

**City of Hillsboro
Highland County, Ohio**

Basic Financial Statements
For the Year Ended December 31, 2010



Balestra, Harr & Scherer Consulting

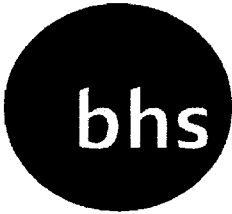
528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: 740.289.4131 Fax: 740.289.3639



City of Hillsboro
Table of Contents
For the Year Ended December 31, 2010

| <u>TITLE</u> | <u>PAGE</u> |
|--|-------------|
| Accountant's Compilation Report..... | 1 |
| Management's Discussion and Analysis..... | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets..... | 10 |
| Statement of Activities | 11 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds..... | 12 |
| Reconciliation of Total Governmental Fund Balances To Net Assets of Governmental Activities | 13 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 14 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual General Fund | 16 |
| Statement of Net Assets -- Proprietary Funds | 17 |
| Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds | 18 |
| Statement of Cash Flows – Proprietary Funds..... | 19 |
| Statement of Fiduciary Assets and Liabilities – Agency Fund | 21 |
| Notes to the Basic Financial Statements..... | 22 |





Balestra, Harr & Scherer Consulting

528 South West St, P.O. Box 687, Piketon, Ohio 45661 Phone: (740) 289-4131 Fax: (740) 289-3639

Accountant's Compilation Report

May 31, 2011

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

We have compiled the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hillsboro, Highland County, Ohio, as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required accounting principles generally accepted in the United States of America require. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

Balestra, Harr & Scherer Consulting

This Page Intentionally
Left Blank

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(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, 2010. 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 2010 are as follows:

- In total, net assets increased \$4,941,313. Net assets of governmental activities decreased \$1,587,297. Net assets of business-type activities increased \$6,528,610.
- Governmental activities general revenues accounted for \$3,777,861 in revenue or 74 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,332,610 or 26 percent of total revenues of \$5,110,471. Business-type activities general revenues accounted for \$63,841 in revenue or .7 percent of all revenues. Program specific revenues accounted for \$9,397,073 or 99.3 percent of total revenues of \$9,460,914.
- The City had \$6,497,768 in expenses related to governmental activities; \$1,332,610 of these expenses was offset by program specific charges for services and sales, grants and contributions. The City had \$3,132,304 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 2010?" 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, 2010
(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, 2010
(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 2010 compared to the prior year:

Table 1
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Assets | | | | | | |
| Current and Other Assets | \$ 3,860,577 | \$ 5,386,202 | \$ 3,088,611 | \$ 2,532,367 | \$ 6,949,188 | \$ 7,918,569 |
| Capital Assets, Net | 13,832,536 | 14,315,735 | 24,383,488 | 16,950,443 | 38,216,024 | 31,266,178 |
| Total Assets | 17,693,113 | 19,701,937 | 27,472,099 | 19,482,810 | 45,165,212 | 39,184,747 |
| Liabilities | | | | | | |
| Current and Other Liabilities | 687,431 | 938,162 | 630,009 | 543,176 | 1,317,440 | 1,481,338 |
| Long-Term Liabilities | 3,628,139 | 3,798,935 | 10,045,830 | 8,671,984 | 13,673,969 | 12,470,919 |
| Total Liabilities | 4,315,570 | 4,737,097 | 10,675,839 | 9,215,160 | 14,991,409 | 13,952,257 |
| Net Assets | | | | | | |
| Invested in Capital Assets | | | | | | |
| Net of Debt | 10,563,401 | 10,873,096 | 14,470,936 | 8,415,582 | 25,034,337 | 19,288,678 |
| Restricted | 1,463,622 | 1,765,438 | - | - | 1,463,622 | 1,765,438 |
| Unrestricted | 1,350,520 | 2,326,306 | 2,325,324 | 1,852,068 | 3,675,844 | 4,178,374 |
| Total Net Assets | \$ 13,377,543 | \$ 14,964,840 | \$ 16,796,260 | \$ 10,267,650 | \$ 30,173,803 | \$ 25,232,490 |

Total governmental activities assets decreased \$2,008,824 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, taxes receivable and due from other governments. Business-type activities increased \$7,989,289, 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 85% 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 \$421,527 as a result of debt payments and the completion of construction which reduced contracts payable. Total liabilities of business-type activities increased \$1,460,679 due mainly to incurring new debt, which was partially offset by decreases in accounts payable and contracts payable.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

Table 2 shows the changes in net assets for the year 2010 compared to the prior year.

Table 2
Changes in Net Assets

| | Governmental Activities | | Business Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Revenue | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services and Sales | \$ 1,062,240 | \$ 1,153,894 | \$ 3,631,874 | \$ 3,688,129 | \$ 4,694,114 | \$ 4,842,023 |
| Operating Grants and Contributions | 270,370 | 1,218,821 | - | - | 270,370 | 1,218,821 |
| Capital Grants and Contributions | - | - | 5,765,199 | 250,000 | 5,765,199 | 250,000 |
| Total Program Revenues | 1,332,610 | 2,372,715 | 9,397,073 | 3,938,129 | 10,729,683 | 6,310,844 |
| General Revenues: | | | | | | |
| Property & Income Taxes | 3,247,854 | 4,021,689 | - | - | 3,247,854 | 4,021,689 |
| Unrestricted Investment Earnings | 25,472 | 45,001 | - | 4,460 | 25,472 | 49,461 |
| Grants and Contributions Not Restricted to Specific Programs | 409,724 | 312,448 | - | - | 409,724 | 312,448 |
| Gain on Sale of Capital Assets | - | 8,668 | - | - | - | 8,668 |
| Other | 94,811 | 133,593 | 63,841 | 59,790 | 158,652 | 193,383 |
| Total General Revenues | 3,777,861 | 4,521,399 | 63,841 | 64,250 | 3,841,702 | 4,585,649 |
| Total Revenues | 5,110,471 | 6,894,114 | 9,460,914 | 4,002,379 | 14,571,385 | 10,896,493 |
| Program Expenses | | | | | | |
| General Government - | | | | | | |
| Legislative and Executive | 1,244,576 | 1,381,304 | - | - | 1,244,576 | 1,381,304 |
| Judicial | 376,103 | 386,148 | - | - | 376,103 | 386,148 |
| Security of Persons and Property | 3,679,374 | 3,835,076 | - | - | 3,679,374 | 3,835,076 |
| Public Health | 4,485 | 54,913 | - | - | 4,485 | 54,913 |
| Leisure Time Activities | 125,861 | 100,378 | - | - | 125,861 | 100,378 |
| Community Environment | 201,382 | 196,531 | - | - | 201,382 | 196,531 |
| Transportation | 713,406 | 713,650 | - | - | 713,406 | 713,650 |
| Interest and Fiscal Charges | 152,581 | 121,150 | - | - | 152,581 | 121,150 |
| Water Fund | - | - | 1,544,381 | 1,344,297 | 1,544,381 | 1,344,297 |
| Sewer Fund | - | - | 1,587,923 | 1,359,248 | 1,587,923 | 1,359,248 |
| Total Expenses | 6,497,768 | 6,789,150 | 3,132,304 | 2,703,545 | 9,630,072 | 9,492,695 |
| Transfers | (200,000) | (6,562) | 200,000 | 6,562 | - | - |
| Increase (Decrease) in Net Assets | (1,587,297) | 98,402 | 6,528,610 | 1,305,396 | 4,941,313 | 1,403,798 |
| Beginning Net Assets | 14,964,840 | 14,866,438 | 10,267,650 | 8,962,254 | 25,232,490 | 23,828,692 |
| Ending Net Assets | \$ 13,377,543 | \$ 14,964,840 | \$ 16,796,260 | \$ 10,267,650 | \$ 30,173,803 | \$ 25,232,490 |

