



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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CITY OF HILLSBORO
HIGHLAND COUNTY

REGULAR AUDIT

For the Year Ended December 31, 2011
Fiscal Year Audited Under GAGAS: 2011



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Hillsboro, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

August 17, 2012

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City of Hillsboro
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For the Year Ended December 31, 2011

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

City of Hillsboro
Highland County
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, 2011, 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.

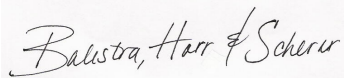
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform 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, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund 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 29, 2012, 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.

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

As described in Note 18 to the financial statements, during 2011 the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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 29, 2012

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(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, 2011. 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 2011 are as follows:

- In total, net assets increased \$1,166,641. Net assets of governmental activities decreased \$481,466. Net assets of business-type activities increased \$1,648,407.
- Governmental activities general revenues accounted for \$4,356,485 in revenue or 75 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,449,473 or 25 percent of total revenues of \$5,805,958. Business-type activities general revenues accounted for \$60,191 in revenue or 1 percent of all revenues. Program specific revenues accounted for \$4,704,654 or 99 percent of total revenues of \$4,764,845.
- The City had \$6,395,191 in expenses related to governmental activities; \$1,449,473 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,008,671 in expenses related to business-type activities; all of these expenses were offset by program specific charges for services, grants and contributions.

Using the Annual Financial Report

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

The statement of net 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 2011?" 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, 2011
(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, 2011
(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 2011 compared to the prior year:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010*	2011	2010	2011	2010*
Assets						
Current and Other Assets	\$ 3,661,673	\$ 3,860,577	\$ 3,156,454	\$ 3,088,611	\$ 6,818,127	\$ 6,949,188
Capital Assets, Net	13,211,532	13,661,452	30,599,691	24,383,488	43,811,223	38,044,940
Total Assets	16,873,205	17,522,029	33,756,145	27,472,099	50,629,350	44,994,128
Liabilities						
Current and Other Liabilities	698,136	687,431	1,207,293	630,009	1,905,429	1,317,440
Long-Term Liabilities	3,450,076	3,628,139	14,104,185	10,045,830	17,554,261	13,673,969
Total Liabilities	4,148,212	4,315,570	15,311,478	10,675,839	19,459,690	14,991,409
Net Assets						
Invested in Capital Assets						
Net of Debt	10,103,537	10,392,317	16,632,940	14,470,936	26,736,477	24,863,253
Restricted	1,254,954	1,463,622	-	-	1,254,954	1,463,622
Unrestricted	1,366,502	1,350,520	1,811,727	2,325,324	3,178,229	3,675,844
Total Net Assets	\$ 12,724,993	\$ 13,206,459	\$ 18,444,667	\$ 16,796,260	\$ 31,169,660	\$ 30,002,719

* Amount restated, see Note 18 for additional information.

Total governmental activities assets decreased \$648,824 due to decreases in Capital Assets as a result of current year depreciation and deletions exceeding current year additions, in addition to a decrease in cash on hand and due from other governments. Business-type activities increased \$6,284,046, due to increases in Capital Assets as a result of the wastewater treatment plant upgrades.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 87% 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.

Total liabilities for governmental activities decreased \$167,358 as a result of debt payments. Total liabilities of business-type activities increased \$4,635,639 due mainly to incurring new debt and an increase in contracts payable.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Table 2 shows the changes in net assets for the year 2011 compared to the prior year.

Table 2
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenue						
Program Revenues:						
Charges for Services and Sales	\$ 1,044,062	\$ 1,062,240	\$ 3,566,446	\$ 3,631,874	\$ 4,610,508	\$ 4,694,114
Operating Grants and Contributions	405,411	270,370	-	-	405,411	270,370
Capital Grants and Contributions	-	-	1,138,208	5,765,199	1,138,208	5,765,199
Total Program Revenues	1,449,473	1,332,610	4,704,654	9,397,073	6,154,127	10,729,683
General Revenues:						
Property & Income Taxes	3,872,567	3,247,854	-	-	3,872,567	3,247,854
Unrestricted Investment Earnings	29,340	25,472	1,147	-	30,487	25,472
Grants and Contributions Not Restricted to Specific Programs	387,275	409,724	-	-	387,275	409,724
Other	67,303	94,811	59,044	63,841	126,347	158,652
Total General Revenues	4,356,485	3,777,861	60,191	63,841	4,416,676	3,841,702
Total Revenues	5,805,958	5,110,471	4,764,845	9,460,914	10,570,803	14,571,385
Program Expenses						
General Government -						
Legislative and Executive	916,916	1,244,576	-	-	916,916	1,244,576
Judicial	392,665	376,103	-	-	392,665	376,103
Security of Persons and Property	3,441,823	3,679,374	-	-	3,441,823	3,679,374
Public Health	13,053	4,485	-	-	13,053	4,485
Leisure Time Activities	114,957	125,861	-	-	114,957	125,861
Community Environment	664,368	201,382	-	-	664,368	201,382
Transportation	703,670	713,406	-	-	703,670	713,406
Interest and Fiscal Charges	147,739	152,581	-	-	147,739	152,581
Water Fund	-	-	1,524,163	1,544,381	1,524,163	1,544,381
Sewer Fund	-	-	1,484,508	1,587,923	1,484,508	1,587,923
Total Expenses	6,395,191	6,497,768	3,008,671	3,132,304	9,403,862	9,630,072
Transfers	107,767	(200,000)	(107,767)	200,000	-	-
Increase (Decrease) in Net Assets	(481,466)	(1,587,297)	1,648,407	6,528,610	1,166,941	4,941,313
Beginning Net Assets*	13,206,459	14,793,756	16,796,260	10,267,650	30,002,719	25,061,406
Ending Net Assets	\$ 12,724,993	\$ 13,206,459	\$ 18,444,667	\$ 16,796,260	\$ 31,169,660	\$ 30,002,719

* Amount restated, see Note 18 for additional information.

