

City of Hillsboro, Ohio  
Highland County

Single Audit

January 1 , 2000 Through December 31, 2000

Fiscal Year Audited Under GAGAS: 2000

**BALESTRA & COMPANY**

CERTIFIED PUBLIC ACCOUNTANTS

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Member American Institute of Certified Public Accountants  
Ohio Society of Certified Public Accountants





**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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

We have reviewed the Independent Auditor's Report of the City of Hillsboro, Highland County, prepared by Balestra & Company for the audit period January 1, 2000 to December 31, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

**JIM PETRO**  
Auditor of State

August 23, 2001

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CITY OF HILLSBORO, OHIO  
HIGHLAND COUNTY

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130 North High  
Hillsboro, Ohio 45133

**Independent Auditor's Report**

We have audited the accompanying general-purpose financial statements of the City of Hillsboro, Highland County, as of and for the year ended December 31, 2000. These general-purpose financial statements are the responsibility of the City of Hillsboro's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Hillsboro, as of December 31, 2000, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2001 on our consideration of the City of Hillsboro's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City of Hillsboro, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

*Balestra & Company*  
Balestra & Company

June 30, 2001

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## General Purpose Financial Statements

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

**City of Hillsboro, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**As of December 31, 2000**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
-----				
Assets:				
-----				
Cash and Cash Equivalents	\$1,453,329	\$1,147,368	\$146,627	\$0
Investments	1,054,322	0	0	0
Cash and Cash Equivalents with Fiscal Agents	0	0	0	0
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Investments with Fiscal Agents	0	0	0	0
Receivables: (Net of Allowance)				
Taxes	798,261	63,580	31,790	0
Accounts	140,414	0	0	0
Due from Other Governments	50,874	26,233	0	0
Materials & Supply Inventory	29,607	26,696	0	0
Loans Receivable	0	611,999	0	0
Deferred Expense on Refunding	0	0	0	0
Prepaid Items	12,569	2,150	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
Other Debits:				
-----				
Amount to be Provided for retirement of general long-term debt	0	0	0	0
Amount Available in Debt Service Fund	0	0	0	0
-----				
Total Assets and Other Debits	\$3,539,376	\$1,878,026	\$178,417	\$0
=====				

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$1,699,021	\$7,712	\$0	\$0	\$4,454,057
0	0	0	0	1,054,322
171,219	0	0	0	171,219
0	63,600	0	0	63,600
254,296	0	0	0	254,296
0	0	0	0	893,631
332,382	435,394	0	0	908,190
0	0	0	0	77,107
33,563	0	0	0	89,866
0	0	0	0	611,999
169,085	0	0	0	169,085
8,778	0	0	0	23,497
7,321,956	0	14,135,742	0	21,457,698
0	0	0	368,218	368,218
0	0	0	178,417	178,417
<u>\$9,990,300</u>	<u>\$506,706</u>	<u>\$14,135,742</u>	<u>\$546,635</u>	<u>\$30,775,202</u>

(Continued)

**City of Hillsboro, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**As of December 31, 2000**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, Fund Equity and Other Credits:				
-----				
Liabilities:				
-----				
Accounts Payable	\$64,089	\$152,753	\$0	\$78,700
Accrued Wages	51,831	4,924	0	0
Compensated Absences Payable	16,368	3,078	0	0
Due to Other Governments	102,603	93,661	0	0
Deferred Revenue	197,718	62,550	31,275	0
Undistributed Monies	0	0	0	0
Deposits Held & Due Others	0	0	0	0
Accrued Interest Payable	0	0	0	0
Bond Anticipation Notes Payable	0	0	0	0
OWDA Loans Payable	0	0	0	0
Revenue Bonds Payable	0	0	0	0
	-----	-----	-----	-----
Total Liabilities	432,609	316,966	31,275	78,700
	-----	-----	-----	-----
Fund Equity and Other Credits:				
-----				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	107,598	28,810	0	0
Reserved for Inventory	29,607	26,696	0	0
Reserved for Prepaid Items	12,569	2,150	0	0
Reserved for Loans Receivable	0	611,999	0	0
Unreserved:				
Undesignated	2,956,993	891,405	147,142	(78,700)
	-----	-----	-----	-----
Total Fund Equity and Other Credits	3,106,767	1,561,060	147,142	(78,700)
	-----	-----	-----	-----
Total Liabilities, Fund Equity and Other Credits	\$3,539,376	\$1,878,026	\$178,417	\$0
	=====	=====	=====	=====

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$61,027	\$0	\$0	\$0	\$356,569
14,016	0	0	0	70,771
93,888	0	0	241,635	354,969
48,275	3,259	0	0	247,798
0	0	0	0	291,543
0	423,371	0	0	423,371
0	72,364	0	0	72,364
180,926	0	0	0	180,926
0	0	0	305,000	305,000
27,546	0	0	0	27,546
5,347,400	0	0	0	5,347,400
5,773,078	498,994	0	546,635	7,678,257
0	0	14,135,742	0	14,135,742
459,136	0	0	0	459,136
3,758,086	0	0	0	3,758,086
0	0	0	0	136,408
0	0	0	0	56,303
0	0	0	0	14,719
0	0	0	0	611,999
0	7,712	0	0	3,924,552
4,217,222	7,712	14,135,742	0	23,096,945
\$9,990,300	\$506,706	\$14,135,742	\$546,635	\$30,775,202

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balances  
 All Governmental Fund Types and Similar Trust Fund  
 For the Year Ended December 31, 2000