Governmental Activities

Governmental activities decreased \$1,587,297 or 11% during 2010, primarily due to a decrease in Operating Grants and Contributions as a result in decreases to the Community Development Rehabilitation program and the State Highway program and decreases in tax revenues.

General revenues primarily consist of property and income tax revenue of \$3,247,854, or 86% of total general revenues in 2010.

City of Hillsboro
Management's Discussion and Analysis
For the Year Ended December 31, 2010
(Unaudited)

General government expenses include legislative and executive and judicial programs, totaled \$1,620,679 or 25% of total governmental expenses. Security of persons and property is one of the major activities of the City, generating 57% of total expenses. Public health expenses decreased as a direct result of the decreased funding in the life squad improvement program. Security of persons and property expenses decreased due to operating costs associated with building a new fire house and police station that was completed in 2009.

Business-Type Activities

The City's business-type activities are its water and sewer departments. The water and wastewater treatment plants provide services to the City's residents. The water plant generated operating revenues of \$1,542,428 and had operating expenses of \$1,283,134 and had interest expense of \$261,247. The wastewater treatment plant generated operating revenues of \$2,089,446 and had operating expenses of \$1,537,688, and had interest expense of \$31,669. Operating revenues remained consistent between the two years for both the water and sewer funds. The increase in expenses for the sewer fund is due to an increase in contractual services as a result of the ongoing construction project. 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 \$6,426,112 and expenditures and other financing uses of \$7,347,935. The net change in fund balance for the year was most significant in the General Fund, a decrease of \$905,311. The majority of the decrease in fund balance is due to increased transfers out to various funds from the prior 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 2010, 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 \$4,894,475, while final budgeted revenues and other financing sources were \$5,085,433. The increase to final budgeted revenues and other financing sources was due primarily to the repayment of an advance. The City's actual revenues and other financing sources were \$31,476 less than the final budgeted revenues and other financing sources. Original budgeted expenditures and other financing uses were \$5,311,378, while final budget amounts were \$6,172,346. 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, 2010
(Unaudited)

Capital Assets and Debt Administration

Capital Assets

At the end of the 2010 the City had \$38,216,024 invested in land, land improvements, construction in progress, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Table 3 shows 2010 and 2009 balances.

Table 3
Capital Assets (Net of Accumulated Depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$ 559,836 | \$ 582,586 | \$ 10,460 | \$ 10,460 | \$ 570,296 | \$ 593,046 |
| Land Improvements | 887,516 | 919,639 | 70,366 | 83,835 | 957,882 | 1,003,474 |
| Buildings and Improvements | 3,680,483 | 2,408,252 | 10,440,211 | 10,250,331 | 14,120,694 | 12,658,583 |
| Furniture and Equipment | 822,929 | 865,718 | 423,330 | 400,413 | 1,246,259 | 1,266,131 |
| Vehicles | 783,446 | 890,203 | 326,090 | 220,140 | 1,109,536 | 1,110,343 |
| Infrastructure/Water & Sewer Lines | 6,883,249 | 7,147,555 | 3,583,857 | 3,009,245 | 10,467,106 | 10,156,800 |
| Construction in Progress | 215,077 | 1,501,782 | 9,529,174 | 2,976,019 | 9,744,251 | 4,477,801 |
| Totals | \$ 13,832,536 | \$ 14,315,735 | \$ 24,383,488 | \$ 16,950,443 | \$ 38,216,024 | \$ 31,266,178 |

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

Debt

At December 31, 2010, the City of Hillsboro had \$13,181,687 in bonds, loans, and leases outstanding, \$419,991 due within one year.

Table 4
Outstanding Debt, at Year End

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|---------------------|--------------------------|---------------------|----------------------|----------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| O.W.D.A. Loan | \$ - | \$ - | \$ 4,039,482 | \$ 2,507,404 | \$ 4,039,482 | \$ 2,507,404 |
| Capital Lease | 34,135 | 82,639 | 109,739 | 137,959 | 143,874 | 220,598 |
| OPWC Loan | - | - | 160,000 | 170,000 | 160,000 | 170,000 |
| Mortgage Revenue Bonds | - | - | 5,603,331 | 5,719,498 | 5,603,331 | 5,719,498 |
| General Obligation Bonds | 3,235,000 | 3,360,000 | - | - | 3,235,000 | 3,360,000 |
| Total | \$ 3,269,135 | \$ 3,442,639 | \$ 9,912,552 | \$ 8,534,861 | \$ 13,181,687 | \$ 11,977,500 |

The City's overall legal debt margin was \$9,411,345 at December 31, 2010.