Governmental Activities

Governmental activities decreased \$481,466 or 4% during 2011, primarily due to expenses exceeding revenues. Property & Income Taxes increased due to income tax revenues owed to the City as of December 31, 2011. Legislative and Executive and Security of Persons decreased due to efforts by the City's administration to reduce expenditures. Community Environment increased as a direct result of additional monies received for Rehab programs.

General revenues primarily consist of property and income tax revenue of \$3,872,567, or 89% of total general revenues in 2011.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

General government expenses include legislative and executive and judicial programs, totaled \$1,309,581 or 20% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 54% of total expenses.

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 \$1,531,375 and had operating expenses of \$1,272,636 and had interest expense of \$251,527. The wastewater treatment plant generated operating revenues of \$2,035,071 and had operating expenses of \$1,408,215, loss on the disposal of assets of \$2,013, and interest expense of \$74,280. Operating revenues and expenses remained consistent between the two years for both the water and sewer funds. The City's goal is to cover the costs of operations as well as to build the cash balance in these funds. The City is also generating funds for additional capital expansion to ensure continued capacity and capacity improvements for future growth and development.

The City's Funds

Information about the City's major funds starts on page 12. Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$6,689,178 and expenditures and other financing uses of \$6,888,863. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$104,412. The majority of the decrease in fund balance is due to expenditures exceeding revenues for the current year.

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 2011, the City amended its General Fund budget. With the General Fund supporting many of the major activities such as the City's police and fire departments, as well as most general government activities, the General Fund is monitored closely to prevent possible revenue shortfalls or overspending by individual departments.

For the General Fund, original budgeted revenues and other financing sources were \$4,607,607, while final budgeted revenues and other financing sources were \$4,718,149. The increase to final budgeted revenues and other financing sources was due primarily to increases to taxes, charges for services, and intergovernmental revenues. The City's actual revenues and other financing sources were \$156,912 more than the final budgeted revenues and other financing sources due primarily to additional tax revenues received. Original budgeted expenditures and other financing uses were \$5,175,828, while final budget amounts were \$5,283,594. The increase is primarily due to an increase in security of persons and property.

The General Fund's actual expenditures were less than final budgeted expenditures mainly due conservative budgeting by the City.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the 2011 the City had \$43,811,223 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2011 and 2010 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010*	2011	2010	2011	2010
Land	\$ 559,836	\$ 559,836	\$ 10,460	\$ 10,460	\$ 570,296	\$ 570,296
Land Improvements	848,876	887,515	81,165	70,366	930,041	957,881
Buildings and Improvements	3,591,977	3,680,482	10,309,535	10,440,211	13,901,512	14,120,693
Furniture and Equipment	727,336	809,368	411,462	423,330	1,138,798	1,232,698
Vehicles	661,950	783,444	332,759	326,090	994,709	1,109,534
Infrastructure/Water & Sewer Lines	6,738,452	6,883,249	3,471,438	3,583,857	10,209,890	10,467,106
Construction in Progress	83,105	57,558	15,982,872	9,529,174	16,065,977	9,586,732
Totals	<u>\$ 13,211,532</u>	<u>\$ 13,661,452</u>	<u>\$ 30,599,691</u>	<u>\$ 24,383,488</u>	<u>\$ 43,811,223</u>	<u>\$ 38,044,940</u>

* As restated, see Note 18 for additional information.

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

Debt

At December 31, 2011, the City of Hillsboro had \$17,147,582 in bonds, loans, and leases outstanding, \$402,540 due within one year.

Table 4
Outstanding Debt, at Year End

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
O.W.D.A. Loan	\$ -	\$ -	\$ 8,250,405	\$ 4,039,482	\$ 8,250,405	\$ 4,039,482
Capital Lease	7,995	34,135	80,182	109,739	88,177	143,874
OPWC Loan	-	-	150,000	160,000	150,000	160,000
Mortgage Revenue Bonds	-	-	5,559,000	5,603,331	5,559,000	5,603,331
General Obligation Bonds	3,100,000	3,235,000	-	-	3,100,000	3,235,000
Total	<u>\$ 3,107,995</u>	<u>\$ 3,269,135</u>	<u>\$ 14,039,587</u>	<u>\$ 9,912,552</u>	<u>\$ 17,147,582</u>	<u>\$ 13,181,687</u>

The City's overall legal debt margin was \$9,508,618 at December 31, 2011.

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

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2011
(Unaudited)

The Future

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

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

Contacting the City's Finance Department

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

City of Hillsboro
Statement of Net Assets
December 31, 2011

	Governmental Activities	Business-Type Activities	Totals
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 1,793,567	\$ 2,050,738	\$ 3,844,305
Receivables:			
Taxes	1,264,530	-	1,264,530
Accounts	282,364	554,196	836,560
Accrued Interest	13	-	13
Due from Other Governments	212,806	-	212,806
Loans Receivable	108,393	-	108,393
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	-	551,520	551,520
Non-Depreciable Capital Assets	642,941	15,993,332	16,636,273
Depreciable Capital Assets, Net	12,568,591	14,606,359	27,174,950
<i>Total Assets</i>	<u>\$ 16,873,205</u>	<u>\$ 33,756,145</u>	<u>\$ 50,629,350</u>
LIABILITIES:			
Accounts Payable	\$ 34,939	\$ 54,404	\$ 89,343
Contracts Payable	-	487,738	487,738
Accrued Wages and Benefits	108,712	18,137	126,849
Due to Other Governments	180,218	33,113	213,331
Matured Compensated Absences	2,222	-	2,222
Retainage Payable	-	551,520	551,520
Unearned Revenue	324,645	-	324,645
Accrued Interest Payable	47,400	62,381	109,781
Long-Term Liabilities			
Due Within One Year	180,857	260,898	441,755
Due in More than One Year	3,269,219	13,843,287	17,112,506
<i>Total Liabilities</i>	<u>4,148,212</u>	<u>15,311,478</u>	<u>19,459,690</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	10,103,537	16,632,940	26,736,477
Restricted for:			
Debt Service	166,950	-	166,950
Capital Projects	353,650	-	353,650
Revolving Loan	220,180	-	220,180
Other Purposes	514,174	-	514,174
Unrestricted	1,366,502	1,811,727	3,178,229
<i>Total Net Assets</i>	<u>\$ 12,724,993</u>	<u>\$ 18,444,667</u>	<u>\$ 31,169,660</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2011

