

City of Hillsboro

Highland County

January 1, 2009 through December 31, 2009

Fiscal Year Audited Under GAGAS: 2009



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Hillsboro, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 20, 2010

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City of Hillsboro
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For the Year Ended December 31, 2009

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Highland County, Ohio (the City), as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

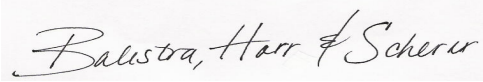
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Highland County, Ohio, as of December 31, 2009, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

City Council
City of Hillsboro
Independent Auditor's Report

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

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

Balestra, Harr & Scherer, CPAs, Inc.
June 30, 2010

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

The discussion and analysis of the City of Hillsboro's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2009 are as follows:

- In total, net assets increased \$1,403,798. Net assets of governmental activities increased \$98,402. Net assets of business-type activities increased \$1,305,396.
- Governmental activities general revenues accounted for \$4,521,399 in revenue or 66 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,372,715 or 34 percent of total revenues of \$6,894,114. Business-type activities general revenues accounted for \$64,250 in revenue or 2 percent of all revenues. Program specific revenues accounted for \$3,938,129 or 98 percent of total revenues of \$4,002,379.
- The City had \$6,789,150 in expenses related to governmental activities; \$2,372,715 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$2,703,545 in expenses related to business-type activities; \$3,938,129 of these expenses was offset by program specific charges for services, grants and contributions.

Using the Annual Financial Report

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

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

Reporting the City as a Whole

Statement of Net Assets and Statement of Activities

While this report contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2009?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting basis used by private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

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

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

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

The City as a Whole

The statement of net assets reviews the City as a whole. Table 1 provides a summary of the City's net assets for 2009 compared to the prior year:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008*	2009	2008*	2009	2008*
Assets						
Current and Other Assets	\$ 5,386,202	\$ 5,085,779	\$ 2,532,367	\$ 2,675,594	\$ 7,918,569	\$ 7,761,373
Capital Assets, Net	14,315,735	11,490,424	16,950,443	15,834,175	31,266,178	27,324,599
Total Assets	19,701,937	16,576,203	19,482,810	18,509,769	39,184,747	35,085,972
Liabilities						
Current and Other Liabilities	938,162	654,428	543,176	120,469	1,481,338	774,897
Long-Term Liabilities	3,798,935	1,055,337	8,671,984	9,427,046	12,470,919	10,482,383
Total Liabilities	4,737,097	1,709,765	9,215,160	9,547,515	13,952,257	11,257,280
Net Assets						
Invested in Capital Assets						
Net of Debt	10,873,096	10,767,186	8,415,582	6,451,134	19,288,678	17,218,320
Restricted	1,765,438	1,766,778	-	-	1,765,438	1,766,778
Unrestricted	2,326,306	2,332,474	1,852,068	2,511,120	4,178,374	4,843,594
Total Net Assets	\$ 14,964,840	\$ 14,866,438	\$ 10,267,650	\$ 8,962,254	\$ 25,232,490	\$ 23,828,692

* Amount Restated, See Note 18.

Total governmental activities assets increased \$3,125,734 due to increases in Capital Assets while business-type activities increased \$973,041, also due to increases in Capital Assets.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 80% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. Invested in capital assets, net of related debt for the City as a whole increased primarily due to the addition of assets and the pay down of debt balances, which is partially offset by depreciation expense. Current and Other Assets for the governmental activities of the City decreased due to cash less on hand at year end due to the increase in expenditures from the prior year.

Total liabilities for governmental activities increased \$3,027,332 due mainly to incurring new debt during the year. Total liabilities of business-type activities decreased \$332,355 as a result of debt payments which was partially offset by increases in accounts payable and contracts payable.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

Table 2 shows the changes in net assets for the year 2009 compared to the prior year.

Table 2
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2009	2008*	2009	2008*	2009	2008*
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 1,153,894	\$ 1,207,158	\$ 3,688,129	\$ 3,414,374	\$ 4,842,023	\$ 4,621,532
Operating Grants and Contributions	1,218,821	305,888	-	-	1,218,821	305,888
Capital Grants and Contributions	-	521,580	250,000	-	250,000	521,580
Total Program Revenues	2,372,715	2,034,626	3,938,129	3,414,374	6,310,844	5,449,000
General Revenues:						
Property & Income Taxes	4,021,689	3,918,304	-	-	4,021,689	3,918,304
Unrestricted Investment Earnings Grants and Contributions Not Restricted to Specific Programs	45,001	107,353	4,460	4,042	49,461	111,395
Gain on Sale of Capital Assets	312,448	299,018	-	-	312,448	299,018
Other	8,668	-	-	-	8,668	-
	133,593	128,191	59,790	70,082	193,383	198,273
Total General Revenues	4,521,399	4,452,866	64,250	74,124	4,585,649	4,526,990
Total Revenues	6,894,114	6,487,492	4,002,379	3,488,498	10,896,493	9,975,990
Program Expenses						
General Government -						
Legislative and Executive	1,381,304	1,691,376	-	-	1,381,304	1,691,376
Judicial	386,148	353,429	-	-	386,148	353,429
Security of Persons and Property	3,835,076	3,472,278	-	-	3,835,076	3,472,278
Public Health	54,913	203,901	-	-	54,913	203,901
Leisure Time Activities	100,378	173,914	-	-	100,378	173,914
Community Environment	196,531	191,125	-	-	196,531	191,125
Transportation	713,650	316,924	-	-	713,650	316,924
Interest and Fiscal Charges	121,150	47,049	-	-	121,150	47,049
Water Fund	-	-	1,344,297	1,440,728	1,344,297	1,440,728
Sewer Fund	-	-	1,359,248	1,376,072	1,359,248	1,376,072
Total Expenses	6,789,150	6,449,996	2,703,545	2,816,800	9,492,695	9,266,796
Transfers	(6,562)	(7,434)	6,562	7,434	-	-
Increase (Decrease) in Net Assets	98,402	30,062	1,305,396	679,132	1,403,798	709,194
Beginning Net Assets	14,866,438	14,836,376	8,962,254	8,283,122	23,828,692	23,119,498
Ending Net Assets	\$ 14,964,840	\$ 14,866,438	\$ 10,267,650	\$ 8,962,254	\$ 25,232,490	\$ 23,828,692

* Amount Restated, See Note 18.