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, 2010
(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, 2010

| | Governmental Activities | Business-Type Activities | Totals |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 1,880,069 | \$ 2,064,273 | \$ 3,944,342 |
| Investments | 6,819 | - | 6,819 |
| Receivables: | | | |
| Taxes | 1,108,829 | - | 1,108,829 |
| Accounts | 366,343 | 521,683 | 888,026 |
| Accrued Interest | 12 | - | 12 |
| Due from Other Governments | 346,956 | - | 346,956 |
| Loans Receivable | 151,549 | - | 151,549 |
| Restricted Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | - | 502,655 | 502,655 |
| Non-Depreciable Capital Assets | 774,913 | 9,539,634 | 10,314,547 |
| Depreciable Capital Assets, Net | 13,057,623 | 14,843,854 | 27,901,477 |
| <i>Total Assets</i> | <u>\$ 17,693,113</u> | <u>\$ 27,472,099</u> | <u>\$ 45,165,212</u> |
| LIABILITIES: | | | |
| Accounts Payable | \$ 60,640 | \$ 15,280 | \$ 75,920 |
| Accrued Wages and Benefits | 106,899 | 18,863 | 125,762 |
| Due to Other Governments | 167,933 | 28,711 | 196,644 |
| Retainage Payable | - | 502,655 | 502,655 |
| Deferred Revenue | 303,905 | - | 303,905 |
| Accrued Interest Payable | 48,054 | 64,500 | 112,554 |
| Long-Term Liabilities | | | |
| Due Within One Year | 199,646 | 250,409 | 450,055 |
| Due in More than One Year | 3,428,493 | 9,795,421 | 13,223,914 |
| <i>Total Liabilities</i> | <u>4,315,570</u> | <u>10,675,839</u> | <u>14,991,409</u> |
| NET ASSETS: | | | |
| Invested in Capital Assets, Net of Related Debt | 10,563,401 | 14,470,936 | 25,034,337 |
| Restricted for: | | | |
| Debt Service | 245,456 | - | 245,456 |
| Capital Projects | 139,010 | - | 139,010 |
| Revolving Loan | 354,896 | - | 354,896 |
| Other Purposes | 724,260 | - | 724,260 |
| Unrestricted | 1,350,520 | 2,325,324 | 3,675,844 |
| <i>Total Net Assets</i> | <u>\$ 13,377,543</u> | <u>\$ 16,796,260</u> | <u>\$ 30,173,803</u> |

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

City of Hillsboro
Statement of Activities
For the Year Ended December 31, 2010

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|------------------|--------------------------------|------------------------------------|----------------------------------|---|--------------------------|----------------|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Totals |
| Governmental Activities | | | | | | | |
| General Government | | | | | | | |
| Legislative and Executive | \$ 1,244,376 | \$ 184,964 | \$ 13,691 | \$ - | \$ (1,045,921) | | \$ (1,045,921) |
| Judicial | 376,103 | 71,035 | 16,340 | - | (288,728) | | (288,728) |
| Security of Persons and Property | 3,479,374 | 679,153 | 71,390 | - | (2,928,831) | | (2,928,831) |
| Public Health | 4,485 | - | - | - | (4,485) | | (4,485) |
| Leisure Time Activities | 125,861 | 11,161 | 15,631 | - | (99,069) | | (99,069) |
| Community Environment | 201,382 | 60,208 | 75,567 | - | (65,547) | | (65,547) |
| Transportation | 713,466 | 55,394 | 77,575 | - | (580,437) | | (580,437) |
| Interest and Fiscal Charges | 152,581 | 265 | 176 | - | (152,140) | | (152,140) |
| Total Governmental Activities | 6,497,708 | 1,062,240 | 276,370 | - | (5,165,158) | | (5,165,158) |
| Business-Type Activities | | | | | | | |
| Sewer | 1,587,923 | 2,089,146 | - | 5,761,987 | | 6,264,510 | 6,264,510 |
| Water | 1,544,381 | 1,542,428 | - | 3,212 | | 1,259 | 1,259 |
| Total Business-Type Activities | 3,132,304 | 3,631,574 | - | 5,765,199 | | 6,264,769 | 6,264,769 |
| Total Primary Government | \$ 9,630,012 | \$ 4,693,814 | \$ 276,370 | \$ 5,765,199 | \$ (5,165,158) | \$ 6,264,769 | \$ 1,099,611 |
| General Revenues and Transfers | | | | | | | |
| Taxes | | | | | | | |
| Property Taxes Levied for | | | | | | | |
| General Purposes | | | | | 314,510 | - | 314,510 |
| Special Purposes | | | | | 78,432 | - | 78,432 |
| Debt Service | | | | | 71,861 | - | 71,861 |
| Capital Projects | | | | | 102,515 | - | 102,515 |
| Income Taxes | | | | | 2,680,536 | - | 2,680,536 |
| Grants and Contributions Not Restricted to Specific Programs | | | | | 409,724 | - | 409,724 |
| Unrestricted Investment Earnings | | | | | 25,472 | - | 25,472 |
| Miscellaneous | | | | | 94,811 | 63,841 | 158,652 |
| Transfers | | | | | (200,000) | 200,000 | - |
| Total General Revenues and Transfers | | | | | 3,577,861 | 263,841 | 3,841,702 |
| Change in Net Assets | | | | | (1,587,297) | 6,528,610 | 4,941,313 |
| Net Assets - January 1, 2010 | | | | | 14,964,840 | 10,267,650 | 25,232,490 |
| Net Assets - December 31, 2010 | | | | | \$ 13,377,543 | \$ 16,796,260 | \$ 30,173,803 |

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

City of Hillsboro
Balance Sheet
Governmental Funds
December 31, 2010

| | General | All Other Governmental Funds | Total Governmental Funds |
|--|---------------------|------------------------------------|--------------------------------|
| ASSETS: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 665,787 | \$ 1,214,282 | \$ 1,880,069 |
| Investments | 6,819 | - | 6,819 |
| Accounts Receivable | 358,078 | 8,265 | 366,343 |
| Accrued Interest Receivable | 12 | - | 12 |
| Interfund Receivable | 15,000 | - | 15,000 |
| Taxes Receivable | 1,006,784 | 102,045 | 1,108,829 |
| Due from Other Governments | 120,651 | 226,305 | 346,956 |
| Loans Receivable | - | 151,549 | 151,549 |
| | <u>\$ 2,173,131</u> | <u>\$ 1,702,446</u> | <u>\$ 3,875,577</u> |
| <i>Total Assets</i> | | | |
| LIABILITIES: | | | |
| Accounts Payable | \$ 46,920 | \$ 13,720 | \$ 60,640 |
| Accrued Wages and Benefits | 102,116 | 4,783 | 106,899 |
| Due to Other Governments | 69,381 | 98,552 | 167,933 |
| Interfund Payable | - | 15,000 | 15,000 |
| Deferred Revenue | 792,490 | 293,527 | 1,086,017 |
| | <u>1,010,907</u> | <u>425,582</u> | <u>1,436,489</u> |
| <i>Total Liabilities</i> | | | |
| FUND BALANCES: | | | |
| Reserved: | | | |
| Reserved for Encumbrances | 184,575 | 36,961 | 221,536 |
| Reserved for Loans Receivable | - | 151,549 | 151,549 |
| Unreserved, Undesignated. Reported in: | | | |
| General Fund | 977,649 | - | 977,649 |
| Special Revenue Funds | - | 707,135 | 707,135 |
| Debt Service Funds | - | 242,209 | 242,209 |
| Capital Projects Funds | - | 139,010 | 139,010 |
| | <u>1,162,224</u> | <u>1,276,864</u> | <u>2,439,088</u> |
| <i>Total Fund Balances</i> | | | |
| | <u>\$ 2,173,131</u> | <u>\$ 1,702,446</u> | <u>\$ 3,875,577</u> |
| <i>Total Liabilities and Fund Balances</i> | | | |