	General Fund	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Totals (Memorandum Only)
<b>Revenues:</b>						
Taxes	\$5,093,360	\$211,778	\$78,011	\$0	\$0	\$5,383,149
Charges for Services	203,984	0	231	0	0	204,215
License and Permits	12,964	65,346	0	0	0	78,310
Fines and Forfeitures	264,374	50,792	0	0	0	315,166
Intergovernmental	43,642	664,438	2,924	0	0	711,004
Investment Income	197,412	56,049	0	0	0	253,461
Rental	15,200	13,409	0	0	0	28,609
Other	18,055	51,343	0	0	2,484	71,882
<b>Total Revenues</b>	<b>5,848,991</b>	<b>1,113,155</b>	<b>81,166</b>	<b>0</b>	<b>2,484</b>	<b>7,045,796</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/Leg. & Exec.	1,221,242	0	0	0	0	1,221,242
Judicial	291,873	0	0	0	0	291,873
Health	17,325	13,240	0	0	0	30,565
Leisure Time Activity	0	99,454	0	0	0	99,454
Transportation	0	465,799	0	0	0	465,799
Security of Person & Property	2,909,217	293,616	0	0	0	3,202,833
Community Environment	31,812	630,667	0	0	0	662,479
Capital Outlay	0	0	1,496	78,700	0	80,196
Other	0	125,349	0	0	42	125,391
<b>Debt Service:</b>						
Principal Retirement	0	0	35,000	0	0	35,000
Interest and Fiscal Charges	0	0	16,150	0	0	16,150
<b>Total Expenditures</b>	<b>4,471,469</b>	<b>1,628,125</b>	<b>52,646</b>	<b>78,700</b>	<b>42</b>	<b>6,230,982</b>
Excess of Revenues Over (Under) Expenditures	1,377,522	(514,970)	28,520	(78,700)	2,442	814,814
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Assets	3,793	316	0	0	0	4,109
Operating Transfers - In	0	760,000	0	0	0	760,000
Operating Transfers - Out	(760,000)	0	0	0	0	(760,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(756,207)</b>	<b>760,316</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,109</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	621,315	245,346	28,520	(78,700)	2,442	818,923
Fund Balances (Deficit) at Beginning of Year (Restated - Note 15)	2,478,895	1,297,809	118,622	0	5,270	3,900,596
Residual Equity Transfers Increase (Decrease) in Reserve for Inventory	6,557	17,905	0	0	0	24,462
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$3,106,767</b>	<b>\$1,561,060</b>	<b>\$147,142</b>	<b>(\$78,700)</b>	<b>\$7,712</b>	<b>\$4,743,981</b>

See Accompanying Notes to the General Purpose Financial Statements.

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual (Budget Basis)  
 All Governmental Fund Types  
 For the Fiscal Year Ended December 31, 2000

	-----General Fund-----			-----Special Revenue Funds-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$4,354,884	\$5,047,345	\$692,461	\$198,500	\$211,906	\$13,406
Charges for Services	183,516	186,155	2,639	0	0	0
License and Permits	12,700	12,964	264	71,000	65,346	(5,654)
Fines and Forfeitures	185,000	264,374	79,374	48,200	50,792	2,592
Intergovernmental	40,000	38,643	(1,357)	917,600	705,191	(212,409)
Interest Income	175,000	213,722	38,722	45,500	56,049	10,549
Rent	7,600	15,200	7,600	1,000	13,409	12,409
Other	6,000	18,055	12,055	62,100	59,496	(2,604)
<b>Total Revenues</b>	<b>4,964,700</b>	<b>5,796,458</b>	<b>831,758</b>	<b>1,343,900</b>	<b>1,162,189</b>	<b>(181,711)</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/leg. & exec.	2,002,177	1,219,041	783,136	0	0	0
Judicial	322,376	288,148	34,228	35,489	5,680	29,809
Health	22,000	18,044	3,956	0	0	0
Leisure Time Activity	0	0	0	105,035	89,036	15,999
Transportation	0	0	0	531,970	436,955	95,015
Security of Person and Property	3,106,369	2,890,686	215,683	323,287	288,557	34,730
Community Environment	90,700	32,391	58,309	1,068,187	702,890	365,297
Capital Outlay	0	0	0	256,727	147,349	109,378
Other	0	0	0	0	0	0
<b>Debt Service:</b>						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>5,543,622</b>	<b>4,448,310</b>	<b>1,095,312</b>	<b>2,320,695</b>	<b>1,670,467</b>	<b>650,228</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(578,922)</b>	<b>1,348,148</b>	<b>1,927,070</b>	<b>(976,795)</b>	<b>(508,278)</b>	<b>468,517</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds of Notes	730,000	0	(730,000)	0	0	0
Proceeds from Sale of Fixed Assets	0	3,793	3,793	0	316	316
Advances In	0	20,000	20,000	0	0	0
Advances Out	0	0	0	0	(20,000)	(20,000)
Operating Transfers In	0	0	0	760,000	760,000	0
Operating Transfers Out	(760,000)	(760,000)	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(30,000)</b>	<b>(736,207)</b>	<b>(706,207)</b>	<b>760,000</b>	<b>740,316</b>	<b>(19,684)</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>(608,922)</b>	<b>611,941</b>	<b>1,220,863</b>	<b>(216,795)</b>	<b>232,038</b>	<b>448,833</b>
<b>Fund Balances (Deficit) at Beginning of Year</b>	<b>1,785,072</b>	<b>1,785,072</b>	<b>0</b>	<b>866,149</b>	<b>866,149</b>	<b>0</b>
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$1,176,150</b>	<b>\$2,397,013</b>	<b>\$1,220,863</b>	<b>\$649,354</b>	<b>\$1,098,187</b>	<b>\$448,833</b>

(Continued)