Governmental Activities

Governmental activities increased \$98,402 or less than 1% during 2009, mainly due to an increase in Operating Grants and Contributions which was partially offset by a decrease in Capital Grants and Contributions.

General revenues primarily consist of property and income tax revenue of \$4,521,399, or 89% of total general revenues in 2009. Operating grants and contributions increased due primarily to an increase in intergovernmental revenue in the community development rehabilitation program. Charges for services and sales decreased from the prior year only slightly. Capital Grants and Contributions decreased due to donations of assets to the recreation program that were received in the prior year.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

General government expenses include legislative and executive and judicial programs, totaled \$1,767,452 or 26% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 57% of total expenses. Legislative and executive expenses decreased from 2008 as certain non-capitalized expenses which were incurred in 2008 did not occur in 2009. Public health expenses decreased as a direct result of the decreased funding in the life squad improvement program. Security of persons and property expenses increased due to increased depreciation and other operating costs associated with building a new fire house and police station. Transportation expenses increased as there were significant capitalized costs for this program in 2008 which did not occur to the same extent in 2009.

Business-Type Activities

The City's business-type activities are its water and sewer departments. The water and wastewater treatment plants provide services to the City's residents. The water plant generated operating revenues of \$1,565,312 and had operating expenses of \$1,067,707 and had interest expense of \$276,590. The wastewater treatment plant generated operating revenues of \$2,122,817 and had operating expenses of \$1,315,961, and had interest expense of \$43,287. The increase in Charges for services is due to an increase in water and sewer revenue and water tap in fees. The decrease in expenses is due to a decrease in other expenditures. The City's goal is to cover the costs of operations as well as to build the cash balance in these funds. The City is also generating funds for additional capital expansion to ensure continued capacity and capacity improvements for future growth and development.

The City's Funds

Information about the City's major funds starts on page 12. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$9,844,689 and expenditures and other financing uses of \$10,282,673. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$106,907. The majority of the decrease in fund balance is due to significant increase in capital outlay as well as operating transfers out of \$541,000 that was partially offset by proceeds from the issuance of bonds.

General Fund Budgeting Highlights

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

During the course of 2009, the City amended its General Fund budget. With the General Fund supporting many of the major activities such as the City's police and fire departments, as well as most general government activities, the General Fund is monitored closely to prevent possible revenue shortfalls or overspending by individual departments.

For the General Fund, original budgeted revenues and other financing sources were \$7,800,284, while final budgeted revenues and other financing sources were \$7,788,564. The increase to final budgeted revenues and other financing sources was due primarily to anticipated charges for services. The City's actual revenues and other financing sources were \$131,879 less than the final budgeted revenues and other financing sources primarily due to fewer charges for services being received than anticipated. Original budgeted expenditures and other financing uses were \$8,742,901, and there was no change to the final budgeted expenditures and other financing uses.

The General Fund's actual expenditures were \$505,174 less than final budgeted expenditures.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the 2009 the City had \$31,266,178 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2009 and 2008 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 582,586	\$ 515,396	\$ 10,460	\$ 10,460	\$ 593,046	\$ 525,856
Land Improvements	919,639	947,952	83,835	85,772	1,003,474	1,033,724
Buildings and Improvements	2,408,252	1,628,751	12,114,622	11,792,863	14,522,874	13,421,614
Furniture and Equipment	865,718	754,395	400,413	364,802	1,266,131	1,119,197
Vehicles	890,203	995,925	220,140	237,538	1,110,343	1,233,463
Infrastructure/Water & Sewer Lines	7,147,555	6,648,005	3,009,245	3,170,488	10,156,800	9,818,493
Construction in Progress	1,501,782	-	1,111,728	172,252	2,613,510	172,252
Totals	\$ 14,315,735	\$ 11,490,424	\$ 16,950,443	\$ 15,834,175	\$ 31,266,178	\$ 27,324,599

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

Debt

At December 31, 2009, the City of Hillsboro had \$11,977,502 in bonds, loans, and leases outstanding, \$419,556 due within one year.

Table 4
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
O.W.D.A. Loan	\$ -	\$ -	\$ 2,507,404	\$ 2,477,973	\$ 2,507,404	\$ 2,477,973
Capital Lease	82,639	58,238	137,959	164,901	220,598	223,139
OPWC Loan	-	-	170,000	180,000	170,000	180,000
Mortgage Revenue Bonds	-	-	5,719,498	5,910,167	5,719,498	5,910,167
Notes	-	-	-	650,000	-	650,000
General Obligation Bonds	3,360,000	665,000	-	-	3,360,000	665,000
Total	\$ 3,442,639	\$ 723,238	\$ 8,534,861	\$ 9,383,041	\$ 11,977,500	\$ 10,106,279

The City's overall legal debt margin was \$9,451,955 at December 31, 2009.

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

The Future

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

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2009
(Unaudited)

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

Contacting the City's Finance Department

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

City of Hillsboro
Statement of Net Assets
December 31, 2009

	Governmental Activities	Business-Type Activities	Totals
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 2,528,478	\$ 2,084,855	\$ 4,613,333
Investments	6,427	-	6,427
Receivables:			
Taxes	1,534,589	-	1,534,589
Accounts	375,623	447,512	823,135
Accrued Interest	15	-	15
Due from Other Governments	694,218	-	694,218
Prepaid Items	-	-	-
Loans Receivable	194,305	-	194,305
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	52,547	-	52,547
Non-Depreciable Capital Assets	2,084,368	1,122,188	3,206,556
Depreciable Capital Assets, Net	12,231,367	15,828,255	28,059,622
<i>Total Assets</i>	<u>\$ 19,701,937</u>	<u>\$ 19,482,810</u>	<u>\$ 39,184,747</u>
LIABILITIES:			
Accounts Payable	\$ 64,701	\$ 310,764	\$ 375,465
Contracts Payable	122,691	118,638	241,329
Matured Compensated Absences Payable	9,945	-	9,945
Accrued Wages and Benefits	145,482	29,023	174,505
Due to Other Governments	186,240	19,489	205,729
Retainage Payable	52,547	-	52,547
Deferred Revenue	308,000	-	308,000
Accrued Interest Payable	48,556	65,262	113,818
Long-Term Liabilities			
Due Within One Year	203,532	246,566	450,098
Due in More than One Year	3,595,403	8,425,418	12,020,821
<i>Total Liabilities</i>	<u>4,737,097</u>	<u>9,215,160</u>	<u>13,952,257</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	10,873,096	8,415,582	19,288,678
Restricted for:			
Debt Service	340,551	-	340,551
Capital Projects	62,509	-	62,509
Revolving Loan	544,765	-	544,765
Other Purposes	817,613	-	817,613
Unrestricted	2,326,306	1,852,068	4,178,374
<i>Total Net Assets</i>	<u>\$ 14,964,840</u>	<u>\$ 10,267,650</u>	<u>\$ 25,232,490</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2009