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

City of Hillsboro
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2010

Total Governmental Fund Balances \$ 2,439,088

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. 13,832,536

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

| | | |
|-------------------|---------|--|
| Taxes | 506,414 | |
| Intergovernmental | 275,698 | |

| | | |
|-------|--|---------|
| Total | | 782,112 |
|-------|--|---------|

Long-term liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

| | | |
|--------------------------|-------------|--|
| Accrued Interest Payable | (48,054) | |
| Capital Lease Payable | (34,135) | |
| Compensated Absences | (359,004) | |
| General Obligation Bonds | (3,235,000) | |

| | | |
|-------|--|-------------|
| Total | | (3,676,193) |
|-------|--|-------------|

Net Assets of Governmental Activities \$ 13,377,543

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

City of Hillsboro
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2010

| | General | All Other Governmental Funds | Total Governmental Funds |
|---|---------------------|------------------------------------|--------------------------------|
| REVENUES | | | |
| Taxes | \$ 3,069,264 | \$ 252,607 | \$ 3,321,871 |
| Charges for Services | 634,500 | - | 634,500 |
| Licenses and Permits | 13,252 | 58,341 | 71,593 |
| Fines and Forfeitures | 213,425 | 121,654 | 335,079 |
| Intergovernmental | 387,137 | 567,550 | 954,687 |
| Interest | 11,797 | 13,675 | 25,472 |
| Rent | 8,000 | 13,068 | 21,068 |
| Contributions and Donations | 4,963 | - | 4,963 |
| Other | 21,901 | 72,910 | 94,811 |
| <i>Total Revenues</i> | <u>4,364,239</u> | <u>1,099,805</u> | <u>5,464,044</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General Government | | | |
| Legislative and Executive | 857,576 | 121,090 | 978,666 |
| Judicial | 290,771 | 83,600 | 374,371 |
| Security of Persons and Property | 3,099,527 | 365,246 | 3,464,773 |
| Public Health | - | - | - |
| Leisure Time Activities | - | 79,970 | 79,970 |
| Community Environment | 31,081 | 386,616 | 417,697 |
| Transportation | - | 396,985 | 396,985 |
| Capital Outlay | 174,168 | 62,490 | 236,658 |
| Debt Service | | | |
| Principal Retirements | 33,354 | 140,150 | 173,504 |
| Interest and Fiscal Charges | 685 | 152,398 | 153,083 |
| <i>Total Expenditures</i> | <u>4,487,162</u> | <u>1,788,545</u> | <u>6,275,707</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(122,923)</u> | <u>(688,740)</u> | <u>(811,663)</u> |
| OTHER FINANCING SOURCES AND USES | | | |
| Transfers In | - | 872,228 | 872,228 |
| Proceeds from Sale of Capital Assets | 89,840 | - | 89,840 |
| Transfers Out | (872,228) | (200,000) | (1,072,228) |
| <i>Total Other Financing Sources and Uses</i> | <u>(782,388)</u> | <u>672,228</u> | <u>(110,160)</u> |
| <i>Net Change in Fund Balances</i> | (905,311) | (16,512) | (921,823) |
| <i>Fund Balances at Beginning of Year</i> | <u>2,067,535</u> | <u>1,293,376</u> | <u>3,360,911</u> |
| <i>Fund Balance at End of Year</i> | <u>\$ 1,162,224</u> | <u>\$ 1,276,864</u> | <u>\$ 2,439,088</u> |

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

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, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (921,823)

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 | 452,973 | |
| Current Year Depreciation | <u>(640,260)</u> | |
| Total | | (187,287) |

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 | (89,840) | |
| Loss on Disposal of Capital Assets | <u>(206,072)</u> | |
| Total | | (295,912) |

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

| | | |
|-------------------|------------------|-----------|
| Taxes | (74,017) | |
| Intergovernmental | <u>(279,556)</u> | |
| Total | | (353,573) |

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

125,000

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.

48,504

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

| | | |
|--------------------------------------|------------|----------------|
| Increase in Compensated Absences | (2,708) | |
| Decrease in Accrued Interest Payable | <u>502</u> | |
| Total | | <u>(2,206)</u> |

Net Change in Net Assets of Governmental Activities \$ (1,587,297)

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

City of Hillsboro
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2010

| | Budgeted Amounts | | Actual | Variance With Final Budget Positive (Negative) |
|---|-------------------|------------------|-------------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes | \$ 3,461,354 | \$ 3,426,670 | \$ 3,416,912 | \$ (9,758) |
| Charges for Services | 675,704 | 665,798 | 650,307 | (15,491) |
| Licenses and Permits | 13,770 | 12,758 | 13,252 | 494 |
| Fines and Forfeitures | 212,534 | 220,700 | 204,546 | (16,154) |
| Intergovernmental | 399,066 | 372,853 | 384,067 | 11,214 |
| Interest | 11,979 | 12,000 | 15,132 | 3,132 |
| Rent | 8,312 | 8,000 | 8,000 | - |
| Other | 22,756 | 27,654 | 21,901 | (5,753) |
| <i>Total Revenues</i> | <u>4,805,475</u> | <u>4,746,433</u> | <u>4,714,117</u> | <u>(32,316)</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General Government: | | | | |
| Legislative and Executive | 874,513 | 1,066,993 | 969,975 | 97,018 |
| Judicial | 267,743 | 323,946 | 296,970 | 26,976 |
| Security of Persons and Property | 2,962,619 | 3,427,111 | 3,262,931 | 164,180 |
| Community Environment | 28,117 | 31,503 | 31,182 | 321 |
| Capital Outlay | 306,158 | 443,775 | 339,578 | 104,197 |
| <i>Total Expenditures</i> | <u>4,439,150</u> | <u>5,293,328</u> | <u>4,900,636</u> | <u>392,692</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>366,325</u> | <u>(546,895)</u> | <u>(186,519)</u> | <u>360,376</u> |
| OTHER FINANCING SOURCES AND USES: | | | | |
| Advances In | - | 250,000 | 250,000 | - |
| Proceeds from Sale of Capital Assets | 89,000 | 89,000 | 89,840 | 840 |
| Transfers Out | (872,228) | (879,018) | (872,228) | 6,790 |
| <i>Total Other Financing Sources and Uses</i> | <u>(783,228)</u> | <u>(540,018)</u> | <u>(532,388)</u> | <u>7,630</u> |
| <i>Net Change in Fund Balance</i> | (416,903) | (1,086,913) | (718,907) | 368,006 |
| <i>Fund Balance at Beginning of Year</i> | 434,587 | 434,587 | 434,587 | - |
| <i>Prior Year Encumbrances Appropriated</i> | 737,055 | 737,055 | 737,055 | - |
| <i>Fund Balance at End of Year</i> | <u>\$ 754,739</u> | <u>\$ 84,729</u> | <u>\$ 452,735</u> | <u>\$ 368,006</u> |