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Budget and Actual (Budget Basis)  
 All Governmental Fund Types  
 For the Fiscal Year Ended December 31, 2000

	-----Debt Service Fund-----			-----Capital Projects Fund-----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>						
Taxes	\$78,050	\$78,046	(\$4)	\$0	\$0	\$0
Charges for Services	0	231	231	0	0	0
License and Permits	0	0	0	0	0	0
Fines and Forfeitures	0	0	0	0	0	0
Intergovernmental	1,950	2,924	974	0	0	0
Interest Income	0	0	0	0	0	0
Rent	0	0	0	0	0	0
Other	0	0	0	0	0	0
<b>Total Revenues</b>	<b>80,000</b>	<b>81,201</b>	<b>1,201</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General Government/leg. & exec.	0	0	0	0	0	0
Judicial	0	0	0	0	0	0
Health	0	0	0	0	0	0
Leisure Time Activity	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
Security of Person and Property	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0
Other	37,300	1,496	35,804	0	0	0
<b>Debt Service:</b>						
Principal Retirement	35,000	35,000	0	0	0	0
Interest and Fiscal Charges	20,000	16,150	3,850	0	0	0
<b>Total Expenditures</b>	<b>92,300</b>	<b>52,646</b>	<b>39,654</b>	<b>0</b>	<b>0</b>	<b>0</b>
Excess of Revenues Over (Under) Expenditures	(12,300)	28,555	40,855	0	0	0
<b>Other Financing Sources (Uses):</b>						
Proceeds of Notes	0	0	0	0	0	0
Proceeds from Sale of Fixed Assets	0	0	0	0	0	0
Advances In	0	0	0	0	0	0
Advances Out	0	0	0	0	0	0
Operating Transfers In	0	0	0	0	0	0
Operating Transfers Out	0	0	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(12,300)	28,555	40,855	0	0	0
Fund Balances (Deficit) at Beginning of Year	118,072	118,072	0	0	0	0
<b>Fund Balances (Deficit) at End of Year</b>	<b>\$105,772</b>	<b>\$146,627</b>	<b>\$40,855</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

See Accompanying Notes to the General Purpose Financial Statements.



**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenses  
 and Changes in Retained Earnings  
 Proprietary Fund Type  
 For the Year Ended December 31, 2000

	Enterprise
Operating Revenues:	
-----	
Sales	\$14,305
Charges for Services	2,067,716
Other Operating Revenues	24,189
	-----
Total Operating Revenue	2,106,210
	-----
Operating Expenses:	
-----	
Salaries	672,411
Fringe Benefits	192,980
Purchased Services	130,028
Materials and Supplies	163,532
Depreciation	368,037
Amortization	24,336
Contractual Services	292,435
Other Operating Expenses	39,388
	-----
Total Operating Expenses	1,883,147
	-----
Operating Income (Loss)	223,063
	-----
Non-Operating Revenues (Expenses):	
-----	
Gain on Sale of Fixed Assets	80
Interest	47,343
Loss on Disposal of Fixed Assets	(1,330)
Interest and Fiscal Charges	(296,021)
	-----
Total Non-Operating Revenues (Expenses)	(249,928)
	-----
Net Income (Loss)	(26,865)
	-----
Retained Earnings/Fund Balance (Deficit) at Beginning of Year (Restated - Note 15)	3,784,951
	-----
Retained Earnings/Fund Balance (Deficit) at End of Year	3,758,086
	-----
Contributed Capital at Beginning of Year	351,861
Contributions During the Year from:	
Water/Sewer Taps	107,275
	-----
Contributed Capital at End of Year	459,136
	-----
Total Fund Equity at End of Year	\$4,217,222

See Accompanying Notes to the General Purpose Financial Statements.

**City of Hillsboro, Ohio**  
 Combined Statement of Revenues, Expenses and Changes  
 In Fund Equity - Budget (Budget Basis) and Actual  
 Proprietary Fund Type  
 For the Year Ended December 31, 2000

	----- Enterprise -----		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
	-----		
Operating Revenues:			
-----			
Tap-In Fees	\$48,000	\$107,275	\$59,275
Sales	27,000	14,305	(12,695)
Charges for Services	2,007,000	2,048,889	41,889
Other Operating Revenues	23,000	24,269	1,269
	-----		
Total Operating Revenue	2,105,000	2,194,738	89,738
	-----		
Operating Expenses:			
-----			
Salaries	758,460	686,024	72,436
Fringe Benefits	243,940	171,780	72,160
Purchased Services	140,700	115,167	25,533
Materials and Supplies	221,960	169,092	52,868
Contractual Services	3,892,894	728,549	3,164,345
Other Operating Expenses	65,231	40,298	24,933
	-----		
Total Operating Expenses	5,323,185	1,910,910	3,412,275
	-----		
Operating Income (Loss)	(3,218,185)	283,828	3,502,013
	-----		
Non-Operating Revenues (Expenses):			
-----			
Other Non-Operating Revenues	3,400,000	0	(3,400,000)
Interest	15,000	28,289	13,289
Payment on Principal	(269,800)	(333,073)	(63,273)
Interest and Fiscal Charges	(306,337)	(327,509)	(21,172)
	-----		
Total Non-Operating Revenues (Expenses)	2,838,863	(632,293)	(3,471,156)
	-----		
Net Income (Loss)	(379,322)	(348,465)	30,857
	-----		
Retained Earnings/Fund Balance (Deficit) at Beginning of Year	1,815,116	1,815,116	0
	-----		
Retained Earnings/Fund Balance at Year End	\$1,435,794	\$1,466,651	\$30,857
	=====		

See Accompanying Notes to the General Purpose Financial Statements.