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental Activities:							
General Government:							
Legislative and Executive	\$ 1,381,304	\$ 259,773	\$ 145,985	\$ -	\$ (975,546)		\$ (975,546)
Judicial	386,148	58,650	658	-	(326,840)		(326,840)
Security of Persons and Property	3,835,076	704,911	437,981	-	(2,692,184)		(2,692,184)
Public Health	54,913	1,947	9,847	-	(43,119)		(43,119)
Leisure Time Activities	100,378	17,720	94,367	-	11,709		11,709
Community Environment	196,531	36,762	145,960	-	(13,809)		(13,809)
Transportation	713,650	71,809	382,427	-	(259,414)		(259,414)
Interest and Fiscal Charges	121,150	2,322	1,596	-	(117,232)		(117,232)
Total Governmental Activities	6,789,150	1,153,894	1,218,821	-	(4,416,435)		(4,416,435)
Business-Type Activities:							
Sewer	1,359,248	2,122,817	-	250,000		1,013,569	1,013,569
Water	1,344,297	1,565,312	-	-		221,015	221,015
Total Business-Type Activities	2,703,545	3,688,129	-	250,000	-	1,234,584	1,234,584
Total Primary Government	\$ 9,492,695	\$ 4,842,023	\$ 1,218,821	\$ 250,000	\$ (4,416,435)	\$ 1,234,584	\$ (3,181,851)
General Revenues and Transfers:							
Taxes:							
Property Taxes Levied for:							
General Purposes					312,815	-	312,815
Special Purposes					84,163	-	84,163
Debt Service					98,512	-	98,512
Capital Projects					156,062	-	156,062
Income Taxes					3,370,137	-	3,370,137
Grants and Contributions Not Restricted to Specific Programs							
					312,448	-	312,448
Unrestricted Investment Earnings					45,001	4,460	49,461
Gain on Sale of Capital Assets					8,668	-	8,668
Miscellaneous					133,593	59,790	193,383
Transfers					(6,562)	6,562	-
Total General Revenues and Transfers					4,514,837	70,812	4,585,649
Change in Net Assets					98,402	1,305,396	1,403,798
Net Assets - January 1, 2009 - Restated					14,866,438	8,962,254	23,828,692
Net Assets - December 31, 2009					\$ 14,964,840	\$ 10,267,650	\$ 25,232,490

See accompanying notes to the basic financial statements.

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2009

	General	All Other Governmental Funds	Total Governmental Funds
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,122,819	\$ 1,405,659	\$ 2,528,478
Investments	6,427	-	6,427
Accounts Receivable	365,006	10,617	375,623
Accrued Interest Receivable	15	-	15
Interfund Receivable	265,000	-	265,000
Taxes Receivable	1,431,425	103,164	1,534,589
Due from Other Governments	111,537	582,681	694,218
Loans Receivable	-	194,305	194,305
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	52,547	-	52,547
<i>Total Assets</i>	<u>\$ 3,354,776</u>	<u>\$ 2,296,426</u>	<u>\$ 5,651,202</u>
LIABILITIES:			
Accounts Payable	\$ 47,898	\$ 16,803	\$ 64,701
Contracts Payable	118,876	3,815	122,691
Accrued Wages and Benefits	136,202	9,280	145,482
Matured Compensated Absences Payable	9,945	-	9,945
Due to Other Governments	58,334	127,906	186,240
Retainage Payable	52,547	-	52,547
Interfund Payable	-	265,000	265,000
Deferred Revenue	863,439	580,246	1,443,685
<i>Total Liabilities</i>	<u>1,287,241</u>	<u>1,003,050</u>	<u>2,290,291</u>
FUND BALANCES:			
Reserved:			
Reserved for Encumbrances	576,482	61,769	638,251
Reserved for Loans Receivable	-	194,305	194,305
Unreserved, Undesignated, Reported in:			
General Fund	1,491,053	-	1,491,053
Special Revenue Funds	-	637,437	637,437
Debt Service Funds	-	337,356	337,356
Capital Projects Funds	-	62,509	62,509
<i>Total Fund Balances</i>	<u>2,067,535</u>	<u>1,293,376</u>	<u>3,360,911</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,354,776</u>	<u>\$ 2,296,426</u>	<u>\$ 5,651,202</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2009

Total Governmental Fund Balances		\$ 3,360,911
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,315,735
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	580,431	
Intergovernmental	<u>555,254</u>	
Total		1,135,685
Long-term liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued Interest Payable	(48,556)	
Capital Lease Payable	(82,639)	
Compensated Absences	(356,296)	
General Obligation Bonds	<u>(3,360,000)</u>	
Total		<u>(3,847,491)</u>
Net Assets of Governmental Activities		<u><u>\$ 14,964,840</u></u>