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	\$ 916,916	\$ 172,964	\$ 9,681	\$ -	\$ (734,271)		\$ (734,271)	
Judicial	392,665	73,829	20,738	-	(298,098)		(298,098)	
Security of Persons and Property	3,441,823	647,118	88,931	-	(2,705,774)		(2,705,774)	
Public Health	13,053	2,556	-	-	(10,497)		(10,497)	
Leisure Time Activities	114,957	8,877	17,236	-	(88,844)		(88,844)	
Community Environment	664,368	85,815	166,327	-	(412,226)		(412,226)	
Transportation	703,670	52,750	102,422	-	(548,498)		(548,498)	
Interest and Fiscal Charges	147,739	153	76	-	(147,510)		(147,510)	
Total Governmental Activities	6,395,191	1,044,062	405,411	-	(4,945,718)		(4,945,718)	
Business-Type Activities:								
Sewer	1,484,508	2,035,071	-	1,138,208		1,688,771	1,688,771	
Water	1,524,163	1,531,375	-	-		7,212	7,212	
Total Business-Type Activities	3,008,671	3,566,446	-	1,138,208	-	1,695,983	1,695,983	
Total Primary Government	\$ 9,403,862	\$ 4,610,508	\$ 405,411	\$ 1,138,208	\$ (4,945,718)	\$ 1,695,983	\$ (3,249,735)	
General Revenues and Transfers:								
Taxes:								
Property Taxes Levied for:								
					310,148	-	310,148	
					77,672	-	77,672	
					40,393	-	40,393	
					227,440	-	227,440	
					3,216,914	-	3,216,914	
Grants and Contributions Not Restricted to Specific Programs								
					387,275	-	387,275	
					29,340	1,147	30,487	
					67,303	59,044	126,347	
					107,767	(107,767)	-	
					4,464,252	(47,576)	4,416,676	
					Change in Net Assets	(481,466)	1,648,407	1,166,941
					Net Assets, Beginning of the Year - As Restated, See Note 18	13,206,459	16,796,260	30,002,719
					Net Assets, End of the Year	\$ 12,724,993	\$ 18,444,667	\$ 31,169,660

See accompanying notes to the basic financial statements.

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2011

	General	All Other Governmental Funds	Total Governmental Funds
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 640,997	\$ 1,152,570	\$ 1,793,567
Accounts Receivable	273,898	8,466	282,364
Accrued Interest Receivable	13	-	13
Taxes Receivable	1,161,792	102,738	1,264,530
Due from Other Governments	100,009	112,797	212,806
Loans Receivable	-	108,393	108,393
<i>Total Assets</i>	<u>\$ 2,176,709</u>	<u>\$ 1,484,964</u>	<u>\$ 3,661,673</u>
LIABILITIES:			
Accounts Payable	\$ 25,647	\$ 9,292	\$ 34,939
Accrued Wages and Benefits	100,888	7,824	108,712
Due to Other Governments	73,719	106,499	180,218
Matured Compensated Absences Payable	2,222	-	2,222
Deferred Revenue	916,421	179,758	1,096,179
<i>Total Liabilities</i>	<u>1,118,897</u>	<u>303,373</u>	<u>1,422,270</u>
FUND BALANCES:			
Nonspendable	25,869	108,393	134,262
Restricted	-	1,100,045	1,100,045
Assigned	191,359	-	191,359
Unassigned	840,584	(26,847)	813,737
<i>Total Fund Balances</i>	<u>1,057,812</u>	<u>1,181,591</u>	<u>2,239,403</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,176,709</u>	<u>\$ 1,484,964</u>	<u>\$ 3,661,673</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, 2011

Total Governmental Fund Balances		\$ 2,239,403
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.		13,211,532
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	147,539	
Intergovernmental	<u>623,995</u>	
Total		771,534
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	(47,400)	
Capital Lease Payable	(7,995)	
Compensated Absences	(342,081)	
General Obligation Bonds	<u>(3,100,000)</u>	
Total		<u>(3,497,476)</u>
Net Assets of Governmental Activities		<u><u>\$ 12,724,993</u></u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	All Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes	\$ 3,410,459	\$ 344,527	\$ 3,754,986
Charges for Services	613,335	-	613,335
Licenses and Permits	16,251	68,213	84,464
Fines and Forfeitures	197,693	127,502	325,195
Intergovernmental	389,719	531,126	920,845
Interest	26,445	2,895	29,340
Rent	8,000	13,068	21,068
Other	20,418	46,885	67,303
<i>Total Revenues</i>	<u>4,682,320</u>	<u>1,134,216</u>	<u>5,816,536</u>
EXPENDITURES:			
Current:			
General Government:			
Legislative and Executive	826,177	52,528	878,705
Judicial	306,985	82,741	389,726
Security of Persons and Property	2,969,242	354,820	3,324,062
Public Health	12,544	-	12,544
Leisure Time Activities	-	68,770	68,770
Community Environment	748	663,620	664,368
Transportation	-	408,738	408,738
Capital Outlay	12,413	60,129	72,542
Debt Service:			
Principal Retirements	30,710	142,843	173,553
Interest and Fiscal Charges	631	147,762	148,393
<i>Total Expenditures</i>	<u>4,159,450</u>	<u>1,981,951</u>	<u>6,141,401</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>522,870</u>	<u>(847,735)</u>	<u>(324,865)</u>
OTHER FINANCING SOURCES AND USES:			
Transfers In	107,767	747,462	855,229
Proceeds from Sale of Capital Assets	-	5,000	5,000
Inception of Capital Lease	12,413	-	12,413
Transfers Out	(747,462)	-	(747,462)
<i>Total Other Financing Sources and Uses</i>	<u>(627,282)</u>	<u>752,462</u>	<u>125,180</u>
<i>Net Change in Fund Balances</i>	(104,412)	(95,273)	(199,685)
<i>Fund Balances at Beginning of Year</i>	<u>1,162,224</u>	<u>1,276,864</u>	<u>2,439,088</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,057,812</u>	<u>\$ 1,181,591</u>	<u>\$ 2,239,403</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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (199,685)