**City of Hillsboro, Ohio**  
 Combined Statement of Cash Flows  
 Proprietary Fund Type  
 For the Year Ended December 31, 2000

	Enterprise
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$2,063,194
Cash Received from Other Operating Sources	24,189
Cash Payments to Suppliers for Goods and Services	(584,585)
Cash Payments to Employees for Services	(672,008)
Cash Payments for Employee Benefits	(171,618)
Net Cash Provided by (Used for) Operating Activities	659,172
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Tap in Fees	107,275
Proceeds from Sale of Capital Assets	80
Payment for Capital Acquisitions	(341,555)
Principal Payments	(264,740)
Interest Payments	(300,853)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(799,793)
Cash Flows from Investing Activities:	
Interest on Investments	43,891
Net Cash Provided by (Used for) Investing Activities	43,891
Net Increase (Decrease) in Cash and Cash Equivalents	(96,730)
Cash and Cash Equivalents at Beginning of Year	1,966,970
Cash and Cash Equivalents at End of Year	\$1,870,240
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Operating Income (Loss)	\$223,063
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	368,037
Amortization	24,336
Changes in Assets and Liabilities:	
(Increase)/Decrease in Accounts Receivable	(18,827)
(Increase)/Decrease in Prepaid Items	(1,915)
(Increase)/Decrease in Materials and Supplies Inventory	(6,411)
Increase/(Decrease) in Accounts Payable	49,124
Increase/(Decrease) in Accrued Wages	3,315
Increase/(Decrease) in Compensated Absences Payable	(5,473)
Increase/(Decrease) in Intergovernmental Payable	23,923
Total Adjustments	436,109
Net Cash Provided by Operating Activities	\$659,172

See Accompanying Notes to the General Purpose Financial Statements.

## CITY OF HILLSBORO, OHIO

### NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### A. CITY GOVERNMENT AND REPORTING ENTITY

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

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

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

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. CITY GOVERNMENT AND REPORTING ENTITY (Continued)**

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

**B. BASIS OF ACCOUNTING - FUND ACCOUNTING**

The City uses funds and account groups to report on its financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is a separate accounting entity with self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable financial resources.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate fund types. The following categories and fund types are used by the City:

***GOVERNMENTAL FUNDS***

***General Fund*** - The general fund is used to account for all activities of the City not required to be included in another fund.

***Special Revenue Funds*** - The special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

***Debt Service Funds*** - The debt service funds are used to account for the accumulation of financial resources for, and the payment of, general obligation long-term debt principal, interest and related costs.

***Capital Project Funds*** - The capital project funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by enterprise funds).

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIS OF ACCOUNTING - FUND ACCOUNTING (Continued)

**PROPRIETARY FUNDS:**

**Enterprise Funds** - The enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises. The intent of the City is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**FIDUCIARY FUNDS:**

**Expendable Trust Fund** - The Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. The Expendable Trust fund accounts for assets where both the principal and interest may be spent.

**Agency Funds** - The Agency funds are custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

**ACCOUNT GROUPS:**

**General Fixed Assets Account Group** - The General Fixed Assets Account Group is used to account for all general fixed assets of the City, other than those fixed assets accounted for in the proprietary funds.

**General Long-Term Obligations Account Group** - The General Long-Term Obligations Account Group is used to account for all long-term obligations of the City, except those accounted for in the proprietary funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)**

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

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

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

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

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Special assessment installments are recorded as deferred revenue because they do not meet the availability criteria. Property taxes measurable as of December 31, 2000, and delinquent property taxes, whose availability is indeterminate and which are not intended to finance the current year, have also been recorded as deferred revenue.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reported in the combined financial statements.

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

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

The revised budget then serves as the basis for the annual appropriation measure. Further amendments may be made during the year if the Council determines that revenue to be collected will be greater than or less than prior estimates and the budget commission finds the revised estimate to be reasonable. The amounts set forth in the financial statements represents estimates from the final amended certificate issued in 2000.

**Appropriations:** A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. Supplemental appropriations may be adopted by Council. Amounts shown in the financial statements represent the appropriated budgeted amounts and all supplemental appropriations. Several supplemental appropriations were adopted during 2000 by Council.

**Budgeted Level of Expenditure:** Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. For all funds, Council appropriations are budgeted to fund, function, and detailed object level. 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.



**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

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

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

**E. CASH AND INVESTMENTS**

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

During fiscal year 2000, investments were limited to repurchase agreements and treasury notes.

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

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

**F. PROPERTY, PLANT AND EQUIPMENT**

The fixed asset values initially were determined at December 31, 1995, and again at December 31, 1999 assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. Donated fixed assets are capitalized at estimated fair market value on the date donated. The City has established \$500 as the threshold for which fixed assets are to be reported.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. PROPERTY, PLANT AND EQUIPMENT (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

**General Fixed Assets:** General fixed assets (fixed assets used in governmental fund type operation) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group at historical cost or estimated historical cost. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are capitalized, as these assets are of value to the City.

**Enterprise Fund Fixed Assets:** Fixed assets reflected in the enterprise funds are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	30 years
Land Improvements	20 years
Furniture	10 years
Machinery and Equipment	10-20 years
Vehicles	8 years
Water/Sewer Lines	65 years

G. INVENTORIES OF SUPPLIES

Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the enterprise funds when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond December 31, 2000, are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**I. INTERFUND ASSETS AND LIABILITIES**

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet. Short-term interfund loans or the short-term portion of advances are classified as interfund receivables/payables.

**J. COMPENSATED ABSENCES**

In 1996, the City implemented the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end. This item is discussed in Note 12 to the General Purpose Financial Statements.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, compensated absences are expended when earned. The entire amount of compensated absences is reported as a fund liability.