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

City of Hillsboro
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2009

	General	All Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes	\$ 3,564,820	\$ 344,056	\$ 3,908,876
Charges for Services	655,487	-	655,487
Licenses and Permits	10,810	50,674	61,484
Fines and Forfeitures	250,741	160,543	411,284
Intergovernmental	307,594	835,775	1,143,369
Interest	39,096	5,905	45,001
Rent	8,000	17,639	25,639
Contributions and Donations	-	-	-
Other	36,966	96,627	133,593
<i>Total Revenues</i>	<u>4,873,514</u>	<u>1,511,219</u>	<u>6,384,733</u>
EXPENDITURES:			
Current:			
General Government:			
Legislative and Executive	1,214,821	98,766	1,313,587
Judicial	290,244	83,954	374,198
Security of Persons and Property	3,187,771	444,776	3,632,547
Public Health	508	10,000	10,508
Leisure Time Activities	-	95,831	95,831
Community Environment	48,306	148,225	196,531
Transportation	-	388,384	388,384
Capital Outlay	2,480,476	983,886	3,464,362
Debt Service:			
Principal Retirements	40,349	49,466	89,815
Interest and Fiscal Charges	10,469	64,639	75,108
<i>Total Expenditures</i>	<u>7,272,944</u>	<u>2,367,927</u>	<u>9,640,871</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,399,430)</u>	<u>(856,708)</u>	<u>(3,256,138)</u>
OTHER FINANCING SOURCES AND USES:			
Transfers In	8,807	626,433	635,240
Issuance of Bonds	2,730,000	-	2,730,000
Proceeds from Sale of Capital Assets	15,500	-	15,500
Inception of Capital Lease	79,216	-	79,216
Transfers Out	(541,000)	(100,802)	(641,802)
<i>Total Other Financing Sources and Uses</i>	<u>2,292,523</u>	<u>525,631</u>	<u>2,818,154</u>
<i>Net Change in Fund Balances</i>	(106,907)	(331,077)	(437,984)
<i>Fund Balances at Beginning of Year - Restated</i>	<u>2,174,442</u>	<u>1,624,453</u>	<u>3,798,895</u>
<i>Fund Balance at End of Year</i>	<u>\$ 2,067,535</u>	<u>\$ 1,293,376</u>	<u>\$ 3,360,911</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2009

Net Change in Fund Balances - Total Governmental Funds \$ (437,984)

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

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

Capital Asset Additions	3,486,678	
Current Year Depreciation	(654,535)	
Total		2,832,143

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

Proceeds from Sale of Capital Assets	(15,500)	
Gain on Sale of Capital Assets	8,668	
Total		(6,832)

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

Taxes	112,813	
Intergovernmental	387,900	
Total		500,713

Proceeds from the issuance of debt in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (2,730,000)

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities. 35,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities. 54,815

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

Increase in Compensated Absences	(24,197)	
Increase in Accrued Interest Payable	(46,040)	
Total		(70,237)

Inception of capital leases is recorded as other financing sources in the governmental funds, but is recorded as a capital lease obligation and therefore is not recorded in the statement of activities (79,216)

Net Change in Net Assets of Governmental Activities \$ 98,402

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

City of Hillsboro
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2009

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,699,386	\$ 3,495,928	\$ 3,594,292	\$ 98,364
Charges for Services	708,056	912,029	687,941	(224,088)
Licenses and Permits	11,126	15,583	10,810	(4,773)
Fines and Forfeitures	239,513	236,954	232,709	(4,245)
Intergovernmental	320,228	305,513	311,131	5,618
Interest	45,469	45,034	44,177	(857)
Rent	8,234	8,006	8,000	(6)
Other	22,772	24,017	22,125	(1,892)
<i>Total Revenues</i>	<u>5,054,784</u>	<u>5,043,064</u>	<u>4,911,185</u>	<u>(131,879)</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	1,390,185	1,390,185	1,304,561	85,624
Judicial	342,050	342,050	320,982	21,068
Security of Persons and Property	3,772,904	3,772,904	3,540,522	232,382
Public Health	599	599	562	37
Community Environment	56,928	56,928	53,422	3,506
Capital Outlay	2,627,840	2,627,840	2,467,009	160,831
Interest and Fiscal Charges	11,395	11,395	9,669	1,726
<i>Total Expenditures</i>	<u>8,201,901</u>	<u>8,201,901</u>	<u>7,696,727</u>	<u>505,174</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,147,117)</u>	<u>(3,158,837)</u>	<u>(2,785,542)</u>	<u>373,295</u>
OTHER FINANCING SOURCES AND USES:				
General Obligation Bonds Issued	2,730,000	2,730,000	2,730,000	-
Proceeds from Sale of Capital Assets	15,500	15,500	15,500	-
Transfers Out	(541,000)	(541,000)	(541,000)	-
<i>Total Other Financing Sources and Uses</i>	<u>2,204,500</u>	<u>2,204,500</u>	<u>2,204,500</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(942,617)	(954,337)	(581,042)	373,295
<i>Fund Balance at Beginning of Year</i>	499,324	499,324	499,324	-
<i>Prior Year Encumbrances Appropriated</i>	<u>516,305</u>	<u>516,305</u>	<u>516,305</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 73,012</u>	<u>\$ 61,292</u>	<u>\$ 434,587</u>	<u>\$ 373,295</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Net Assets
Proprietary Funds
December 31, 2009

	Water	Sewer	Total
ASSETS:			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 703,868	\$ 1,380,987	\$ 2,084,855
Accounts Receivable	184,807	262,705	447,512
Total Current Assets	888,675	1,643,692	2,532,367
<i>Noncurrent Assets</i>			
Non-Depreciable Capital Assets	324,149	798,039	1,122,188
Depreciable Capital Assets, Net	7,402,576	8,425,679	15,828,255
Total Noncurrent Assets	7,726,725	9,223,718	16,950,443
Total Assets	\$ 8,615,400	\$ 10,867,410	\$ 19,482,810
LIABILITIES:			
<i>Current Liabilities</i>			
Accounts Payable	\$ 292,249	\$ 18,515	\$ 310,764
Contracts Payable	-	118,638	118,638
Accrued Wages and Benefits	14,436	14,587	29,023
Due to Other Governments	9,723	9,766	19,489
Accrued Interest Payable	65,262	-	65,262
Capital Leases Payable - Current Portion	14,110	14,110	28,220
OWDA Loans - Current Portion	-	84,513	84,513
Revenue Bonds Payable - Current Portion	120,000	-	120,000
OPWC Loans - Current Portion	-	10,000	10,000
Unamortized Charge - Current Portion	3,833	-	3,833
Total Current Liabilities	519,613	270,129	789,742
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
OWDA Loans Payable - Net of Current Portion	-	2,422,891	2,422,891
Compensated Absences Payable	18,470	38,151	56,621
Revenue Bonds Payable - Net of Current Portion	5,599,498	-	5,599,498
Capital Leases Payable - Net of Current Portion	54,869	54,870	109,739
OPWC Loans - Net of Current Portion	-	160,000	160,000
Unamortized Charge - Refunding Bonds - Net of Current Portion	76,669	-	76,669
Total Noncurrent Liabilities	5,749,506	2,675,912	8,425,418
Total Liabilities	6,269,119	2,946,041	9,215,160
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	1,938,248	6,477,334	8,415,582
Unrestricted	408,033	1,444,035	1,852,068
Total Net Assets	\$ 2,346,281	\$ 7,921,369	\$ 10,267,650