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

City of Hillsboro
Statement of Net Assets
Proprietary Funds
December 31, 2010

| | Water | Sewer | Total |
|---|---------------------|----------------------|----------------------|
| ASSETS: | | | |
| <i>Current Assets</i> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 670,016 | \$ 1,394,257 | \$ 2,064,273 |
| Accounts Receivable | 222,100 | 299,583 | 521,683 |
| Total Current Assets | 892,116 | 1,693,840 | 2,585,956 |
| <i>Noncurrent Assets</i> | | | |
| Restricted Cash and Cash Equivalents | - | 502,655 | 502,655 |
| Non-Depreciable Capital Assets | 5,230 | 9,534,404 | 9,539,634 |
| Depreciable Capital Assets, Net | 7,304,207 | 7,539,647 | 14,843,854 |
| Total Noncurrent Assets | 7,309,437 | 17,576,706 | 24,886,143 |
| Total Assets | \$ 8,201,553 | \$ 19,270,546 | \$ 27,472,099 |
| LIABILITIES: | | | |
| <i>Current Liabilities</i> | | | |
| Accounts Payable | \$ 5,510 | \$ 9,770 | \$ 15,280 |
| Retainage Payable | - | 502,655 | 502,655 |
| Accrued Wages and Benefits | 9,145 | 9,718 | 18,863 |
| Due to Other Governments | 14,941 | 13,770 | 28,711 |
| Accrued Interest Payable | 64,500 | - | 64,500 |
| Capital Leases Payable - Current Portion | 14,779 | 14,779 | 29,558 |
| OWDA Loans - Current Portion | - | 86,018 | 86,018 |
| Revenue Bonds Payable - Current Portion | 121,000 | - | 121,000 |
| OPWC Loans - Current Portion | - | 10,000 | 10,000 |
| Unamortized Charge - Current Portion | 3,833 | - | 3,833 |
| Total Current Liabilities | 233,708 | 646,710 | 880,418 |
| <i>Noncurrent Liabilities</i> | | | |
| Long Term Liabilities: | | | |
| OWDA Loans Payable - Net of Current Portion | - | 3,953,464 | 3,953,464 |
| Compensated Absences Payable | 16,688 | 39,921 | 56,609 |
| Revenue Bonds Payable - Net of Current Portion | 5,482,331 | - | 5,482,331 |
| Capital Leases Payable - Net of Current Portion | 40,090 | 40,091 | 80,181 |
| OPWC Loans - Net of Current Portion | - | 150,000 | 150,000 |
| Unamortized Charge - Refunding Bonds - Net of Current Portion | 72,836 | - | 72,836 |
| Total Noncurrent Liabilities | 5,611,945 | 4,183,476 | 9,795,421 |
| Total Liabilities | 5,845,653 | 4,830,186 | 10,675,839 |
| NET ASSETS: | | | |
| Invested in Capital Assets, Net of Related Debt | 1,651,237 | 12,819,699 | 14,470,936 |
| Unrestricted | 704,663 | 1,620,661 | 2,325,324 |
| Total Net Assets | \$ 2,355,900 | \$ 14,440,360 | \$ 16,796,260 |

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

City of Hillsboro
Statement of Revenues, Expenses and
Changes in Net Assets
Proprietary Funds
For the Year Ended December 31, 2010

| | Water | Sewer | Total |
|---|--------------|---------------|---------------|
| OPERATING REVENUES | | | |
| Charges for Services | \$ 1,538,828 | \$ 2,087,446 | \$ 3,626,274 |
| Tap-In Fees | 3,600 | 2,000 | 5,600 |
| <i>Total Operating Revenues</i> | 1,542,428 | 2,089,446 | 3,631,874 |
| OPERATING EXPENSES | | | |
| Salaries and Wages | 484,587 | 470,187 | 954,774 |
| Fringe Benefits | 211,424 | 212,758 | 424,182 |
| Contractual Services | 194,802 | 376,207 | 571,009 |
| Materials & Supplies | 104,625 | 72,044 | 176,669 |
| Utilities | 87,376 | 119,088 | 206,464 |
| Other | 8,825 | 1,215 | 10,040 |
| Depreciation Expense | 191,495 | 286,189 | 477,684 |
| <i>Total Operating Expenses</i> | 1,283,134 | 1,537,688 | 2,820,822 |
| <i>Operating Income</i> | 259,294 | 551,758 | 811,052 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Loss on Disposal of Capital Assets | - | (18,566) | (18,566) |
| Other Non-Operating Revenues | 44,101 | 19,740 | 63,841 |
| Interest and Fiscal Charges | (261,247) | (31,669) | (292,916) |
| <i>Total Nonoperating Revenues (Expenses)</i> | (217,146) | (30,495) | (247,641) |
| <i>Changes in Net Assets Before Transfers and Capital Contributions</i> | 42,148 | 521,263 | 563,411 |
| Transfers In | - | 200,000 | 200,000 |
| <i>Changes in Net Assets Before Capital Contributions</i> | 42,148 | 721,263 | 763,411 |
| Capital Contribution - Intergovernmental | 3,212 | 5,761,987 | 5,765,199 |
| <i>Changes in Net Assets</i> | 45,360 | 6,483,250 | 6,528,610 |
| <i>Net Assets at Beginning of Year - Restated</i> | 2,310,540 | 7,957,110 | 10,267,650 |
| <i>Net Assets at End of Year</i> | \$ 2,355,900 | \$ 14,440,360 | \$ 16,796,260 |