**K. INTERGOVERNMENTAL REVENUES**

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for enterprise fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Such resources restricted for the construction of capital assets are recorded as contributed capital.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. CONTRIBUTED CAPITAL**

Contributed capital represents resources from other funds, other governments, private sources, and tap-in fees, to the extent they exceed the cost of physical connection to the system, which have been provided to the enterprise funds and are not subject to repayment. Because the City, prior to 1996 had not prepared financial statements in accordance with generally accepted accounting principles, the exact amount of contributed capital pertaining to years prior to 1996 cannot be determined. Consequently, only those amounts that have been able to be identified specifically have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to the enterprise funds have been classified as retained earnings. As of December 31, 2000 the City's contributed capital consisted of tap-in fees.

**M. RESERVES OF FUND EQUITY**

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

**N. LONG-TERM DEBT**

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term obligations account group.

**O. INTERFUND TRANSACTIONS**

During the course of normal operations, the City has numerous transactions between funds, most of which are in the form of transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

Nonrecurring and non-routine transfers of equity between funds and the transfer of residual balances of discontinued funds or projects to the general fund or capital projects funds are classified as residual equity transfers.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**O. INTERFUND TRANSACTIONS (Continued)**

Transactions that constitute reimbursements for expenditures or expenses initially made from a fund that are properly allocable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditures and expenses in the fund that is reimbursed.

**P. ESTIMATES**

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

**Q. TOTAL COLUMNS ON FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

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

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool;
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

**Deposits:** At year end, the carrying amount of the City's deposits was \$2,181,124 and the bank balance was \$2,350,626. Of the bank balance:

1. \$763,599 was covered by federal depository insurance; and
2. \$1,587,027 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City held to a successful claim by the FDIC.

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

	Category			Carrying	Fair
	1	2	3	Amount	Value
<b>Investments:</b>					
Money Market \$	0	\$ 0	\$ 0	\$ 250,273	\$ 250,273
Repurchase Agreements	0	0	2,257,479	2,257,479	2,257,479
U.S. Treasury Notes	0	1,308,618	0	1,308,618	1,308,618
	0	1,308,618	0	1,308,618	1,308,618
Total Investments	\$ 0	\$1,308,618	\$2,257,479	\$3,816,370	\$3,816,370

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

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting."

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

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

GASB 3 to GASB 9 Reconciliation

	<u>Cash &amp; Cash Equivalents</u>	<u>Investments</u>
GASB 9 Balances	\$ 4,688,876	\$1,308,618
Repurchase Agreements	(2,257,479)	2,257,479
Money Market	<u>(250,273)</u>	<u>250,273</u>
GASB 3	<u>\$ 2,181,124</u>	<u>\$3,816,370</u>

**3. BUDGETARY BASIS OF ACCOUNTING**

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

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



**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

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

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$621,315	\$245,346	\$28,520	\$(78,700)
Adjustments:				
Revenue Accrual	(32,533)	49,034	35	0
Expenditure Accrual	131,682	(13,163)	0	78,700
Encumbrances	(108,523)	(49,179)	0	0
Budget Basis	\$611,941	\$232,038	\$28,555	\$ 0

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

Net Loss/Excess of Revenues Over Expenses, and Operating Transfers Proprietary Fund Type	
	Enterprise
GAAP Basis	\$ (26,865)
Increases (Decreases) Due To:	
Revenue Accruals	69,474
Expense Accruals	(159,954)
Gain/Loss on Disposal of Fixed Assets	1,250
Encumbrances	(232,370)
Budget Basis	\$(348,465)

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

**4. LONG-TERM DEBT OBLIGATIONS**

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

<u>Types / Issues</u>	<u>Outstanding at 12/31/99</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding at 12/31/00</u>
<i>General Long-Term Obligations</i>				
Compensated Absences	\$ 229,076	\$ 12,559	\$ 0	\$ 241,635
Bond Anticipation Notes	<u>340,000</u>	<u>0</u>	<u>35,000</u>	<u>305,000</u>
Total Long-Term Obligations	<u>\$ 569,076</u>	<u>\$ 12,559</u>	<u>\$ 35,000</u>	<u>\$ 546,635</u>
<i>Enterprise Fund Obligations</i>				
<b>Water Fund</b>				
Mortgage Revenue Bond	3,451,300	0	38,900	3,412,400
<b>Sewer Fund</b>				
OWDA Loan	53,386	0	25,840	27,546
Mortgage Revenue Bonds	<u>2,135,000</u>	<u>0</u>	<u>200,000</u>	<u>1,935,000</u>
Total Enterprise Fund Obligation	<u>\$5,639,686</u>	<u>\$ 0</u>	<u>\$ 264,740</u>	<u>\$5,374,946</u>

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

Mortgage revenue bonds were issued to refund and defease sewer mortgage revenue bonds of \$2,315,000 dated January 22, 1990. Property and revenue of the utility facilities have been pledged to repay these debts.

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

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

The City has Industrial Development Revenue Bonds outstanding in the aggregate principal of \$835,000 at December 31, 2000 for facilities used by private corporations or other entities. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. There has not been and is not any condition of default under the bonds or the related financing documents.