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenses and
Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2009

	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 1,456,112	\$ 2,122,817	\$ 3,578,929
Tap-In Fees	109,200	-	109,200
<i>Total Operating Revenues</i>	1,565,312	2,122,817	3,688,129
OPERATING EXPENSES			
Salaries and Wages	368,383	396,580	764,963
Fringe Benefits	181,619	172,891	354,510
Contractual Services	153,040	286,854	439,894
Materials & Supplies	80,638	93,806	174,444
Utilities	90,113	104,097	194,210
Other	728	488	1,216
Depreciation Expense	193,186	261,245	454,431
<i>Total Operating Expenses</i>	1,067,707	1,315,961	2,383,668
<i>Operating Income</i>	497,605	806,856	1,304,461
NONOPERATING REVENUES (EXPENSES)			
Interest Earnings	-	4,460	4,460
Other Non-Operating Revenues	47,861	11,929	59,790
Interest and Fiscal Charges	(276,590)	(43,287)	(319,877)
<i>Total Nonoperating Revenues (Expenses)</i>	(228,729)	(26,898)	(255,627)
<i>Changes in Net Assets Before Transfers and Capital Contributions</i>	268,876	779,958	1,048,834
Transfers In	3,129	3,433	6,562
<i>Changes in Net Assets Before Capital Contributions</i>	272,005	783,391	1,055,396
Capital Contribution - Intergovernmental	-	250,000	250,000
<i>Changes in Net Assets</i>	272,005	1,033,391	1,305,396
<i>Net Assets at Beginning of Year - Restated</i>	2,074,276	6,887,978	8,962,254
<i>Net Assets at End of Year</i>	<u>\$ 2,346,281</u>	<u>\$ 7,921,369</u>	<u>\$ 10,267,650</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<i>Increase (Decrease) in Cash and Cash Equivalents:</i>			
<i>Cash Flows from Operating Activities:</i>			
Cash Received from Customers	\$ 1,483,011	\$ 2,171,339	\$ 3,654,350
Cash Received from Other Operating Sources	109,200	-	109,200
Cash Payments to Suppliers for Goods and Services	(40,617)	(356,045)	(396,662)
Cash Payments to Employees for Services and Benefits	<u>(539,568)</u>	<u>(555,078)</u>	<u>(1,094,646)</u>
<i>Net Cash Provided by Operating Activities</i>	<u>1,012,026</u>	<u>1,260,216</u>	<u>2,272,242</u>
<i>Cash Flows from Noncapital Financing Activities:</i>			
Other Nonoperating Revenues	47,861	11,929	59,790
Operating Transfers-In	<u>3,129</u>	<u>3,433</u>	<u>6,562</u>
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>50,990</u>	<u>15,362</u>	<u>66,352</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Proceeds from OWDA Loan	-	448,479	448,479
Payments for Capital Acquisitions	(324,510)	(1,246,189)	(1,570,699)
Proceeds from Sale of Bonds	7,666	-	7,666
Receipts from Capital Grants	-	250,000	250,000
Principal Payments - Bonds and Capital Lease Obligations	(127,471)	(1,092,519)	(1,219,990)
Interest Payments - Bonds and Capital Lease Obligations	<u>(271,623)</u>	<u>(54,693)</u>	<u>(326,316)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(715,938)</u>	<u>(1,694,922)</u>	<u>(2,410,860)</u>
<i>Cash Flows from Investing Activities:</i>			
Interest on Investments	<u>-</u>	<u>4,460</u>	<u>4,460</u>
<i>Net Cash Provided by Investing Activities</i>	<u>-</u>	<u>4,460</u>	<u>4,460</u>
Net Increase (Decrease) in Cash and Cash Equivalents	347,078	(414,884)	(67,806)
Cash and Cash Equivalents at Beginning of Year	<u>356,790</u>	<u>1,795,871</u>	<u>2,152,661</u>
Cash and Cash Equivalents at End of Year	<u>\$ 703,868</u>	<u>\$ 1,380,987</u>	<u>\$ 2,084,855</u>

(Continued)

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2009

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>			
Operating Income	\$ 497,605	\$ 806,856	\$ 1,304,461
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>			
Depreciation	193,186	261,245	454,431
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	26,899	48,522	75,421
Increase in Accounts Payable	283,902	10,562	294,464
Increase in Contracts Payable	-	118,638	118,638
Increase in Accrued Wages and Benefits	7,094	7,462	14,556
Increase in Compensated Absences Payable	4,385	8,231	12,616
Decrease in Due to Other Governments	<u>(1,045)</u>	<u>(1,300)</u>	<u>(2,345)</u>
Total Adjustments	<u>514,421</u>	<u>453,360</u>	<u>967,781</u>
Net Cash Provided by Operating Activities	<u>\$ 1,012,026</u>	<u>\$ 1,260,216</u>	<u>\$ 2,272,242</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2009

	<u>Agency</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 92,115
Receivables:	
Accounts	<u>122,692</u>
<i>Total Assets</i>	<u><u>\$ 214,807</u></u>
LIABILITIES :	
Due to Other Governments	\$ 72,388
Undistributed Monies	50,183
Deposits Held and Due to Others	<u>92,236</u>
<i>Total Liabilities</i>	<u><u>\$ 214,807</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

1. FINANCIAL REPORTING ENTITY

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

CITY GOVERNMENT AND REPORTING ENTITY

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

FUND ACCOUNTING

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

General Fund - This fund is established to account for resources devoted to financing the general services that the City performs for its residents. Municipal income tax, general tax revenues, as well as other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with all costs of operating the government for which a separate fund has not been established.

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS

Government-wide Financial Statements

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

Fund Financial Statements

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

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

BASIS OF ACCOUNTING

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2009, but which were levied to finance fiscal year 2010 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

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

BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Appropriations: A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. Supplemental appropriations may be adopted by Council. Amounts shown in the financial statements as original appropriations represent the first appropriation measure adopted that covered the entire year. Final appropriations represent the final appropriations measure adopted for 2009. Supplemental appropriations were adopted during 2009 by the Council.