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	225,234	
Current Year Depreciation	(643,443)	
Total		(418,209)

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

Proceeds from Sale of Capital Assets	(5,000)	
Loss on Disposal of Capital Assets	(26,711)	
Total		(31,711)

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

Taxes	117,581	
Intergovernmental	(128,159)	
Total		(10,578)

Proceeds from the inception of capital lease in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (12,413)

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. 135,000

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. 38,553

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

Decrease in Compensated Absences	16,923	
Decrease in Accrued Interest Payable	654	
Total		17,577

Net Change in Net Assets of Governmental Activities **\$ (481,466)**

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 3,202,120	\$ 3,281,046	\$ 3,393,079	\$ 112,033
Charges for Services	659,682	675,942	699,022	23,080
Licenses and Permits	15,336	15,714	16,251	537
Fines and Forfeitures	185,145	189,708	196,186	6,478
Intergovernmental	374,340	383,567	396,664	13,097
Interest	26,465	27,117	28,043	926
Rent	7,550	7,736	8,000	264
Other	14,202	14,552	15,049	497
<i>Total Revenues</i>	<u>4,484,840</u>	<u>4,595,382</u>	<u>4,752,294</u>	<u>156,912</u>
EXPENDITURES:				
Current:				
General Government:				
Legislative and Executive	929,310	951,926	915,689	36,237
Judicial	314,827	322,488	310,212	12,276
Security of Persons and Property	3,170,739	3,247,900	3,124,018	123,882
Public Health	12,731	13,040	12,544	496
Community Environment	759	778	748	30
<i>Total Expenditures</i>	<u>4,428,366</u>	<u>4,536,132</u>	<u>4,363,211</u>	<u>172,921</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>56,474</u>	<u>59,250</u>	<u>389,083</u>	<u>329,833</u>
OTHER FINANCING SOURCES AND USES:				
Advances In	15,000	15,000	15,000	-
Transfers In	107,767	107,767	107,767	-
Transfers Out	(747,462)	(747,462)	(747,462)	-
<i>Total Other Financing Sources and Uses</i>	<u>(624,695)</u>	<u>(624,695)</u>	<u>(624,695)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	(568,221)	(565,445)	(235,612)	329,833
<i>Fund Balance at Beginning of Year - As Restated, See Note 18</i>	428,631	428,631	428,631	-
<i>Prior Year Encumbrances Appropriated</i>	<u>213,052</u>	<u>213,052</u>	<u>213,052</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 73,462</u>	<u>\$ 76,238</u>	<u>\$ 406,071</u>	<u>\$ 329,833</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Net Assets
Proprietary Funds
December 31, 2011

	Water	Sewer	Total
ASSETS:			
<i>Current Assets</i>			
Equity in Pooled Cash and Cash Equivalents	\$ 593,275	\$ 1,457,463	\$ 2,050,738
Accounts Receivable	235,548	318,648	554,196
Total Current Assets	828,823	1,776,111	2,604,934
<i>Noncurrent Assets</i>			
Restricted Cash and Cash Equivalents	-	551,520	551,520
Non-Depreciable Capital Assets	5,230	15,988,102	15,993,332
Depreciable Capital Assets, Net	7,295,490	7,310,869	14,606,359
Total Noncurrent Assets	7,300,720	23,850,491	31,151,211
Total Assets	\$ 8,129,543	\$ 25,626,602	\$ 33,756,145
LIABILITIES:			
<i>Current Liabilities</i>			
Accounts Payable	\$ 12,194	\$ 42,210	\$ 54,404
Retainage Payable	-	551,520	551,520
Contracts Payable	-	487,738	487,738
Accrued Wages and Benefits	9,301	8,836	18,137
Due to Other Governments	16,445	16,668	33,113
Accrued Interest Payable	62,381	-	62,381
Compensated Absences - Current Portion	-	2,222	2,222
Capital Leases Payable - Current Portion	15,481	15,481	30,962
OWDA Loans - Current Portion	-	86,881	86,881
Revenue Bonds Payable - Current Portion	127,000	-	127,000
OPWC Loans - Current Portion	-	10,000	10,000
Unamortized Charge - Current Portion	3,833	-	3,833
Total Current Liabilities	246,635	1,221,556	1,468,191
<i>Noncurrent Liabilities</i>			
Long Term Liabilities:			
OWDA Loans Payable - Net of Current Portion	-	8,163,524	8,163,524
Compensated Absences Payable	17,888	44,488	62,376
Revenue Bonds Payable - Net of Current Portion	5,359,164	-	5,359,164
Capital Leases Payable - Net of Current Portion	24,610	24,610	49,220
OPWC Loans - Net of Current Portion	-	140,000	140,000
Unamortized Charge - Refunding Bonds - Net of Current Portion	69,003	-	69,003
Total Noncurrent Liabilities	5,470,665	8,372,622	13,843,287
Total Liabilities	5,717,300	9,594,178	15,311,478
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	1,774,465	14,858,475	16,632,940
Unrestricted	637,778	1,173,949	1,811,727
Total Net Assets	\$ 2,412,243	\$ 16,032,424	\$ 18,444,667

See accompanying notes to the basic financial statements. 17

City of Hillsboro
Statement of Revenues, Expenses and
Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2011