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

The annual requirement to amortize all bonded debt outstanding as of December 31, 2000, including interest payments of \$4,489,100 are as follows:

	Mortgage Revenue Bonds	O.W.D.A Loans	Totals (Memorandum Only)
2001	532,640	29,177	561,817
2002	533,271	16,565	549,836
2003	533,241		533,241
2004	532,486		532,486
2005	531,334		531,334
2006-2010	2,078,731		2,078,731
2011-2015	1,209,014		1,209,014
Thereafter	3,867,587		3,867,587
<b>Totals</b>	<b>\$9,818,304</b>	<b>\$45,742</b>	<b>\$9,864,046</b>

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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

The amount to repay note debt outstanding as of December 31, 2000, including interest payments of \$83,850 are as follows:

	General Obligation Bond Anticipation Note
2001	\$ 54,825
2002	57,550
2003	54,950
2004	57,350
2005	54,425
2006-2007	<u>109,750</u>
Total	<u>\$ 388,850</u>

The City has utilized trustees (Fifth/Third Bank) to service the general obligation and mortgage revenue bonds. Payments to the trustees are recorded as disbursements in the year they are deposited with the trustees. At December 31, 2000, the trustees have accumulated \$425,515 toward the redemption of these bonds.

**5. PROPERTY TAX**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the County. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1994. Real property taxes are payable annually or semiannually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to itself its share of the taxes collected. The City records receipt of these taxes in various funds.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**5. PROPERTY TAX (Continued)**

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, 2000. 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 2000 operations. The receivable and the portion of the tax levies prepaid by year end into the undivided general tax agency fund are therefore offset by a credit to deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2000, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1999 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$ 87,595,810
Public Utility Personal Property	3,640,150
Tangible Personal Property	<u>26,285,890</u>
Total Property Taxes	<u><u>\$117,521,850</u></u>

**6. LOCAL INCOME TAX**

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

**7. RECEIVABLES**

Receivables at December 31, 2000 consisted of taxes, interest, accounts (billings for user charged services including unbilled utility services), and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services.

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

Municipal Court receivables amount to \$1,040,773. Due to the age of many of these accounts, the amount of \$605,379 is considered uncollectable.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

**7. RECEIVABLES (Continued)**

A summary of the principal items of intergovernmental receivables follows:

<u>General</u>	
Local Government	\$ 3,340
Sales Tax	<u>47,534</u>
Total General	<u>50,874</u>
<u>Special Revenue</u>	
Street Constr., Maint. & Repair Fund	
Gasoline Tax	22,158
State Highway	
Gasoline Tax	1,797
Municipal Motor Vehicle Fund	
Permissive Tax	<u>2,278</u>
Total Special Revenue	<u>26,233</u>
Total	<u><u>\$ 77,107</u></u>

**8. FIXED ASSETS**

**General Fixed Assets:** Changes in general fixed assets during 2000 were as follows:

	*Restated Balance at 12/31/99	Additions	Deletions	Balance at 12/31/00
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Infrastructure	\$7,964,023	\$ 60,264	\$ 0	\$ 8,024,287
Land Improvements	2,163,306	10,500	0	2,173,806
Buildings & Improvements	1,442,780	26,425	0	1,469,205
Furniture & Equipment	727,085	119,341	13,840	832,586
Construction in Progress	0	17,374	0	17,374
Vehicles	870,353	771,974	23,843	1,618,484
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$13,167,547</u>	<u>\$1,005,878</u>	<u>\$ 37,683</u>	<u>\$14,135,742</u>

\* See Note 15 for explanation of restated fixed asset balances.

CITY OF HILLSBORO, OHIO

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

8. FIXED ASSETS (Continued)

**Proprietary Fund Fixed Assets:** A summary of the Proprietary Fund Types fixed assets as of December 31, 2000, follows:

	Balance at 12/31/00
Land Improvements	\$ 71,154
Mechanic Equipment	686,782
Vehicles	117,727
Plant Buildings & Equipment	7,300,644
Water/Sewer Lines	<u>4,510,796</u>
Total Assets	12,687,103
Accumulated Depreciation	<u>( 5,365,147)</u>
Net Value of Assets	<u>\$ 7,321,956</u>

9. DEFINED BENEFIT RETIREMENT PLANS

**Public Employees Retirement System:** All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the Public Employees Retirement System of Ohio (the "PERS of Ohio"), a cost-sharing multiple employer defined benefit pension plan. PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The Retirement Board instituted a temporary employer contribution rollback for calendar year 2000. The employer rate for local government employer units was 10.84%, of covered payroll; 4.3% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1998, 1999, and 2000 were \$175,986, \$177,098, and \$190,629 which were equal to the required contributions.

**Police and Firemen's Disability and Pension Fund:** The City of Hillsboro contributes to the Police and Firemen's Disability and Pension Fund of Ohio (the "Fund"), a cost-sharing multiple employer public employee retirement system administered by the Fund's Board of Trustees. The Fund provides retirement benefits, disability, and health care benefits to qualified participants and survivor and death benefits to qualified spouses, children and dependent parents. Benefits are based on eligible service credit. Benefits are established by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**9. DEFINED BENEFIT RETIREMENT PLANS (Continued)**

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police and 24 percent for firefighters. Contributions are authorized by the State statute. An actuary, however, is used to determine the actuarial implications of the statutory requirements. The City's contributions to the Fund for the years ended December 31, 1998, 1999, and 2000 were \$111,002, \$113,317, and \$127,060 for policemen and \$127,489, \$145,008 and \$158,250 for firefighters, respectively, equal to required contributions for each year.

**10. POSTEMPLOYMENT BENEFITS**

**Public Employees Retirement System:** The PERS of Ohio provides postemployment health care benefits to age service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 2000 employer contribution rate (identified above) that was used to fund health care for the year 2000 was \$75,623, 4.3% of covered payroll.

The health inflation and significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio's latest actuarial review performed as of December 31, 1999. OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

The number of active contributing participants was 401,339. \$10,805.5 million represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 1999. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were \$12,473.6 million and \$1,668.1 million, respectively.