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

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

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

CASH AND INVESTMENTS

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

During 2009, investments were limited to certificates of deposit, U.S. Treasury money market funds, and donated stock.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

CAPITAL ASSETS

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

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

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

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

INTERFUND ASSETS AND LIABILITIES

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances"; however, there were no internal balances at December 31, 2009.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and by those employees for whom it is probable will become eligible to receive payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end. This item is discussed in Note 12 to the basic financial statements.

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

On the fund financial statements for governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid as a result of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

RESERVES OF FUND BALANCES

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for other purposes represents balances of state and federal grants and other restricted purposes in Special Revenue funds. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Of the City's \$1,765,438 of restricted net assets, none was restricted by enabling legislation.

OPERATING REVENUES AND EXPENSES

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

CAPITAL CONTRIBUTIONS

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

INTERFUND TRANSACTIONS

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

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

ESTIMATES

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Deposits:

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

The City’s bank balance of \$3,829,964 is either covered by FDIC or collateralized by the financial institutions’ public entity deposit pools in the manner as described above.

Investments:

Investment type	Fair Value	Maturities 6 months or less
Common Stock	\$ 6,427	\$ 6,427
U.S. Government Money Market Mutual Funds	1,051,948	1,051,948
	\$ 1,058,375	\$ 1,058,375

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

3. DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. The City does have an investment policy. More than 99 percent of the City’s investments are in money market funds as of December 31, 2009.

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

4. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	
	General
GAAP Basis	\$ (106,907)
Adjustments:	
Revenue Accrual	(50,352)
Expenditure Accrual	313,272
Encumbrances	(737,055)
Budget Basis	\$ (581,042)

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

5. PROPERTY TAX

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

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 6.25 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 the City its share of the taxes collected. The City records receipt of these taxes in various funds.

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2009. 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 2009 operations. The receivable is therefore offset by a credit to deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2009, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2009 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$120,030,740
Public Utility Personal Property	<u>1,987,880</u>
Total Property Taxes	<u>\$122,018,620</u>

6. LOCAL INCOME TAX

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

7. RECEIVABLES

Receivables at December 31, 2009 consisted of taxes, accounts (billings for user charged services including unbilled utility services), accrued interest, loans, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible except accounts receivable related to utility services.

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

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

<u>General</u>	
Local Government	\$100,095
Homestead & Rollback	11,442
 <u>Non-Major Special Revenue</u>	
Street Fund	
Gasoline Tax	96,618
State Highway Fund	
Gasoline Tax	7,833
Rehab Fund	
Housing Rehab Grant	466,617
Police Pension Fund	
Homestead & Rollback	1,807
Fire Pension Fund	
Homestead & Rollback	1,807
Municipal Motor Vehicle Fund	
Permissive Tax	6,192
 <u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,807</u>
Total Governmental Activities	<u>\$694,218</u>

8. INTERFUND TRANSACTIONS

Interfund balances at December 31, 2009, consist of the following individual fund receivables and payables:

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

8. INTERFUND TRANSACTIONS (Continued)

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The General Fund received a transfer of \$5,000 as a correction of an error, and a transfer of \$3,807 that was the remaining balance of a special revenue fund.

Transfers made during the year ended December 31, 2009, were as follows:

Fund	Transfer In	Transfer Out
General	\$ 8,807	\$ 541,000
Non-Major Special Revenue Funds		
Street	250,433	57,000
State Highway	72,000	-
Police Pension	1,000	-
Fire Pension	223,000	-
Recreation	80,000	5,000
Municipal Vehicle Improvement	-	15,000
Emergency Management	-	23,802
Total Non-Major Special Revenue	626,433	100,802
Major Enterprise Funds		
Water Fund	3,129	-
Sewer Fund	3,433	-
Total All Funds	\$ 641,802	\$ 641,802

9. DEFINED BENEFIT RETIREMENT PLANS

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2009, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the traditional pension plan. The member contribution rates for 2009, 2008, and 2007 were 10.0%, 10.0%, and 9.5%, respectively, for members in state and local classifications and 10.1%, 10.1%, and 9.75%, respectively for members in public safety and law enforcement. The City is required to contribute 14.00%, 14.00%, and 13.85%, respectively, for state and local employers and 17.63%, 17.4%, and 17.17%, respectively for law enforcement and public safety employers for the years ended December 31, 2009, 2008, and 2007.

The City's contributions to the PERS of Ohio for the years ending December 31, 2009, 2008, and 2007 were \$278,663, \$234,276, and \$255,668 respectively. 92% has been contributed for 2009, and 100% of the 2008 and 2007 amounts have been contributed.

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

Plan members were required to contribute 10 percent of their annual covered salary to fund pension benefits while the employer was required to contribute 19.5 percent for police officers and 24 percent for firefighters, for each of the years ended December 31, 2009, 2008, and 2007. Contributions are authorized by State statute.

The City's required contributions to OP&F for the years ended December 31, 2009, 2008, and 2007 were \$170,331, \$162,577, and \$166,808 for policemen and \$270,401, \$221,445, and \$244,391 for firefighters, respectively, 73 percent of the 2009 contributions have been paid, and 100 percent of the 2008 and 2007 amounts have been contributed for both the police and the fire.

10. POSTEMPLOYMENT BENEFITS

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

10. POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2009, state and local employers contributed at a rate of 14.0% of covered payroll and public safety and law enforcement employers contributed at 17.63%. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14.0% of covered payroll for state and local employer units and 18.1% of covered payroll for law and public safety employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care was 7.00% from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. For 2008, the employer contributions allocated to the health care plan was 7.0% of covered payroll. For 2007, these percentages were 5.0% for January through June 2007 and 6.0% for July through December 2007. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The employer contributions that were used to fund post-employment benefits were \$116,076 for 2009, \$81,288 for 2008, and \$101,953 for 2007.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006 with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

10. POSTEMPLOYMENT BENEFITS (Continued)

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00%, of covered payroll for police and fire employers, for 2009, 2008, and 2007, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2009, the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The number of participants eligible to receive health care benefits as of December 31, 2008, (the latest information available) was 14,567 for Police and 10,750 for Firefighters. The City's actual contributions for 2009, 2008, and 2007 that were used to fund postemployment benefits were \$58,961, \$56,252, and \$57,716, respectively, for Police, and \$76,050, \$62,226, and \$68,674, respectively, for Firefighters. The Fund's total health care expenses for the year ended December 31, 2008 (the latest information available) were \$96,472,398, which was net of member contributions of \$56,948,977.