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

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

| | <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 | \$ 1,505,135 | \$ 2,052,568 | \$ 3,557,703 |
| Cash Payments to Suppliers for Goods and Services | (397,917) | (576,053) | (973,970) |
| Cash Payments to Employees for Services and Benefits | (699,138) | (683,286) | (1,382,424) |
| <i>Net Cash Provided by Operating Activities</i> | <u>408,080</u> | <u>793,229</u> | <u>1,201,309</u> |
| <i>Cash Flows from Noncapital Financing Activities:</i> | | | |
| Other Nonoperating Revenues | 44,101 | 19,740 | 63,841 |
| Operating Transfers-In | - | 200,000 | 200,000 |
| <i>Net Cash Provided by Noncapital Financing Activities</i> | <u>44,101</u> | <u>219,740</u> | <u>263,841</u> |
| <i>Cash Flows from Capital and Related Financing Activities:</i> | | | |
| Proceeds from OWDA Loan | - | 6,993,007 | 6,993,007 |
| Payments for Capital Acquisitions | (93,126) | (7,735,330) | (7,828,456) |
| Receipts from Capital Grants | 3,212 | 5,761,987 | 5,765,199 |
| Principal Payments - Bonds and Capital Lease Obligations | (134,110) | (5,485,039) | (5,619,149) |
| Interest Payments - Bonds and Capital Lease Obligations | (262,009) | (31,669) | (293,678) |
| <i>Net Cash Used for Capital and Related Financing Activities</i> | <u>(486,033)</u> | <u>(497,044)</u> | <u>(983,077)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (33,852) | 515,925 | 482,073 |
| Cash and Cash Equivalents at Beginning of Year | <u>703,868</u> | <u>1,380,987</u> | <u>2,084,855</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 670,016</u> | <u>\$ 1,896,912</u> | <u>\$ 2,566,928</u> |

(Continued)

City of Hillsboro
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2010

| | Water | Sewer | Total |
|--|-------------------|-------------------|---------------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | | |
| Operating Income | \$ 259,294 | \$ 551,758 | \$ 811,052 |
| <i>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</i> | | | |
| Depreciation | 191,495 | 286,189 | 477,684 |
| Changes in Assets and Liabilities: | | | |
| Increase in Accounts Receivable | (37,293) | (36,878) | (74,171) |
| Decrease in Accounts Payable - Operating | (3,561) | (8,745) | (12,306) |
| Decrease in Accrued Wages and Benefits | (5,291) | (4,869) | (10,160) |
| Increase (Decrease) in Compensated Absences Payable | (1,782) | 1,770 | (12) |
| Increase in Due to Other Governments | 5,218 | 4,004 | 9,222 |
| Total Adjustments | <u>148,786</u> | <u>241,471</u> | <u>390,257</u> |
| Net Cash Provided by Operating Activities | <u>\$ 408,080</u> | <u>\$ 793,229</u> | <u>\$ 1,201,309</u> |

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

City of Hillsboro
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2010

| | <u>Agency</u> |
|--|--------------------------|
| ASSETS: | |
| Cash and Cash Equivalents in Segregated Accounts | \$ 71,873 |
| Receivables: | |
| Accounts | <u>160,924</u> |
| <i>Total Assets</i> | <u><u>\$ 232,797</u></u> |
| LIABILITIES : | |
| Due to Other Governments | \$ 94,945 |
| Undistributed Monies | 65,858 |
| Deposits Held and Due to Others | <u>71,994</u> |
| <i>Total Liabilities</i> | <u><u>\$ 232,797</u></u> |

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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

MEASUREMENT FOCUS

Government-wide Financial Statements

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

Fund Financial Statements

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

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

BASIS OF ACCOUNTING

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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, 2010, but which were levied to finance fiscal year 2011 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.

City of Hillsboro
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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 2010. Supplemental appropriations were adopted during 2010 by the Council.

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

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

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

CASH AND INVESTMENTS

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

During 2010, investments were limited to certificates of deposit, U.S. Treasury money market funds, and donated stock.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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, 2010.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COMPENSATED ABSENCES

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

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

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

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

RESERVES OF FUND BALANCES

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NET ASSETS

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

Of the City's \$1,463,622 of restricted net assets, none was restricted by enabling legislation.

OPERATING REVENUES AND EXPENSES

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

CAPITAL CONTRIBUTIONS

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

INTERFUND TRANSACTIONS

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

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

ESTIMATES

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

3. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Deposits:

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

The City's bank balance of \$4,085,314 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 |
|--|------------|-----------------------------------|
| Common Stock | \$ 6,819 | \$ 6,819 |
| U.S. Government Money Market Mutual Funds | 506,964 | 506,964 |
| | \$ 513,783 | \$ 513,783 |

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

3. DEPOSITS AND INVESTMENTS (Continued)

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City places no limit on the amount the City may invest in any one issuer. The City does have an investment policy. More than 99 percent of the City’s investments are in money market funds as of December 31, 2010.

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

4. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

| Net Change in Fund Balance | |
|----------------------------|--------------|
| | General |
| GAAP Basis | \$ (905,311) |
| Adjustments: | |
| Revenue Accrual | 599,878 |
| Expenditure Accrual | (200,422) |
| Encumbrances | (213,052) |
| Budget Basis | \$ (718,907) |

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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.

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, 2010. 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 2010 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, 2010, was \$3.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

| <u>Category</u> | <u>Assessed Value</u> |
|----------------------------------|-----------------------|
| Real Estate | \$120,323,130 |
| Public Utility Personal Property | <u>118,250</u> |
| Total Property Taxes | <u>\$120,441,380</u> |

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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. RECEIVABLES

Receivables at December 31, 2010 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 | \$109,305 |
| Homestead & Rollback | 11,346 |
| <u>Non-Major Special Revenue</u> | |
| Street Fund | |
| Gasoline Tax | 100,569 |
| State Highway Fund | |
| Gasoline Tax | 8,154 |
| Rehab Fund | |
| Housing Rehab Grant | 109,292 |
| Municipal Motor Vehicle Fund | |
| Permissive Tax | 6,498 |
| <u>Non-Major Debt Service</u> | |
| Bond Retirement Fund | |
| Homestead & Rollback | <u>1,792</u> |
| Total Governmental Activities | <u>\$346,956</u> |

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

8. INTERFUND TRANSACTIONS

Interfund balances at December 31, 2010, consist of the following individual fund receivables and payables:

| | Interfund Receivable | Interfund Payable |
|-------------------------------------|-------------------------|----------------------|
| <i>Major Fund:</i> | | |
| General Fund | \$15,000 | \$0 |
| <i>Non-Major Fund:</i> | | |
| Tax Increment Capital Projects Fund | 0 | 15,000 |
| Total All Funds | \$15,000 | \$15,000 |

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

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 Revolving Loan Fund to the Sewer fund was due to the State requiring the City to make a contribution from funds that had already been received toward the sewer upgrade project.