	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 1,529,575	\$ 2,033,485	\$ 3,563,060
Tap-In Fees	1,800	1,586	3,386
<i>Total Operating Revenues</i>	1,531,375	2,035,071	3,566,446
OPERATING EXPENSES			
Salaries and Wages	476,979	494,799	971,778
Fringe Benefits	240,380	223,818	464,198
Contractual Services	155,767	124,341	280,108
Materials & Supplies	113,425	138,322	251,747
Utilities	74,535	138,807	213,342
Other	12,322	304	12,626
Depreciation Expense	199,228	287,824	487,052
<i>Total Operating Expenses</i>	1,272,636	1,408,215	2,680,851
<i>Operating Income</i>	258,739	626,856	885,595
NONOPERATING REVENUES (EXPENSES)			
Loss on Disposal of Capital Assets	-	(2,013)	(2,013)
Interest	-	1,147	1,147
Other Non-Operating Revenues	49,131	9,913	59,044
Interest and Fiscal Charges	(251,527)	(74,280)	(325,807)
<i>Total Nonoperating Revenues (Expenses)</i>	(202,396)	(65,233)	(267,629)
<i>Changes in Net Assets Before Transfers and Capital Contributions</i>	56,343	561,623	617,966
Transfers Out	-	(107,767)	(107,767)
<i>Changes in Net Assets Before Capital Contributions</i>	56,343	453,856	510,199
Capital Contribution - Intergovernmental	-	1,138,208	1,138,208
<i>Changes in Net Assets</i>	56,343	1,592,064	1,648,407
<i>Net Assets at Beginning of Year</i>	2,355,900	14,440,360	16,796,260
<i>Net Assets at End of Year</i>	<u>\$ 2,412,243</u>	<u>\$ 16,032,424</u>	<u>\$ 18,444,667</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	<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	\$ 1,517,927	\$ 2,016,006	\$ 3,533,933
Cash Payments to Suppliers for Goods and Services	(349,365)	(389,296)	(738,661)
Cash Payments to Employees for Services and Benefits	(714,499)	(709,812)	(1,424,311)
<i>Net Cash Provided by Operating Activities</i>	<u>454,063</u>	<u>916,898</u>	<u>1,370,961</u>
<i>Cash Flows from Noncapital Financing Activities:</i>			
Transfers Out	-	(107,767)	(107,767)
Other Nonoperating Revenues	49,131	9,913	59,044
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>49,131</u>	<u>(97,854)</u>	<u>(48,723)</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>			
Proceeds from OWDA Loan	-	4,870,302	4,870,302
Payments for Capital Acquisitions	(192,913)	(5,958,254)	(6,151,167)
Receipts from Capital Grants	-	1,138,208	1,138,208
Principal Payments - Bonds and Capital Lease Obligations	(135,778)	(684,096)	(819,874)
Interest Payments - Bonds and Capital Lease Obligations	(251,244)	(74,280)	(325,524)
<i>Net Cash Used for Capital and Related Financing Activities</i>	<u>(579,935)</u>	<u>(708,120)</u>	<u>(1,288,055)</u>
<i>Cash Flows from Investing Activities:</i>			
Interest on Investments	-	1,147	1,147
<i>Net Cash Provided by Investing Activities</i>	<u>-</u>	<u>1,147</u>	<u>1,147</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(76,741)	112,071	35,330
Cash and Cash Equivalents at Beginning of Year	<u>670,016</u>	<u>1,896,912</u>	<u>2,566,928</u>
Cash and Cash Equivalents at End of Year	<u>\$ 593,275</u>	<u>\$ 2,008,983</u>	<u>\$ 2,602,258</u>

(Continued)

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</i>			
Operating Income	\$ 258,739	\$ 626,856	\$ 885,595
<i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i>			
Depreciation	199,228	287,824	487,052
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(13,448)	(19,065)	(32,513)
Increase (Decrease) in Accounts Payable - Operating	6,684	12,478	19,162
Decrease in Accrued Wages and Benefits	156	(882)	(726)
Increase (Decrease) in Compensated Absences Payable	1,200	6,789	7,989
Increase in Due to Other Governments	1,504	2,898	4,402
Total Adjustments	<u>195,324</u>	<u>290,042</u>	<u>485,366</u>
Net Cash Provided by Operating Activities	<u>\$ 454,063</u>	<u>\$ 916,898</u>	<u>\$ 1,370,961</u>

See accompanying notes to the basic financial statements.

City of Hillsboro
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2011

	<u>Agency</u>
ASSETS:	
Cash and Cash Equivalents in Segregated Accounts	\$ 78,406
Receivables:	
Accounts	<u>159,935</u>
<i>Total Assets</i>	<u><u>\$ 238,341</u></u>
LIABILITIES :	
Due to Other Governments	\$ 94,362
Undistributed Monies	65,573
Deposits Held and Due to Others	<u>78,406</u>
<i>Total Liabilities</i>	<u><u>\$ 238,341</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, 2011

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 follows GASB guidance as applicable to its governmental and business-type activities, and Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Board bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements or that have been made applicable by the GASB. The City has elected to follow GASB guidance for business-type activities and enterprise funds rather than FASB guidance issued after November 30, 1989. 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, 2011

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

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

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, 2011, but which were levied to finance fiscal year 2012 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 all funds, Council appropriations are budgeted for fund and function and object 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.

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 2011. Supplemental appropriations were adopted during 2011 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.

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 2011, investments were limited to certificates of deposit and U.S. Treasury money market funds.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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, 2011.

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.

FUND BALANCE

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

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

NET 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 \$1,254,954 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTERFUND TRANSACTIONS

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

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

ESTIMATES

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

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

3. DEPOSITS AND INVESTMENTS (Continued)

The City's bank balance of \$4,285,314 is either covered by FDIC or collateralized by the financial institutions' public entity deposit pools in the manner as described above.

Investments:

Investment type	Fair Value	Maturities 6 months or less
U.S. Government Money		
Market Mutual Funds	\$ 319,765	\$ 319,765
	\$ 319,765	\$ 319,765

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

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

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. The City does have an investment policy. All of the City's investments are in money market funds as of December 31, 2011.

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).