The Retirement Board enacted temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for both state and local government divisions. The Board reallocated employer contributions from 4.2% to 4.3% at the beginning of the year to improve health care funding. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons.

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



**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**10. POSTEMPLOYMENT BENEFITS (Continued)**

The number of participants eligible to receive health care benefits as of December 31, 1999, (the latest information available) was 12,467 for policemen and 9,807 for firefighters. The City's actual contributions for 2000 that were used to fund postemployment benefits was \$47,266 for police and \$47,792 for firefighters. The Fund's total health care expenses for the year ending December 31, 2000 were \$95,004,633, which was net of member contributions \$5,518,098.

**11. RISK MANAGEMENT**

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

General liability insurance is maintained in the amount of \$1,000,000 for each occurrence and \$3,000,000 in the general aggregate. Other liability insurances includes \$1,000,000 employers liability coverage (which provides additional coverage to the State's Workers Compensation Program), \$1,000,000 for law enforcement professional liability, \$1,000,000 for public official errors and omissions liability and \$1,000,000 for automobile liability. In addition the City maintains replacement cost insurance on building and contents in the blanket amount of \$10,338,648. Other property insurance includes contractor's equipment, automobile physical damage and earthquake damage to the blanket limit. The City carries comprehensive boiler and machinery coverage in the amount of \$3,000,000.

The City also maintains crime insurance on monies and securities in the amount of \$2,500. In addition the City carries employee dishonesty coverage in the amount of \$25,000. The City pays all elected officials' bonds by statute. The City insures an employee health benefits program through Humana Insurance Company.

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

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

**12. OTHER EMPLOYEE BENEFITS**

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

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

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**12. OTHER EMPLOYEE BENEFITS (Continued)**

The Police Department earns sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with not less than 10 years of service at retirement shall be paid the value of his/her sick leave credit for up to one-third of the leave up to a maximum of 400 hours upon termination. The Fire Department earns sick leave at a rate of 6.44 hours for each completed pay period. Those employees with not less than 10 years of service at retirement shall be paid the value of his/her sick leave credit for up to one-fourth of the leave up to 240 hours. All other City employees earn sick leave at a rate of 4.6 hours per completed eighty hours of active pay status. Those employees with at least one year of service at the time of separation shall be paid one-half of the sick leave credit. Such payment shall be based on the employee's rate of pay at the time of separation, or the full balance may be transferred to another governmental agency. At December 31, 2000 the current amount of unpaid compensated absences in the governmental funds and the balance of the liability in the general long term obligations account group were \$19,446 and \$241,635 respectively. The liability for compensated absences in the enterprise funds was \$93,888.

**13. SEGMENT INFORMATION - ENTERPRISE FUNDS**

Financial segment information as of and for the year ended December 31, 2000 for the Enterprise Funds presented as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenue	\$1,127,555	\$ 978,655	\$ 2,106,210
Depreciation Expense	120,015	248,022	368,037
Amortization Expense	0	24,336	24,336
Operating Income/(Loss)	290,467	(67,404)	223,063
Net Income/(Loss) after Operating Transfers	87,873	(114,738)	(26,865)
Net Working Capital	796,990	1,473,222	2,270,212
Total Assets	3,849,576	6,140,724	9,990,300
Revenue Bonds Payable	3,412,400	1,935,000	5,347,400
OWDA Loans Payable	0	27,546	27,546
Total Equity	192,349	4,024,873	4,217,222
Encumbrances at 12/31/2000	92,580	139,790	232,370

**CITY OF HILLSBORO, OHIO**

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2000

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**14. 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, 2000.

**15. PRIOR YEAR RESTATEMENTS**

The General and Enterprise Funds respective beginning fund balance and retained earnings were adjusted due to correction of errors resulting in accrual restatements. The Fixed Assets Account Group beginning balance was adjusted due to a revaluation of City assets performed by Valuation Resources Management, Inc.

	<u>Amount at December 31, 1999</u>	<u>Adjustments</u>	<u>Amount at January 1, 2000</u>
General Fund	\$2,392,301	\$86,594	\$2,478,895
Enterprise Funds	4,549,599	(764,648)	3,784,951
Fixed Assets	14,155,113	(987,566)	13,167,547

**CITY OF HILLSBORO, OHIO**  
**HIGHLAND COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES**  
**FOR THE YEAR ENDED DECEMBER 31, 2000**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U. S. Department of Housing &amp; Urban Development</u>				
<i>Passed through Ohio Department of Development</i>				
Community Development Block Grants		14.228		
REHAB Fund (209)	G00261	G622	\$580,000	\$580,000
<i>Passed through Highland County</i>				
CDBG Fund (208)	G00948	H095	41,260	0
Total U. S. Department of Housing & Urban Development			621,260	580,000
<u>U. S. Department of Justice</u>				
<i>Passed through Governor's Office of Criminal Justice Services</i>				
Drug Control & Systems Improvement Formula Grant (216)	N/A	16.579	5,570	5,298
Violence Against Women (VAWA) Grant (216)	N/A	16.588	9,668	14,022
Law Enforcement Block Grant (101)	N/A	16.592	2,377	0
Public Safety and Community Policing Grants (101)	N/A	16.710	13,462	23,558
Total U. S. Department of Justice			31,077	42,878
Total Federal Financial Assistance			\$652,337	\$622,878

**CITY OF HILLSBORO, OHIO**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

**FOR THE YEAR ENDED DECEMBER 31, 2000**

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**NOTE A  
SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B  
REVOLVING LOAN FUNDS**

The City of Hillsboro administers a loan program with funds provided by the U.S. Department of Housing and Urban Development, through the Ohio Department of Development, under the Community Development Block Grant Program. The purpose of this program is to provide loans to low and moderate income families for building improvement at a low, fixed interest rate. As of December 31, 2000 the total amount of loans outstanding was \$560,061. Declining mortgage loans are also provided to low and moderate income families with the intent that they do not have to repay the loans unless they leave the residence before ten years. As of December 31, 2000 the total amount of these loans outstanding was \$51,938.