Transfers made during the year ended December 31, 2010, were as follows:

| Fund | Transfer In | Transfer Out |
|--|--------------|--------------|
| General Fund | \$ - | \$ 872,228 |
| <i>Non-Major Special Revenue Funds</i> | | |
| Street | 263,000 | |
| Police Pension | 150,000 | - |
| Fire Pension | 253,000 | - |
| Recreation | 79,000 | - |
| Revolving Loan | - | 200,000 |
| Total Non-Major Special Revenue Funds | 745,000 | 200,000 |
| Non-Major General Bond Retirement Fund | 127,228 | - |
| <i>Major Enterprise Fund</i> | | |
| Sewer Fund | 200,000 | - |
| Total All Funds | \$ 1,072,228 | \$ 1,072,228 |

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

9. DEFINED BENEFIT RETIREMENT PLANS

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

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2010, 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 2010, 2009, and 2008 were 10.0%, for members in state and local classifications and 10.1%, for members in public safety and law enforcement. The City is required to contribute 14.00%, for state and local employers and 17.87%, 17.63%, and 17.4%, respectively for law enforcement and public safety employers for the years ended December 31, 2010, 2009, and 2008.

The City's contributions to the PERS of Ohio for the years ending December 31, 2010, 2009, and 2008 were \$282,460, \$278,663, and \$234,276 respectively. 91.5% has been contributed for 2010, and 100% of the 2009 and 2008 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, 2010, 2009, and 2008. Contributions are authorized by State statute.

The City's required contributions to OP&F for the years ended December 31, 2010, 2009, and 2008 were \$158,431, \$170,331, and \$162,577 for policemen and \$203,900, \$270,401, and \$221,445 for firefighters, respectively, 74 percent of the 2010 contributions have been paid, and 100 percent of the 2009 and 2008 amounts have been contributed for both the police and the fire.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

10. POSTEMPLOYMENT BENEFITS

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

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

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

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

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

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

Employer's contributions are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed at a rate of 14.0% of covered payroll and public safety and law enforcement employers contributed at 17.87%. 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 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. For 2008, the employer contributions allocated to the health care plan was 7.0% of covered payroll. 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.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

10. POSTEMPLOYMENT BENEFITS (Continued)

The employer contributions that were used to fund post-employment benefits were \$102,552 for 2010, \$116,076 for 2009, and \$81,288 for 2008.

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 2010, 2009, and 2008, 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, 2010, 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).

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

10. POSTEMPLOYMENT BENEFITS (Continued)

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

The number of participants eligible to receive health care benefits as of December 31, 2009, (the latest information available) was 14,797 for Police and 10,915 for Firefighters. The City's actual contributions for 2010, 2009, and 2008 that were used to fund postemployment benefits were \$58,817, \$58,961, and \$56,252, respectively, for Police, and \$57,296, \$76,050, and \$62,226, respectively, for Firefighters. The Fund's total health care expenses for the year ended December 31, 2009 (the latest information available) were \$168,744,032, which was net of member contributions of \$59,148,831.

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

Casualty Coverage

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

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

Property Coverage

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

11. RISK MANAGEMENT (Continued)

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 latest 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 latest information available), respectively, casualty coverage liabilities noted above include approximately \$12.4 million and \$13.7 million of estimated incurred claims payable. The casualty coverage assets and retained earnings 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 (the latest information available), respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The City's share of these unpaid claims collectible in future years is approximately \$172,344. This payable includes the subsequent year's contribution due if the City terminates participation, as described in the last paragraph of this Note below.

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

Contributions to PEP

| | |
|------|-----------|
| 2008 | \$ 98,408 |
| 2009 | 85,976 |
| 2010 | 86,172 |

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

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

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

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

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, 2010

13. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010:

| | Beginning Balance <u>12/31/2009</u> | Additions | Deletions | Ending Balance <u>12/31/2010</u> |
|---|---|--------------------|-----------------------|--|
| <u>Governmental Activities</u> | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 582,586 | \$ - | \$ (22,750) | \$ 559,836 |
| Construction in Progress | <u>1,501,782</u> | <u>350,891</u> | <u>(1,637,596)</u> | <u>215,077</u> |
| Total Capital Assets, Not Being Depreciated | <u>2,084,368</u> | <u>350,891</u> | <u>(1,660,346)</u> | <u>774,913</u> |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 1,979,747 | 6,515 | - | 1,986,262 |
| Buildings and Improvements | 3,056,988 | 1,621,675 | (501,575) | 4,177,088 |
| Furniture and Equipment | 1,834,198 | 97,025 | (88,494) | 1,842,729 |
| Vehicles | 2,008,672 | 14,463 | - | 2,023,135 |
| Infrastructure | <u>11,178,195</u> | <u>-</u> | <u>-</u> | <u>11,178,195</u> |
| Total Capital Assets Being Depreciated | <u>20,057,800</u> | <u>1,739,678</u> | <u>(590,069)</u> | <u>21,207,409</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (1,060,108) | (38,638) | - | (1,098,746) |
| Buildings and Improvements | (648,736) | (88,506) | 240,637 | (496,605) |
| Furniture and Equipment | (968,480) | (127,590) | 76,270 | (1,019,800) |
| Vehicles | (1,118,469) | (121,220) | - | (1,239,689) |
| Infrastructure | <u>(4,030,640)</u> | <u>(264,306)</u> | <u>-</u> | <u>(4,294,946)</u> |
| Total Accumulated Depreciation | <u>(7,826,433)</u> | <u>(640,260)</u> | <u>316,907</u> | <u>(8,149,786)</u> |
| Total Capital Assets Being Depreciated, Net | <u>12,231,367</u> | <u>1,099,418</u> | <u>(273,162)</u> | <u>13,057,623</u> |
| Governmental Activities Capital Assets, Net | <u>\$14,315,735</u> | <u>\$1,450,309</u> | <u>\$ (1,933,508)</u> | <u>\$ 13,832,536</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|--------------------------------|------------------|
| General Government: | |
| Legislative and Executive | \$54,266 |
| Security of Persons & Property | 219,102 |
| Public Health | 4,485 |
| Leisure Time Activities | 45,891 |
| Transportation | <u>316,516</u> |
| Total Depreciation Expense | <u>\$640,260</u> |

