



Dave Yost • Auditor of State

**CITY OF HUBBARD
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Hubbard
Trumbull County
220 West Liberty Street
Hubbard, Ohio 44425

To the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hubbard, Trumbull County, Ohio (the "City"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hubbard, Trumbull County, Ohio, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 9, 2013

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

The management's discussion and analysis of the City of Hubbard's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. 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 2012 are as follows:

- The total net position of the City increased \$927,567 from restated 2011 net position. Net position of governmental activities increased \$69,270 or 2.34% from 2011 and net position of business-type activities increased \$858,297 or 5.24% from 2011. The City's net position at December 31, 2011 has been restated as described in Note 3.B.
- General revenues accounted for \$2,632,910 or 85.14% of total governmental activities revenue. Program specific revenues accounted for \$459,713 or 14.86% of total governmental activities revenue.
- The City had \$3,023,353 in expenses related to governmental activities; \$459,713 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,563,640 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$2,632,910.
- The City's major governmental funds are the general fund and the 2005 general obligation bond retirement fund. The general fund had revenues of \$2,686,826 in 2012. The expenditures and other financing uses of the general fund totaled \$2,726,615 in 2012. The net decrease in fund balance for the general fund was \$39,789 or 5.40%.
- The 2005 general obligation bond retirement fund had other financing sources of \$3,319,071 and expenditures of \$3,053,367 in 2012. The 2005 general obligation bond retirement fund balance increased \$265,704 or 1,195.36% due to the issuance of refunding bonds during 2012.
- Net position for the business-type activities, which are composed of the water, sewer, electric, guarantee trust (utility connection deposits) and stormwater enterprise funds, increased in 2012 by \$858,297.
- In the general fund, actual budgetary-basis revenues and other financing sources of \$2,515,674 were \$52,364 less than the amount in the final budget and actual budgetary-basis expenditures and other financing uses of \$2,180,117 were \$16,503 more than the amount in the final budget. Budgeted revenues and other financing sources increased \$582,578 from the original to the final budget. Budgeted expenditures and other financing uses increased \$144,714 from the original to the final budget.

Using this Annual Financial Report

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

The statement of net position 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 finances. 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 remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City perform financially during 2012?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting reflects all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net position and changes in net position. This change in net position is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors-some financial, others not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net position and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, street maintenance, cemetery, capital improvements, and general administration. These services are funded primarily by property taxes, income taxes, and intergovernmental revenues including federal and State grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer, electric, guarantee trust and stormwater operations are reported here.

The City's statement of net position and statement of activities can be found on pages 16-18 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as the resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and the 2005 general obligation bond retirement fund. Information for the major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19-23 of this report.

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, guarantee trust and stormwater operations. The sewer, water, and electric enterprise funds are considered major funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 24-31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency and private-purpose trust funds are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 32-33 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 34-70 of this report.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Government-Wide Financial Analysis

The statement of net position serves as a useful indicator of a government's financial position. The table below provides a summary of the City's net position at December 31, 2012 and December 31, 2011.