11. RISK MANAGEMENT

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

11. RISK MANAGEMENT (Continued)

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

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

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

Property Coverage

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

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

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2008 and 2007 (the latest information available).

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

11. RISK MANAGEMENT (Continued)

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

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

<u>Contributions to PEP</u>	
2007	\$ 103,261
2008	98,408
2009	85,976

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

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

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. The City has not incurred significant reductions in insurance coverage from coverage in prior year by major category risk.

12. OTHER EMPLOYEE BENEFITS

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

12. OTHER EMPLOYEE BENEFITS (Continued)

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009:

	Beginning Balance 12/31/2008*	Additions	Deletions	Ending Balance 12/31/2009
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 515,396	\$ 67,190	\$ -	\$ 582,586
Construction in Progress	45,000	1,456,782	-	1,501,782
Total Capital Assets, Not Being Depreciated	<u>560,396</u>	<u>1,523,972</u>	<u>-</u>	<u>2,084,368</u>
Capital Assets Being Depreciated				
Land Improvements	1,969,747	10,000	-	1,979,747
Buildings and Improvements	2,203,366	853,622	-	3,056,988
Furniture and Equipment	1,623,239	255,191	(44,232)	1,834,198
Vehicles	2,036,854	26,467	(54,649)	2,008,672
Infrastructure	<u>10,361,832</u>	<u>817,426</u>	<u>(1,063)</u>	<u>11,178,195</u>
Total Capital Assets Being Depreciated	18,195,038	1,962,706	(99,944)	20,057,800
Less Accumulated Depreciation				
Land Improvements	(1,021,795)	(38,313)	-	(1,060,108)
Buildings and Improvements	(574,615)	(74,121)	-	(648,736)
Furniture and Equipment	(868,844)	(139,862)	40,226	(968,480)
Vehicles	(1,040,929)	(129,363)	51,823	(1,118,469)
Infrastructure	<u>(3,758,827)</u>	<u>(272,876)</u>	<u>1,063</u>	<u>(4,030,640)</u>
Total Accumulated Depreciation	<u>(7,265,010)</u>	<u>(654,535)</u>	<u>93,112</u>	<u>(7,826,433)</u>
Total Capital Assets Being Depreciated, Net	<u>10,930,028</u>	<u>1,308,171</u>	<u>(6,832)</u>	<u>12,231,367</u>
Governmental Activities Capital Assets, Net	<u>\$11,490,424</u>	<u>\$2,832,143</u>	<u>\$ (6,832)</u>	<u>\$ 14,315,735</u>

* - Certain reclassifications were made for consistency in reporting; however there was no effect on net assets.

Depreciation expense was charged to governmental functions as follows:

General Government:	
Legislative and Executive	\$81,926
Security of Persons & Property	198,367
Public Health	4,547
Leisure Time Activities	44,405
Transportation	<u>325,290</u>
Total Depreciation Expense	<u>\$654,535</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2009:

	Ending Balance 12/31/2008	Additions	Deletions	Ending Balance 12/31/2009
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,460	\$ -	\$ -	\$ 10,460
Construction in Progress	172,252	939,476	-	1,111,728
Total Capital Assets, Not Being Depreciated	<u>182,712</u>	<u>939,476</u>	<u>-</u>	<u>1,122,188</u>
Capital Assets Being Depreciated				
Land Improvements	277,066	8,584	-	285,650
Buildings and Improvements	16,710,703	449,946	-	17,160,649
Mechanical Equipment	1,031,408	83,064	(1,048)	1,113,424
Vehicles	418,369	7,131	(18,398)	443,898
Infrastructure	5,537,370	82,498	-	5,619,868
Total Capital Assets Being Depreciated	<u>23,974,916</u>	<u>631,223</u>	<u>(19,446)</u>	<u>24,623,489</u>
Less Accumulated Depreciation				
Land Improvements	(191,294)	(10,521)	-	(201,815)
Buildings and Improvements	(4,917,840)	(128,187)	-	(5,046,027)
Mechanical Equipment	(666,606)	(47,453)	1,048	(713,011)
Vehicles	(180,831)	(24,529)	18,398	(223,758)
Infrastructure	(2,366,882)	(243,741)	-	(2,610,623)
Total Accumulated Depreciation	<u>(8,323,453)</u>	<u>(454,431)</u>	<u>19,446</u>	<u>(8,795,234)</u>
Total Capital Assets Being Depreciated, Net	<u>15,651,463</u>	<u>176,792</u>	<u>-</u>	<u>15,828,255</u>
Business Type Activities Capital Assets, Net	<u>\$ 15,834,175</u>	<u>\$1,116,268</u>	<u>\$ -</u>	<u>\$16,950,443</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

14. LONG-TERM OBLIGATIONS

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

	Outstanding 12/31/2008*	Issued	Retired	Outstanding 12/31/2009	Due In One Year
Governmental Activities					
Compensated Absences	\$ 332,099	\$ 339,161	\$ 314,964	\$ 356,296	\$ 30,542
2007 - 6.0% Street Improvement Bonds	665,000	-	35,000	630,000	40,000
2009 - Various Purpose General Obligation Bonds	-	2,730,000	-	2,730,000	85,000
Capital Lease	58,238	79,216	54,815	82,639	47,990
Total Governmental Activities	<u>\$ 1,055,337</u>	<u>\$ 3,148,377</u>	<u>\$ 404,779</u>	<u>\$ 3,798,935</u>	<u>\$ 203,532</u>
Business-Type Activities					
Compensated Absences	\$ 44,005	\$ 119,703	\$ 107,087	\$ 56,621	\$ -
Water					
2004 - 2% Mortgage Revenue Bond	2,956,832	7,666	80,000	2,884,498	85,000
2005 - Water System Improvement Revenue Bonds - 4.25%	543,000	-	7,000	536,000	6,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,326,000	-	27,000	2,299,000	29,000
Unamortized Charge	84,335	-	3,833	80,502	3,833
Capital Lease	82,450	-	13,471	68,979	14,110
Total Water Fund	<u>5,992,617</u>	<u>7,666</u>	<u>131,304</u>	<u>5,868,979</u>	<u>137,943</u>
Sewer					
2004 - OWDA Loan - 1%	333,796	-	17,474	316,322	19,647
2005 - OWDA Loan - 1%	1,195,579	-	64,857	1,130,722	64,866
2007 - OWDA Loan - 1%	948,598	448,479	336,717	1,060,360	-
2007 - OPWC Loan - 0%	180,000	-	10,000	170,000	10,000
2007 - 4.65% Notes	650,000	-	650,000	-	-
Capital Lease	82,451	-	13,471	68,980	14,110
Total Sewer Fund	<u>3,390,424</u>	<u>448,479</u>	<u>1,092,519</u>	<u>2,746,384</u>	<u>108,623</u>
Total Business-Type Activities	<u>\$ 9,427,046</u>	<u>\$ 575,848</u>	<u>\$ 1,330,910</u>	<u>\$ 8,671,984</u>	<u>\$ 246,566</u>