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

13. CAPITAL ASSETS (Continued)

Capital asset activity for the year ended December 31, 2010:

| | Ending Balance 12/31/2009* | Additions | Deletions | Ending Balance 12/31/2010 |
|--|----------------------------------|---------------------|---------------------|---------------------------------|
| <u>Business Type Activities</u> | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 10,460 | \$ - | \$ - | \$ 10,460 |
| Construction in Progress | 2,976,019 | 7,389,824 | (836,669) | 9,529,174 |
| Total Capital Assets, Not Being Depreciated | <u>2,986,479</u> | <u>7,389,824</u> | <u>(836,669)</u> | <u>9,539,634</u> |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 285,650 | - | (29,740) | 255,910 |
| Buildings and Improvements | 15,296,358 | 320,806 | - | 15,617,164 |
| Mechanical Equipment | 1,113,424 | 87,465 | (43,916) | 1,156,973 |
| Vehicles | 443,898 | 131,200 | - | 575,098 |
| Infrastructure | 5,619,868 | 836,669 | (380,244) | 6,076,293 |
| Total Capital Assets Being Depreciated | <u>22,759,198</u> | <u>1,376,140</u> | <u>(453,900)</u> | <u>23,681,438</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (201,815) | (8,058) | 24,329 | (185,544) |
| Buildings and Improvements | (5,046,027) | (130,926) | - | (5,176,953) |
| Mechanical Equipment | (713,011) | (64,034) | 43,402 | (733,643) |
| Vehicles | (223,758) | (25,250) | - | (249,008) |
| Infrastructure | (2,610,623) | (249,416) | 367,603 | (2,492,436) |
| Total Accumulated Depreciation | <u>(8,795,234)</u> | <u>(477,684)</u> | <u>435,334</u> | <u>(8,837,584)</u> |
| Total Capital Assets Being Depreciated, Net | <u>13,963,964</u> | <u>898,456</u> | <u>(18,566)</u> | <u>14,843,854</u> |
| Business Type Activities Capital Assets, Net | <u>\$ 16,950,443</u> | <u>\$ 8,288,280</u> | <u>\$ (855,235)</u> | <u>\$ 24,383,488</u> |

* Certain reclassifications were made within asset classifications. These reclassifications had no effect on net assets.

City of Hillsboro
Notes to the Basic Financial Statements
For The Year Ended December 31, 2010

14. LONG-TERM OBLIGATIONS

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

| | Outstanding 12/31/2009 | Issued | Retired | Outstanding 12/31/2010 | Due In One Year |
|---|---------------------------|---------------------|---------------------|---------------------------|--------------------|
| <i>Governmental Activities</i> | | | | | |
| Compensated Absences | \$ 356,296 | \$ 280,528 | \$ 277,820 | \$ 359,004 | \$ 30,064 |
| 2007 - 6.0% Street Improvement Bonds | 630,000 | - | 40,000 | 590,000 | 40,000 |
| 2009 - Various Purpose General Obligation Bonds | 2,730,000 | - | 85,000 | 2,645,000 | 95,000 |
| Capital Lease | 82,639 | - | 48,504 | 34,135 | 34,582 |
| Total Governmental Activities | <u>\$ 3,798,935</u> | <u>\$ 280,528</u> | <u>\$ 451,324</u> | <u>\$ 3,628,139</u> | <u>\$ 199,646</u> |
| <i>Business-Type Activities</i> | | | | | |
| Compensated Absences | \$ 56,621 | \$ 137,402 | \$ 137,414 | \$ 56,609 | \$ - |
| <i>Water</i> | | | | | |
| 2004 - 2% Mortgage Revenue Bond | 2,884,498 | 3,833 | 85,000 | 2,803,331 | 85,000 |
| 2005 - Water System Improvement Revenue Bonds - 4.25% | 536,000 | - | 6,000 | 530,000 | 7,000 |
| 2005 - Water System Improvement Revenue Bonds - 4.25% | 2,299,000 | - | 29,000 | 2,270,000 | 29,000 |
| Unamortized Charge | 80,502 | - | 3,833 | 76,669 | 3,833 |
| Capital Lease | 68,979 | - | 14,110 | 54,869 | 14,779 |
| Total Water Fund | <u>5,868,979</u> | <u>3,833</u> | <u>137,943</u> | <u>5,734,869</u> | <u>139,612</u> |
| <i>Sewer</i> | | | | | |
| 2004 - OWDA Loan - 1% | 316,322 | - | 19,648 | 296,674 | 19,845 |
| 2005 - OWDA Loan - 1% | 1,130,722 | - | 65,444 | 1,065,278 | 66,173 |
| 2007 - OWDA Loan - 1% | 1,060,360 | - | 340,093 | 720,267 | - |
| 2010 - OWDA Loan - 1% | - | 6,993,007 | 5,035,744 | 1,957,263 | - |
| 2007 - OPWC Loan - 0% | 170,000 | - | 10,000 | 160,000 | 10,000 |
| Capital Lease | 68,980 | - | 14,110 | 54,870 | 14,779 |
| Total Sewer Fund | <u>2,746,384</u> | <u>6,993,007</u> | <u>5,485,039</u> | <u>4,254,352</u> | <u>110,797</u> |
| Total Business-Type Activities | <u>\$ 8,671,984</u> | <u>\$ 7,134,242</u> | <u>\$ 5,760,396</u> | <u>\$ 10,045,830</u> | <u>\$ 250,409</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, 2010

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 loan were still open as of December 31, 2010 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 \$9,997,815. The net revenue available for these bonds was \$450,789 and principal and interest paid was \$375,866. The coverage ratio for these bonds was 1.19 for the year ended December 31, 2010. The remaining principal to be paid on the OWDA loans was \$4,039,482. 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 \$837,947 and principal and interest paid was \$5,486,455. The coverage ratio for the loans was .152 for the year ended December 31, 2010. The coverage ratio is due to ARRA monies paying down the principal amount of the loans during the 2010 year.

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.