	Net Position					
	Governmental	Business-type	Restated	Restated	2012	Restated
	Activities	Activities	Governmental	Business-type		2011
	2012	2012	2011	2011	Total	Total
<u>Assets</u>						
Current and other assets	\$ 2,702,484	\$ 9,072,740	\$ 2,305,659	\$ 8,375,002	\$ 11,775,224	\$ 10,680,661
Capital assets	<u>3,954,195</u>	<u>13,977,221</u>	<u>4,250,440</u>	<u>14,656,225</u>	<u>17,931,416</u>	<u>18,906,665</u>
Total assets	<u>6,656,679</u>	<u>23,049,961</u>	<u>6,556,099</u>	<u>23,031,227</u>	<u>29,706,640</u>	<u>29,587,326</u>
<u>Deferred Outflows of Resources</u>	<u>-</u>	<u>38,513</u>	<u>-</u>	<u>36,502</u>	<u>38,513</u>	<u>36,502</u>
<u>Liabilities</u>						
Current liabilities	264,002	2,549,360	278,398	2,751,252	2,813,362	3,029,650
Long-term liabilities	<u>3,049,459</u>	<u>3,309,544</u>	<u>3,001,260</u>	<u>3,945,204</u>	<u>6,359,003</u>	<u>6,946,464</u>
Total liabilities	<u>3,313,461</u>	<u>5,858,904</u>	<u>3,279,658</u>	<u>6,696,456</u>	<u>9,172,365</u>	<u>9,976,114</u>
<u>Deferred Inflows of Resources</u>	<u>311,047</u>	<u>-</u>	<u>313,540</u>	<u>-</u>	<u>311,047</u>	<u>313,540</u>
<u>Net Position</u>						
Net investment in capital assets	1,164,195	9,875,702	1,380,720	9,829,527	11,039,897	11,210,247
Restricted	191,124	-	259,030	-	191,124	259,030
Unrestricted	<u>1,676,852</u>	<u>7,353,868</u>	<u>1,323,151</u>	<u>6,541,746</u>	<u>9,030,720</u>	<u>7,864,897</u>
Total net position	<u>\$ 3,032,171</u>	<u>\$ 17,229,570</u>	<u>\$ 2,962,901</u>	<u>\$ 16,371,273</u>	<u>\$ 20,261,741</u>	<u>\$ 19,334,174</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20,261,741. At year-end, net position was \$3,032,171 and \$17,229,570 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 60.36% of total assets. Capital assets at December 31, 2012, include land, land improvements, buildings and improvements, furniture and equipment, vehicles, and infrastructure. The City's net investment in capital assets at December 31, 2012, was \$1,164,195 and \$9,875,702 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's net investment in capital assets is reported net of related long-term obligations, 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.

As of December 31, 2012, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net position, \$191,124, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$1,676,852 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The following table shows the comparative analysis of changes in net position for 2012 and 2011. 2011 activity has been restated to eliminate the capitalization and amortization of unamortized bond issuance costs and deferred charges, eliminated in accordance with GASB Statement No. 65, and to record an OPWC loan not previously recorded.

	Change in Net Position					
			Restated		Restated	
	Governmental Activities 2012	Business-type Activities 2012	Governmental Activities 2011	Business-type Activities 2011	2012 Total	Restated 2011 Total
Revenues						
Program revenues:						
Charges for services	\$ 35,359	\$ 9,615,929	\$ 48,161	\$ 9,343,899	\$ 9,651,288	\$ 9,392,060
Operating grants and contributions	424,354	-	433,243	-	424,354	433,243
Total program revenues	459,713	9,615,929	481,404	9,343,899	10,075,642	9,825,303
General revenues:						
Property taxes	216,104	-	331,432	-	216,104	331,432
Income taxes	1,987,850	-	2,020,104	-	1,987,850	2,020,104
Other local taxes	-	31,664	-	30,469	31,664	30,469
Unrestricted grants and entitlements	220,994	-	682,485	-	220,994	682,485
Investment earnings	66,058	34,177	61,268	-	100,235	61,268
Miscellaneous	141,904	73,097	140,137	47,911	215,001	188,048
Total general revenues	2,632,910	138,938	3,235,426	78,380	2,771,848	3,313,806
Total revenues	3,092,623	9,754,867	3,716,830	9,422,279	12,847,490	13,139,109
Expenses						
General government	239,329	-	234,670	-	239,329	234,670
Security of persons and property	1,614,259	-	1,714,842	-	1,614,259	1,714,842
Public health and welfare	18,344	-	19,729	-	18,344	19,729
Transportation	962,701	-	927,425	-	962,701	927,425
Community environment	410	-	660	-	410	660
Leisure time activity	21,578	-	22,242	-	21,578	22,242
Interest and fiscal charges	90,055	-	113,818	-	90,055	113,818
Bond issuance costs	76,677	-	-	-	76,677	-
Sewer	-	1,228,019	-	1,192,255	1,228,019	1,192,255
Water	-	1,476,992	-	1,531,966	1,476,992	1,531,966
Electric	-	6,130,301	-	6,382,688	6,130,301	6,382,688
Guarantee trust	-	8,557	-	9,838	8,557	9,838
Stormwater	-	52,701	-	91,649	52,701	91,649
Total expenses	3,023,353	8,896,570	3,033,386	9,208,396	11,919,923	12,241,782
Change in net position	69,270	858,297	683,444	213,883	927,567	897,327
Net position at beginning of year (restated)	2,962,901	16,371,273	2,279,457	16,157,390	19,334,174	18,436,847
Net position at end of year	\$ 3,032,171	\$ 17,229,570	\$ 2,962,901	\$ 16,371,273	\$ 20,261,741	\$ 19,334,174