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

- 3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a restriction, commitment, or assignment of fund balance for governmental fund types (GAAP basis).
- 4. Funds reported as part of the General Fund on the GAAP basis are not included on the budgetary basis.

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

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$ (104,412)
Revenue Accruals	77,930
Expenditure Accruals	3,526
Prospective Difference:	
Activity of Funds Reclassified for GAAP Reporting Purposes	(5,369)
Encumbrances	<u>(207,287)</u>
Budgetary Basis	<u><u>\$ (235,612)</u></u>

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 2009. 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. Due to the phase out which began in 2005, the tangible personal property tax fell to zero in 2009 for businesses. Therefore, Ohio no longer has a general tax on tangible personal property used in business. The tax temporarily applies to telephone and inter-exchange telecommunications companies, which is being phased out to 10% for 2009, 5% for 2010, and zero for 2011. After 2011, tangible personal property, exclusive of public utility tangible personal property, will not be subject to tax. 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.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

5. PROPERTY TAX (Continued)

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2011. 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 2011 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, 2011, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	\$115,195,900
Public Utility Personal Property	<u>4,886,180</u>
Total Property Taxes	<u>\$120,082,080</u>

6. LOCAL INCOME TAX

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

7. INTERFUND TRANSACTIONS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer from the Sewer Fund to the General fund was due to a portion of the monies the State required the City to make in contributions in the prior year from the Revolving Loan fund for the sewer upgrade project. The entire amount of the monies contributed in the prior year were not needed, therefore the monies were transferred to General Fund and then transferred to the original fund in which the Sewer fund received the monies, which was the Revolving Loan fund.

Transfers made during the year ended December 31, 2011, were as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	<u>\$ 107,767</u>	<u>\$ 747,462</u>
Non-Major Special Revenue Funds		
Street	174,000	
Police Pension	95,668	-
Fire Pension	173,877	-
Recreation	35,150	-
Revolving Loan	107,767	-
Total Non-Major Special Revenue Funds	<u>586,462</u>	<u>-</u>
Non-Major General Bond Retirement Fund	<u>161,000</u>	<u>-</u>
Major Enterprise Fund		
Sewer Fund	-	107,767
Total All Funds	<u>\$ 855,229</u>	<u>\$ 855,229</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

8. RECEIVABLES

Receivables at December 31, 2011 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	\$88,470
Homestead & Rollback	11,539
<u>Non-Major Special Revenue</u>	
Street Fund	
Gasoline Tax	96,330
State Highway Fund	
Gasoline Tax	7,809
Municipal Motor Vehicle Fund	
Permissive Tax	3,192
Police Pension Fund	
Homestead & Rollback	1,822
Fire Pension Fund	
Homestead & Rollback	1,822
<u>Non-Major Debt Service</u>	
Bond Retirement Fund	
Homestead & Rollback	<u>1,822</u>
 Total Governmental Activities	 <u>\$212,806</u>

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.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

9. DEFINED BENEFIT RETIREMENT PLANS (Continued)

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. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2011, 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 2011 were 10.0% for members in state and local classifications. Public safety and law enforcement members contributed 11.0% and 11.6%, respectively. The 2011 employer contribution rate for state and local employers was 14.0% of covered payroll. For both the law enforcement and public safety divisions, the employer contribution rate for 2011 was 18.1% of covered payroll.

The City's contributions to the PERS of Ohio for the years ending December 31, 2011, 2010, and 2009 were \$282,981, \$282,460, and \$278,663 respectively. 90.1% has been contributed for 2011, and 100% of the 2010 and 2009 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, 2011, 2010, and 2009. Contributions are authorized by State statute.

The City's required contributions to OP&F for the years ended December 31, 2011, 2010, and 2009 were \$154,639, \$158,431, and \$170,331 for policemen and \$192,828, \$203,900, and \$270,401 for firefighters, respectively, 72.4 percent of the 2011 contributions have been paid, and 100 percent of the 2010 and 2009 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.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

10. POSTEMPLOYMENT BENEFITS (Continued)

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

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

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

OPERS issues a stand-alone financial report. Interest parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 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 2011, state and local employers contributed at a rate of 14.0% of covered payroll and public safety and law enforcement employers contributed at 18.10%. 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 for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. For 2010, the portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. 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. 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 \$80,848 for 2011, \$102,552 for 2010, and \$116,076 for 2009, which represented 100 percent of the required contributions for each year.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

10. POSTEMPLOYMENT BENEFITS (Continued)

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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

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

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 2011, 2010, and 2009, 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, 2011, 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.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

10. POSTEMPLOYMENT BENEFITS (Continued)

The number of participants eligible to receive health care benefits as of December 31, 2010, (the latest information available) was 15,013 for Police and 11,061 for Firefighters. The City's actual contributions for 2011, 2010, and 2009 that were used to fund postemployment benefits were \$53,505, \$58,817, and \$58,961, respectively, for Police, and \$54,185, \$57,296, and \$76,050, respectively, for Firefighters, which were equal to the required contributions for each year. The Fund's total health care expenses for the year ended December 31, 2010 (the latest information available) were \$159,913,915, which was net of member contributions of \$58,923,329.

11. RISK MANAGEMENT

The City is exposed to various risks of property and casualty losses, and injuries to employees. The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009 (the most recent information available).