* - See prior period adjustment, Note 18

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

14. LONG-TERM OBLIGATIONS (Continued)

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

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

The 2008 Bond Anticipation Note was issued in the amount of \$650,000 on August 26, 2008 at the interest rate of 5.25% to finance improvements of the sewer systems. The sewer fund was used to repay this note in 2009.

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

The OWDA loans were still open as of December 31, 2008 and no amortization schedules had been established for these loans.

In connection with the mortgage revenue bonds and OWDA loans, the City has pledged future customer revenues of the Water and Sewer Funds, respectively, net of specified operating expenses, to repay these bonds and loans. The bonds and loans are payable, through final maturities, from net revenues applicable to the Water and Sewer Funds, respectively. Total principal and interest remaining to be paid on the bonds is \$10,373,681. The net revenue available for these bonds was \$690,791 and principal and interest paid was \$390,590. The coverage ratio for these bonds was 1.77 for the year ended December 31, 2009. The remaining principal to be paid on the OWDA loans was \$2,507,404. These loans have not been fully drawn and as such amortization schedules have not yet been provided to the City. The net revenue available for these loans was \$1,068,101 and principal and interest paid was \$462,335. The coverage ratio for the loans was 2.31 for the year ended December 31, 2009.

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

14. LONG-TERM DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire General Obligation Bonds and principal requirements to retire OPWC debt at December 31, 2009 were as follows:

	General Obligation Bonds		OPWC
	Principal	Interest	Principal
2010	\$125,000	\$137,170	\$10,000
2011	135,000	147,578	10,000
2012	140,000	142,452	10,000
2013	145,000	136,862	10,000
2014	160,000	130,822	10,000
2015-2019	875,000	549,672	50,000
2020-2024	595,000	351,786	50,000
2025-2029	1,185,000	197,824	20,000
Total	\$3,360,000	\$1,794,166	\$170,000

Principal and interest requirements to retire Mortgage Revenue Bonds at December 31, 2009 were as follows:

	Mortgage Revenue Bonds	
	Principal	Interest
2010	\$120,000	\$255,866
2011	121,000	251,244
2012	127,000	246,641
2013	135,000	240,989
2014	141,000	235,204
2015-2019	782,000	1,083,283
2020-2024	972,000	893,305
2025-2029	1,217,000	638,400
2030-2034	844,000	362,849
2035-2039	534,000	241,630
2040-2044	658,000	117,937
2045	149,000	6,333
Total	\$5,800,000	\$4,573,681

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

The City's overall legal debt margin was \$9,451,955 at December 31, 2009.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

15. CONTINGENCIES

Grants

The City received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2009.

Litigation

The City is currently party to legal proceedings. The City's management is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the City.

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2009, the City entered into a capital lease for computer equipment. During fiscal year 2007, the City entered into a capital lease for the purchase of a front-end loader, a police cruiser, and a vac-truck. The terms of the agreements provide options to purchase the equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the General Fund. These expenditures are reflected as program/object expenditures on a budgetary basis.

The capital assets acquired by the leases have been capitalized in the statement of net assets for governmental activities in the amount of \$493,291 which is equal to the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net assets for governmental activities. Principal payments in fiscal year 2009 totaled \$54,815 in the governmental funds.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2009.

Year Ending December 31,	Capitalized Lease Obligation
2010	\$ 83,419
2011	68,792
2012	34,363
2013	34,363
2014	17,182
Total Minimum Lease Payments	238,119
Less: Amount Representing Interest	(17,521)
Present Value of Minimum Lease Payments	\$ 220,598

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2009

17. DONATED STOCK

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

18. RESTATEMENT OF BALANCES

During 2009, it was noted that the capital lease for the jet-vac truck should be a liability in the Water and Sewer Funds rather than the Governmental Activities. An entry was made to properly reflect the lease liability. This restatement had the following effect on the beginning fund balances and net assets.

	<u>Governmental Activities</u>		
Net Assets/Fund Balance December 31, 2008	\$ 14,701,537		
Restatement	<u>164,901</u>		
Restated Net Assets/Fund Balance December 31,2008	<u>\$ 14,866,438</u>		
	<u>Business-type Activities</u>	<u>Water</u>	<u>Sewer</u>
Net Assets, December 31, 2008	\$ 9,127,155	\$ 2,156,726	\$ 6,970,429
Restatement	<u>(164,901)</u>	<u>(82,450)</u>	<u>(82,451)</u>
Restated Net Assets, December 31,2008	<u>\$ 8,962,254</u>	<u>\$ 2,074,276</u>	<u>\$ 6,887,978</u>



**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by
*Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hillsboro, Highland County, (the City) as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We did note a certain internal control matter not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 30, 2010.

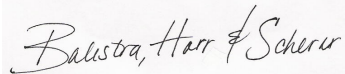
Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

City of Hillsboro
Highland County
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by
Government Auditing Standards
Page 2

We did note certain compliance and other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 30, 2010.

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



Balestra, Harr & Scherer, CPAs, Inc.
June 30, 2010

**CITY OF HILLSBORO
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2008-001	Material Weakness – material and immaterial misstatements	Yes	
2008-002	Noncompliance Citation – Ohio Revised Code Section 5705.39	No	Issued as a Management Comment
2008-003	Noncompliance Citation – Ohio Revised Code Section 5705.36	No	Issued as a Management Comment

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Mary Taylor, CPA
Auditor of State

CITY OF HILLSBORO

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 5, 2010**