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Ohio Society of Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT*  
*AUDITING STANDARDS*

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

We have audited the financial statements of the City of Hillsboro, Highland County, as of and for the year ended December 31, 2000, and have issued our report thereon dated June 30, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Compliance*

As part of obtaining reasonable assurance about whether the City of Hillsboro's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 30, 2001.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the City of Hillsboro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Members of Council  
City of Hillsboro  
Hillsboro, Ohio 45133

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS*

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider a material weakness.

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

*Balestra & Company*  
Balestra & Company

June 30, 2001

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

*Compliance*

We have audited the compliance of the City of Hillsboro with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2000. The City of Hillsboro's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Hillsboro's management. Our responsibility is to express an opinion on the City of Hillsboro's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular a-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hillsboro's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hillsboro's compliance with those requirements.

As described in items 14228-2000-001, 14228-2000-002 and 14228-2000-003, in the accompanying schedule of findings, the City did not comply with requirements regarding cash management and reporting that are applicable to its Community Development Block Grant. Compliance with such requirements are necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Hillsboro complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2000.



Members of Council  
City of Hillsboro  
Hillsboro, Ohio 45133

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A - 133

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*Internal Control Over Compliance*

The management of the City of Hillsboro is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hillsboro's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Balestra & Company*  
Balestra & Company

June 30, 2001

CITY OF HILLSBORO, OHIO  
 HIGHLAND COUNTY  
 DECEMBER 31, 2000

SCHEDULE OF FINDINGS  
 OMB CIRCULAR A-133 SECTION .505

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Qualified
(d)(1)(vi)	Are there any reportable findings under section .510?	Yes
(d)(1)(vii)	Major Programs (list):	Community Development Block Grant, CFDA #14.228
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

CITY OF HILLSBORO, OHIO  
 HIGHLAND COUNTY  
 DECEMBER 31, 2000

SCHEDULE OF FINDINGS

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

Finding Number:	None
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3. FINDINGS FOR FEDERAL AWARDS

Finding Number	14228-2000-001
CFDA Title and Number	Community Development Block Grant, Micro Enterprise Grant, CFDA #14.228
Federal Award Number/Year	A-M-99-131-1
Federal Agency	Department of Development
Pass-Through Agency	Ohio Department of Development

NON-COMPLIANCE CITATION-CASH MANAGEMENT

The *Ohio Department of Development's Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook* states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds. The City was not compliant with the 15 day rule 100% of the time tested for the Micro Enterprise Grant. This could ultimately result in loss or suspension of federal funding. The City should develop a cash management system to ensure compliance with the 15 day rule relating to prompt disbursement of funds.

Finding Number	Planned Corrective Action	Anticipated Completion Date:	Responsible Contact Person:
14228-2000-001	Management will develop and monitor a cash management system to ensure compliance with the 15 day rule.	12/31/01	Kirby Ellison, Micro Enterprise Grant Coordinator

CITY OF HILLSBORO, OHIO  
 HIGHLAND COUNTY  
 DECEMBER 31, 2000

3. FINDINGS FOR FEDERAL AWARDS, CONTINUED

Finding Number	14228-2000-002
CFDA Title and Number	Community Development Block Grant, Micro Enterprise Grant, CFDA #14.228
Federal Award Number/Year	A-M-99-131-1
Federal Agency	Department of Development
Pass-Through Agency	Ohio Department of Development

NON-COMPLIANCE CITATION-REPORTING

*The State of Ohio, Small Cities Community Development Block Grant Program (CDBG), Micro Enterprise Program Grant Agreement, Attachment C, states that reports shall be submitted in an adequate and timely fashion. The City's Micro Enterprise Grant's first Status Report was filed 119 days late. The second semi-annual status report was not filed. This could result in loss of future federal funding. The City should submit all reports in an adequate and timely fashion.*

Finding Number	Planned Corrective Action	Anticipated Completion Date:	Responsible Contact Person:
14228-2000-002	Management will develop and monitor a report management system to ensure reports are adequately and timely filed, in accordance with provisions in the grant agreement pertaining to reports.	12/31/01	Kirby Ellison, Micro Enterprise Grant Coordinator

CITY OF HILLSBORO, OHIO  
 HIGHLAND COUNTY  
 DECEMBER 31, 2000

3. FINDINGS FOR FEDERAL AWARDS, CONTINUED

Finding Number	14228-2000-003
CFDA Title and Number	Community Development Block Grant, CFDA #14.228
Federal Award Number/Year	A-C-99-131-1
Federal Agency	Department of Development
Pass-Through Agency	Ohio Department of Development

NON-COMPLIANCE CITATION-CASH MANAGEMENT

The *Ohio Department of Development's Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook* states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds. The City was not compliant with the 15 day rule 50% of the time tested for the CDBG Grant. This could ultimately result in loss or suspension of federal funding. The City should develop a cash management system to ensure compliance with the 15 day rule relating to prompt disbursement of funds.

Finding Number	Planned Corrective Action	Anticipated Completion Date:	Responsible Contact Person:
14228-2000-003	Management will develop and monitor a cash management system to ensure compliance with the 15 day rule.	12/31/01	Peg Beekman, Grant Coordinator





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**CITY OF HILLSBORO**

**HIGHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 30, 2001**