Casualty and Property Coverage	2010	2009
Assets	\$34,952,010	\$36,374,898
Liabilities	(14,320,812)	(15,256,862)
Retained Earnings	\$20,631,198	\$21,118,036

At December 31, 2010 and 2009, (the most recent information available) respectively, the liabilities above include approximately \$12.9 million and \$14.1 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Government's share of these unpaid claims collectible in future years is approximately \$73,519.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

11. RISK MANAGEMENT (Continued)

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

Contributions to PEP	
2009	\$ 85,976
2010	86,172
2011	79,053

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

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

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

12. OTHER EMPLOYEE BENEFITS

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011:

	Restated Beginning Balance 12/31/2010*	Additions	Deletions	Ending Balance 12/31/2011
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 559,836	\$ -	\$ -	\$ 559,836
Construction in Progress	57,558	130,092	(104,545)	83,105
Total Capital Assets, Not Being Depreciated	<u>617,394</u>	<u>130,092</u>	<u>(104,545)</u>	<u>642,941</u>
Capital Assets Being Depreciated				
Land Improvements	1,986,261	-	-	1,986,261
Buildings and Improvements	4,177,087	-	-	4,177,087
Furniture and Equipment	1,832,763	41,429	-	1,874,192
Vehicles	2,023,134	8,900	(8,900)	2,023,134
Infrastructure	11,179,257	149,358	(27,976)	11,300,639
Total Capital Assets Being Depreciated	<u>21,198,502</u>	<u>199,687</u>	<u>(36,876)</u>	<u>21,361,313</u>
Less Accumulated Depreciation				
Land Improvements	(1,098,746)	(38,639)	-	(1,137,385)
Buildings and Improvements	(496,605)	(88,505)	-	(585,110)
Furniture and Equipment	(1,023,395)	(123,461)	-	(1,146,856)
Vehicles	(1,239,690)	(121,494)	-	(1,361,184)
Infrastructure	(4,296,008)	(271,344)	5,165	(4,562,187)
Total Accumulated Depreciation	<u>(8,154,444)</u>	<u>(643,443)</u>	<u>5,165</u>	<u>(8,792,722)</u>
Total Capital Assets Being Depreciated, Net	<u>13,044,058</u>	<u>(443,756)</u>	<u>(31,711)</u>	<u>12,568,591</u>
Governmental Activities Capital Assets, Net	<u>\$13,661,452</u>	<u>\$ (313,664)</u>	<u>\$ (136,256)</u>	<u>\$ 13,211,532</u>

* As restated, see Note 18 for additional information.

Depreciation expense was charged to governmental functions as follows:

General Government:

Legislative and Executive	\$39,961
Security of Persons & Property	212,130
Public Health	509
Leisure Time Activities	46,187
Transportation	<u>344,656</u>
Total Depreciation Expense	<u>\$643,443</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2011:

	Ending Balance 12/31/2010	Additions	Deletions	Ending Balance 12/31/2011
<u>Business Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 10,460	\$ -	\$ -	\$ 10,460
Construction in Progress	9,529,174	6,586,077	(132,379)	15,982,872
Total Capital Assets, Not Being Depreciated	<u>9,539,634</u>	<u>6,586,077</u>	<u>(132,379)</u>	<u>15,993,332</u>
Capital Assets Being Depreciated				
Land Improvements	255,910	19,850	-	275,760
Buildings and Improvements	15,617,164	250	-	15,617,414
Mechanical Equipment	1,156,973	59,570	(12,227)	1,204,316
Vehicles	575,098	31,741	-	606,839
Infrastructure	6,076,293	140,159	(196,016)	6,020,436
Total Capital Assets Being Depreciated	<u>23,681,438</u>	<u>251,570</u>	<u>(208,243)</u>	<u>23,724,765</u>
Less Accumulated Depreciation				
Land Improvements	(185,544)	(9,051)	-	(194,595)
Buildings and Improvements	(5,176,953)	(130,926)	-	(5,307,879)
Mechanical Equipment	(733,643)	(71,438)	12,227	(792,854)
Vehicles	(249,008)	(25,072)	-	(274,080)
Infrastructure	(2,492,436)	(250,565)	194,003	(2,548,998)
Total Accumulated Depreciation	<u>(8,837,584)</u>	<u>(487,052)</u>	<u>206,230</u>	<u>(9,118,406)</u>
Total Capital Assets Being Depreciated, Net	<u>14,843,854</u>	<u>(235,482)</u>	<u>(2,013)</u>	<u>14,606,359</u>
Business Type Activities Capital Assets, Net	<u>\$ 24,383,488</u>	<u>\$6,350,595</u>	<u>\$(134,392)</u>	<u>\$ 30,599,691</u>

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

14. LONG-TERM OBLIGATIONS

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

	Outstanding 12/31/2010	Issued	Retired	Outstanding 12/31/2011	Due In One Year
Governmental Activities					
Compensated Absences	\$ 359,004	\$ 315,874	\$ 332,797	\$ 342,081	\$ 36,993
2007 - 6.0% Street Improvement Bonds	590,000	-	40,000	550,000	40,000
2009 - Various Purpose General Obligation Bonds	2,645,000	-	95,000	2,550,000	100,000
Capital Lease	34,135	12,413	38,553	7,995	3,864
Total Governmental Activities	<u>\$ 3,628,139</u>	<u>\$ 328,287</u>	<u>\$ 506,350</u>	<u>\$ 3,450,076</u>	<u>\$ 180,857</u>
Business-Type Activities					
Compensated Absences	\$ 56,609	\$ 156,936	\$ 148,947	\$ 64,598	\$ 2,222
Water					
2004 - 2% Mortgage Revenue Bond	2,803,331	3,833	85,000	2,722,164	90,000
2005 - Water System Improvement Revenue Bonds - 4.25%	530,000	-	7,000	523,000	7,000
2005 - Water System Improvement Revenue Bonds - 4.25%	2,270,000	-	29,000	2,241,000	30,000
Unamortized Charge	76,669	-	3,833	72,836	3,833
Capital Lease	54,869	-	14,778	40,091	15,481
Total Water Fund	<u>5,734,869</u>	<u>3,833</u>	<u>139,611</u>	<u>5,599,091</u>	<u>146,314</u>
Sewer					
2004 - OWDA Loan - 1%	296,674	-	19,844	276,830	20,044
2005 - OWDA Loan - 1%	1,065,278	-	66,226	999,052	66,837
2007 - OWDA Loan - 1%	720,267	-	343,502	376,765	-
2010 - OWDA Loan - 1%	1,957,263	4,870,302	229,807	6,597,758	-
2007 - OPWC Loan - 0%	160,000	-	10,000	150,000	10,000
Capital Lease	54,870	-	14,779	40,091	15,481
Total Sewer Fund	<u>4,254,352</u>	<u>4,870,302</u>	<u>684,158</u>	<u>8,440,496</u>	<u>112,362</u>
Total Business-Type Activities	<u>\$ 10,045,830</u>	<u>\$ 5,031,071</u>	<u>\$ 972,716</u>	<u>\$ 14,104,185</u>	<u>\$ 260,898</u>

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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

All of the OWDA loans except the 2004 OWDA loans were still open as of December 31, 2011 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 \$9,625,571. The net revenue available for these bonds was \$457,967 and principal and interest paid was \$372,244. The coverage ratio for these bonds was 1.23 for the year ended December 31, 2011. The remaining principal to be paid on the OWDA loans was \$8,250,405. 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 \$914,680 and principal and interest paid was \$731,319. The coverage ratio for the loans was 1.25 for the year ended December 31, 2011.

