2008 at the interest rate of 5.25% to finance improvements of the sewer systems. The sewer fund will be used to repay this note.

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

The OWDA loans were still open as of December 31, 2008 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 \$10,747,933. The net revenue available for these bonds was \$447,865 and principal and interest paid was \$393,682. The coverage ratio for these bonds was 1.14 for the year ended December 31, 2008. The remaining principal to be paid on the OWDA loans was \$2,477,973. These loans have not been fully drawn and as such amortization schedules have not yet been provided to the City. Total interest estimated to be payable on these loans is \$385,783. The net revenue available for these loans was \$1,094,779 and principal and interest paid was \$265,679. The coverage ratio for the loans was 4.12 for the year ended December 31, 2008.

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, 2008

14. LONG-TERM DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire General Obligation Bonds and principal requirements to retire OPWC debt at December 31, 2008 were as follows:

	General Obligation Bonds		OPWC
	Principal	Interest	Principal
	2009	\$35,000	\$29,705
2010	40,000	28,130	10,000
2011	40,000	26,330	10,000
2012	40,000	24,530	10,000
2013	40,000	22,690	10,000
2014-2018	190,000	85,160	50,000
2019-2023	280,000	35,210	50,000
2024-2027	0	0	30,000
Total	\$665,000	\$251,755	\$180,000

Principal and interest requirements to retire Mortgage Revenue Bonds at December 31, 2008 were as follows:

	Mortgage Revenue Bonds	
	Principal	Interest
2009	\$114,000	\$260,252
2010	120,000	255,866
2011	121,000	251,244
2012	127,000	246,641
2013	135,000	240,989
2014-2018	753,000	1,115,467
2019-2023	930,000	935,538
2024-2028	1,163,000	695,269
2029-2033	1,015,000	405,737
2034-2038	513,000	263,432
2039-2043	632,000	144,764
2044-2045	291,000	18,734
Total	\$5,914,000	\$4,833,933

The amortization schedule does not match the outstanding debt amounts listed due to unamortized charges.

The City's overall legal debt margin was \$4,127,637 at December 31, 2008.

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2008.

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 fiscal year 2007, the City entered into a capital lease for the purchase of a front-end loader, a police cruiser, and a vac-truck. During fiscal year 2005, the City entered into a capital lease for the purchase of a Ford Explorer and two police cruisers. In a previous fiscal year, the City entered into a capitalized lease for the acquisition of a backhoe. The terms of the agreements provide options to purchase the equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the General Fund. These expenditures are reflected as program/object expenditures on a budgetary basis.

The capital assets acquired by the leases have been capitalized in the statement of net assets for governmental activities in the amount of \$414,075 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 assets for governmental activities. Principal payments in fiscal year 2008 totaled \$51,941 in the governmental funds.

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, 2008.

Year Ending December 31,	Capitalized Lease Obligation
2009	\$ 64,642
2010	57,529
2011	42,390
2012	34,363
2013	34,363
2014	17,182
Total Minimum Lease Payments	250,469
Less: Amount Representing Interest	(27,330)
Present Value of Minimum Lease Payments	\$ 223,139

City of Hillsboro
Notes To The Basic Financial Statements
For The Year Ended December 31, 2008

17. DONATED STOCK

On October 23, 2003, the City received a donation of Proctor and Gamble Stock to be used for Life Squad improvements and related equipment. The market value of this stock at the time of donation was \$3,235. An investment firm holds the City's stock in book entry form in the City's name.

18. COMPLIANCE

At December 31, 2008, the General Fund, Street Fund, and Water Fund had appropriations in excess of the available resources.

At December 31, 2008, the Street Fund had original appropriations in excess of estimated receipts and carryover balances.

19. RESTATEMENT OF BALANCES

During 2008, the City corrected accounting system posting errors and restated loans receivables to remove uncollectible balances within the City's governmental and business-type activities. Capital asset balances were restated within the City's Sewer Fund. These restatements had the following effect on the beginning fund balances and net assets.

	<u>Governmental Activities</u>	<u>General</u>	<u>Street</u>	<u>Other Governmental</u>
Net Assets/Fund Balance December 31, 2007	\$ 15,362,106	\$ 2,661,056	\$ 733,663	\$ 2,050,469
Restatement	<u>(690,631)</u>	<u>(101,449)</u>	<u>(3,840)</u>	<u>(585,342)</u>
Restated Net Assets/Fund Balance December 31, 2007	<u>\$ 14,671,475</u>	<u>\$ 2,559,607</u>	<u>\$ 729,823</u>	<u>\$ 1,465,127</u>
	<u>Business-type Activities</u>	<u>Water</u>	<u>Sewer</u>	
Net Assets, December 31, 2007	\$ 8,348,464	\$ 2,192,088	\$ 6,156,376	
Restatement	<u>99,559</u>	<u>(371)</u>	<u>99,930</u>	
Restated Net Assets, December 31, 2007	<u>\$ 8,448,023</u>	<u>\$ 2,191,717</u>	<u>\$ 6,256,306</u>	

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Ohio Society of Certified Public Accountants

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*

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

We have audited the financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Highland County, Ohio (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2009. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness on the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above, 2008-001 is also material weakness.

We also noted certain internal control matters which we reported to the City's management in a separate letter dated June 30, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items, 2008-002 and 2008-003.

We also note certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 30, 2009.

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

We intend this report solely for the information and use of management and members of the Council. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.
June 30, 2009

**CITY OF HILLSBORO
HIGHLAND COUNTY
DECEMBER 31, 2008
SCHEDULE OF FINDINGS**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Material Weakness

During the course of the audit, material and immaterial misstatements were identified related to the following:

- Capital Assets,
- Intergovernmental Revenue,
- Expenses.

The City should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported.

Client Response: We will continue to work diligently with our software provider to continuously improve the accuracy of our reporting.

FINDING NUMBER 2008-002

Material Noncompliance

Ohio Revised Code 5705.39 states that the total appropriation from each fund shall not exceed the total estimated resources. The City's Street Fund had appropriations exceeding the total estimated resources by \$116,387.

The City should monitor funds throughout the year to ensure total appropriations do not exceed total estimated resources.

Clients Response: We will be more timely in updating our estimated resources to assure more accurate reporting.

FINDING NUMBER 2008-003

Material Noncompliance

Ohio Revised Code 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. The City had appropriation exceeding the available revenue in the General Fund, Street Fund and Water Fund by \$143,685, \$72,117, \$110,025, respectfully.

The City should obtain an amended appropriation measure when it is determined that not all the estimated resources will be obtained.

Clients Response: We will review appropriations prior to year's end and adjust accordingly.



Mary Taylor, CPA
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
OCTOBER 6, 2009**