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

Governmental Activities

The net position of the governmental activities increased \$69,270 in 2012. Property taxes decreased \$115,328 or 34.80% mainly due to a property revaluation of Trumbull County for the 2011 taxes payable in 2012. Unrestricted grants and entitlements decreased \$461,491 or 67.62% primarily due to a significant amount of estate tax revenue available to the City as of December 31, 2011 for which a substantial receivable was recorded in the prior year.

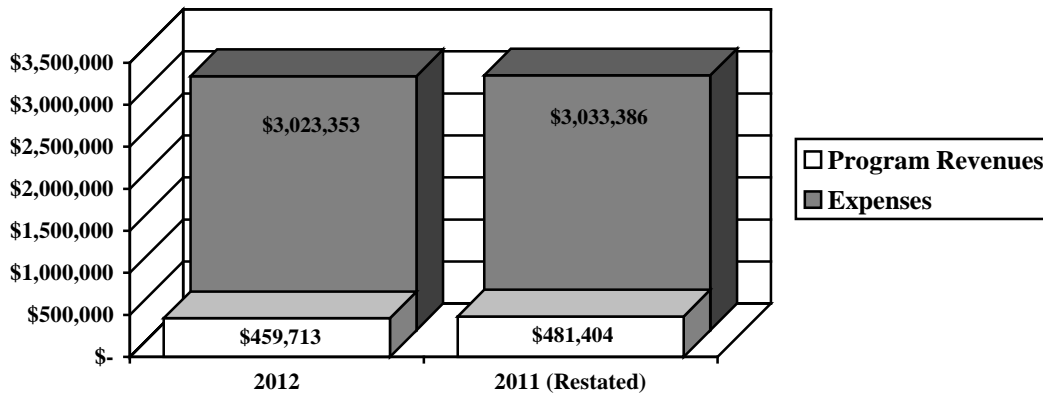
Security of persons and property, which primarily supports the operations of the police department, accounted for \$1,614,259 of the total expenses of the City. These expenses were partially funded by \$24,437 in direct charges to users of the services. Transportation expenses totaled \$962,701. Transportation expenses were partially funded by \$423,254 in operating grants and contributions.

The State and federal government contributed to the City a total of \$424,354 in operating grants and contributions during 2012. These revenues are restricted to a particular program or purpose.

General revenues totaled \$2,632,910, and amounted to 85.14% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,203,954. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$220,994.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF HUBBARD, OHIO