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, 2011

14. LONG-TERM DEBT OBLIGATIONS (Continued)

Principal and interest requirements to retire General Obligation Bonds (Governmental Activities) and principal requirements to retire OPWC (Business-Type Activities) debt at December 31, 2011 were as follows:

	General Obligation Bonds		OPWC
	Principal	Interest	Principal
2012	\$140,000	\$142,452	\$10,000
2013	145,000	136,862	10,000
2014	160,000	130,822	10,000
2015	165,000	124,038	10,000
2016	125,000	116,928	10,000
2017-2021	1,005,000	472,918	50,000
2022-2026	810,000	302,898	50,000
2027-2029	550,000	82,500	0
Total	\$3,100,000	\$1,509,418	\$150,000

Principal and interest requirements to retire Mortgage Revenue Bonds and the OWDA Loan at December 31, 2011 were as follows:

	Mortgage Revenue Bonds		OWDA Loan	
	Principal	Interest	Principal	Interest
2012	\$127,000	\$246,641	\$20,044	\$2,718
2013	135,000	240,989	20,244	2,517
2014	141,000	235,204	20,447	2,314
2015	142,000	229,336	20,652	2,109
2016	150,000	223,702	20,652	2,109
2017-2021	853,000	1,013,452	106,410	7,400
2022-2026	1,061,000	799,881	68,381	2,015
2027-2031	1,338,000	516,884	0	0
2032-2036	471,000	304,547	0	0
2037-2041	581,000	195,211	0	0
2042-2045	560,000	60,724	0	0
Total	\$5,559,000	\$4,066,571	\$276,830	\$21,182

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

The City's overall legal debt margin was \$9,508,618 at December 31, 2011.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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, 2011.

Litigation

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

16. CAPITALIZED LEASES - LESSEE DISCLOSURE

During a previous year, the City entered into a capital lease for computer equipment. 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 and as reductions of capital lease obligations in the Water and Sewer Funds. These expenditures are reflected as program/object expenditures on a budgetary basis in the General Fund.

The capital assets acquired by the leases have been capitalized in the statement of net assets for governmental activities and business-type activities in the amount of \$505,704 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 and business-type activities. Principal payments in fiscal year 2011 totaled \$38,553 in the governmental funds, \$14,778 in the Water Fund and \$14,779 in the Sewer Fund.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2011.

Year Ending December 31,	Capitalized Lease Obligation
2012	\$ 38,781
2013	38,781
2014	17,182
Total Minimum Lease Payments	94,744
Less: Amount Representing Interest	(6,567)
Present Value of Minimum Lease Payments	\$ 88,177

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

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. As of December 31, 2011, the City redeemed the shares of stock.

18. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF BALANCES

For fiscal year 2011, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The implementation of this statement resulted in the reclassification of certain funds, and resulted in a beginning balance restatement as follows:

	General Fund - Budgetary
Balance January 1, 2011	\$ 504,968
Reclassification of funds for GASB 54	(76,337)
Restated Balance January 1, 2011	\$ 428,631

During 2010, the City's capital assets were overstated. This overstatement resulted in a beginning balance restatement of net assets as follows:

	Governmental Activities
Balance January 1, 2011	\$ 13,377,543
Restatement Amount	(171,084)
Restated Balance January 1, 2011	\$ 13,206,459

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2011

19. FUND BALANCES

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

Fund Balances	General	All Other Governmental	Total Governmental Funds
Nonspendable			
Unclaimed Monies	\$25,869	\$0	\$25,869
Loans	<u>0</u>	<u>108,393</u>	<u>108,393</u>
Total Nonspendable	25,869	108,393	134,262
Restricted for			
Street Improvement	0	124,470	124,470
Fire Pension	0	55,380	55,380
Municipal Court Special Project	0	77,373	77,373
Alcohol Treatment	0	77,212	77,212
Other Purpose	0	97,389	97,389
Revolving Loan	0	151,224	151,224
Debt Services Payments	0	163,347	163,347
Capital Improvements	<u>0</u>	<u>353,650</u>	<u>353,650</u>
Total Restricted	<u>0</u>	<u>1,100,045</u>	<u>1,100,045</u>
Assigned to			
Other Purposes	<u>191,359</u>	<u>0</u>	<u>191,359</u>
Unassigned (Deficit)			
	<u>840,584</u>	<u>(26,847)</u>	<u>813,737</u>
Total Fund Balances	<u>\$1,057,812</u>	<u>\$1,181,591</u>	<u>\$2,239,403</u>

20. ACCOUNTABILITY

At December 31, 2011, the Police Pension and Recreation Special Revenue Funds had deficit fund balances of \$22,215 and \$4,632, which was created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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

City of Hillsboro
Highland County
130 North Main 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2012, in which we noted that the City adopted Governmental Accounting Standards Board Statement No. 54. 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 opinions 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.

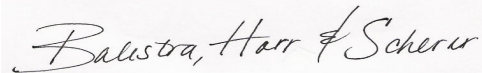
Compliance and Other Matters

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 also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 29, 2012.

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

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 29, 2012

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Dave Yost • Auditor of State

CITY OF HILLSBORO

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 30, 2012