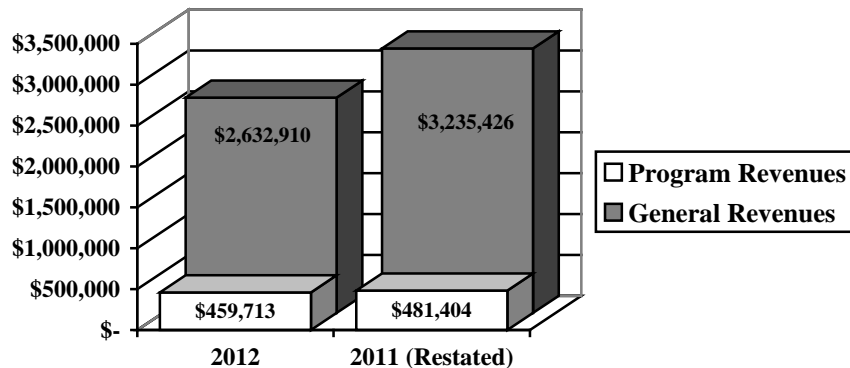
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The following table shows, for governmental activities, the total cost of services and the net cost of services for 2012 and 2011. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. 2011 amounts have been restated to exclude the amortization of bond issuance costs as a component of interest and fiscal charges, eliminated as a result of the City's implementation of GASB Statement No. 65, and to exclude the effects of loan proceeds previously recognized as capital grants and contributions.

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Restated Total Cost of Services	Restated Net Cost of Services
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
Program Expenses:				
General government	\$ 239,329	\$ 229,702	\$ 234,670	\$ 211,536
Security of persons and property	1,614,259	1,589,822	1,714,842	1,692,839
Public health and welfare	18,344	17,049	19,729	16,705
Transportation	962,701	539,447	927,425	495,482
Community environment	410	410	660	660
Leisure time activity	21,578	20,478	22,242	20,942
Interest and fiscal charges	90,055	90,055	113,818	113,818
Bond issuance costs	<u>76,677</u>	<u>76,677</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,023,353</u>	<u>\$ 2,563,640</u>	<u>\$ 3,033,386</u>	<u>\$ 2,551,982</u>

The dependence upon general revenues for governmental activities is apparent, with 84.79% of expenses supported through taxes and other general revenues. Program revenues for 2011 have been restated to exclude loan proceeds previously recorded as capital grants and contributions.

Governmental Activities – General and Program Revenues



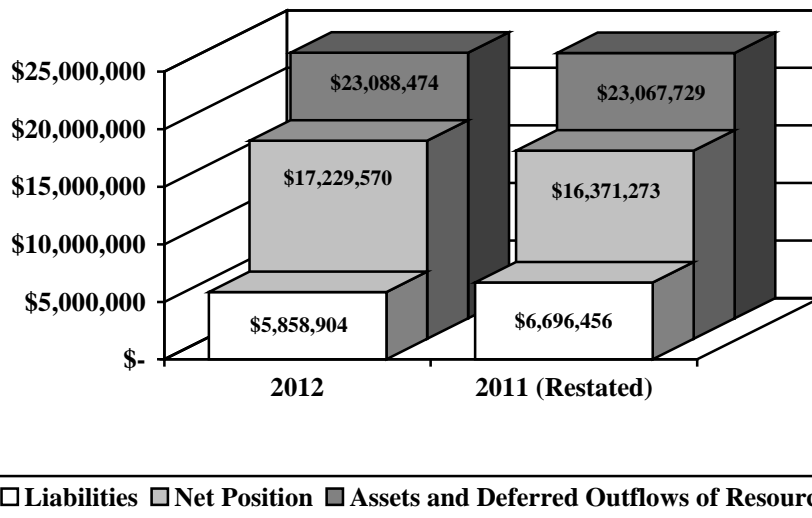
CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Business-type Activities

Business-type activities include the water, sewer, electric, guarantee trust and stormwater enterprise funds. These programs had program revenues of \$9,615,929, general revenues of \$138,938, and expenses of \$8,896,570 during 2012. The graph below shows the business-type activities assets, deferred outflows, liabilities and net position at December 31, 2012 and December 31, 2011.

Net Position in Business-type Activities



Business-type activities net position increased \$858,297 due to consistent revenues continuing to exceed expenses in 2012.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The City's governmental funds, as presented on the balance sheet on page 19, reported a combined fund balance of \$1,559,176, which is \$281,438 more than last year's total of \$1,277,738. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012 and December 31, 2011 for all major and nonmajor governmental funds.

	<u>Fund Balances 12/31/12</u>	<u>Fund Balances 12/31/11</u>	<u>Increase/ (Decrease)</u>
General Fund	\$ 696,592	\$ 736,381	\$ (39,789)
2005 General Obligation Bond Retirement Fund	287,932	22,228	265,704
Other Nonmajor Governmental Funds	<u>574,652</u>	<u>519,129</u>	<u>55,523</u>
Total	<u>\$ 1,559,176</u>	<u>\$ 1,277,738</u>	<u>\$ 281,438</u>

General Fund

The City's general fund balance decreased \$39,789. The table that follows assists in illustrating the revenues of the general fund.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 2,176,289	\$ 2,341,574	(7.06) %
Charges for services	640	512	25.00 %
Licenses and permits	122,330	109,361	11.86 %
Fines and forfeitures	14,198	19,028	(25.38) %
Intergovernmental	287,738	620,233	(53.61) %
Investment income	66,058	61,266	7.82 %
Other	<u>19,573</u>	<u>30,776</u>	<u>(36.40) %</u>
Total	<u>\$ 2,686,826</u>	<u>\$ 3,182,750</u>	<u>(15.58) %</u>

Tax revenue represents 81.00% of all general fund revenue, and remained comparable to 2011. Significantly less estate tax revenue was available to the City at December 31, 2012, than in the prior year, causing a decrease in intergovernmental revenue of \$332,495 or 53.61% from 2011 revenues. Fines and forfeitures supporting security of persons and property programs decreased \$4,830 or 25.38% from 2011. Other revenue decreased 36.40% due to lower reimbursements earned by the City during 2012.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The table that follows assists in illustrating the expenditures of the general fund.

	2012 Amount	2011 Amount	Percentage Change
<u>Expenditures</u>			
General government	\$ 234,719	\$ 193,840	21.09 %
Security of persons and property	1,566,825	1,651,163	(5.11) %
Public health and welfare	13,494	14,490	(6.87) %
Community environment	410	660	(37.88) %
Leisure time activity	3,715	3,676	1.06 %
Debt service	14,400	14,389	0.08 %
Total	<u>\$ 1,833,563</u>	<u>\$ 1,878,218</u>	<u>(2.38) %</u>

Overall, expenditures of the general fund decreased \$44,655 or 2.38% during 2012. This decrease is primarily due to a decrease of security of persons and property expenditures of \$84,338 or 5.11%. General government expenditures increased during 2012 due to increased expenditures of the Mayor, Auditor, Engineer and Service Director as well as other administrative offices within the City during 2012. All other expenditure classifications remained comparable to 2011.

2005 General Obligation Bond Retirement Fund

The 2005 general obligation bond retirement fund had other financing sources of \$3,319,071 and expenditures of \$3,053,367 in 2012. The 2005 general obligation bond retirement fund balance increased \$265,704 or 1,195.36% due to the issuance of refunding bonds during 2012.

Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund. In the general fund, the actual revenues and other financing sources of \$2,515,674 were \$52,364 lower than the amount in the final budget and actual expenditures and other financing uses of \$2,180,117 were \$16,503 more than the amount in the final budget. Budgeted revenues and other financing sources increased \$582,578 from the original to the final budget. Budgeted expenditures and other financing uses increased \$144,714 from the original to the final budget.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail. The only difference between the amounts reported as business-type activities and the amounts reported in the proprietary fund statements are interfund eliminations between proprietary funds and internal balances due to governmental activities for internal service activities. The only interfund activity reported in the government-wide statements are those between business-type activities and governmental activities (reported as internal balances and transfers), whereas interfund amounts between various enterprise funds are reported in the proprietary fund statements.

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the City had \$17,931,416 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Of this total, \$3,954,195 was reported in governmental activities and \$13,977,221 was reported in business-type activities. See Note 9 to the basic financial statements for more detail on the City's capital assets. The following table shows December 31, 2012 balances compared to December 31, 2011.

**Capital Assets at December 31
(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 597,871	\$ 597,871	\$ 180,423	\$ 180,423	\$ 778,294	\$ 778,294
Construction in progress	-	-	-	357,875	-	357,875
Land improvements	299,045	329,700	106,162	118,192	405,207	447,892
Buildings and improvements	1,546,962	1,593,230	1,979,282	2,248,059	3,526,244	3,841,289
Furniture and equipment	78,385	105,110	1,345,133	1,221,380	1,423,518	1,326,490
Vehicles	157,278	149,630	161,707	180,750	318,985	330,380
Infrastructure	1,274,654	1,474,899	10,204,514	10,349,546	11,479,168	11,824,445
Totals	\$ 3,954,195	\$ 4,250,440	\$ 13,977,221	\$ 14,656,225	\$ 17,931,416	\$ 18,906,665

The overall decrease in governmental capital assets of \$296,245 is due to depreciation expense of \$364,496 and disposals, net of accumulated depreciation, of \$1,288 exceeding capital outlays of \$69,539 during 2012. The overall decrease in business-type capital assets of \$679,004 is due to depreciation expense of \$764,288 and disposals, net of accumulated depreciation, of \$156,846 exceeding capital outlays of \$242,130 during 2012.

One of the City's largest capital asset categories is infrastructure, which includes roads, sidewalks, traffic lights and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents 32.24% of the City's total governmental capital assets. Buildings and improvements is also a significant capital asset category, accounting for 39.12% of the City's total governmental capital assets.

The City's largest business-type capital asset category is infrastructure, which primarily includes water, sewer, and electrical lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 73.01% of the City's total business-type capital assets.

Debt Administration

At December 31, 2012, the City had long-term obligations totaling \$6,359,003. Of this total, \$1,347,876 is due within one year and \$5,011,127 is due in more than one year. See Note 12 to the basic financial statements for detail on the City's long-term obligations.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The City's governmental activities had the following long-term obligations outstanding at December 31, 2012 and December 31, 2011.

	Governmental Activities	
	December 31, 2012	December 31, 2011
General obligation bonds	\$ -	\$ 2,785,000
Refunding bonds	2,790,000	-
Capital lease obligations	-	25,114
Compensated absences	194,648	191,146
Retirement incentives	64,811	-
Total long-term obligations	\$ 3,049,459	\$ 3,001,260

The City's long-term obligations in the business-type activities were restated at December 31, 2011 as described in Note 3.B. The City had the following long-term obligations outstanding at December 31, 2012 and December 31, 2011.

	Business-type Activities	
	December 31, 2012	Restated December 31, 2011
Refunding bond anticipation notes	\$ -	\$ 935,000
City owned debt	515,000	-
OPWC loans	766,362	834,067
OWDA loans	1,256,157	1,382,886
Capital lease obligations	-	25,114
Potential stranded cost liability	577,203	585,567
Compensated absences	147,229	172,437
Retirement incentives	47,593	-
Total long-term obligations	\$ 3,309,544	\$ 3,935,071

Economic Conditions and Next Year's General Fund Budget Outlook

The City's Administration considers the impact of various economic factors when establishing the 2012 budget. The restructuring of several debt issues, streamlining departmental operations, and the impact of economic stabilization following the ongoing national recession have continued to influence the objectives established in the 2012 budget. The City's revenue and expenditure patterns have continued to gain stability. As a result, the City continues to operate its financial decision making conservatively.

The City continues to carefully monitor two primary sources of revenue – local income taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to make efforts to maintain its employment base, maintain the community's reputation for high public safety standards, and adopt a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2012 budget, the City emphasized various efforts to continue to contain costs.

Final budgeted revenues and other financing sources in the general fund for 2012 were \$2,568,038, an increase of \$539,852 or 26.62% from the final 2011 budgeted amount of \$2,028,186. Final budgeted expenditures and other financing uses in the general fund for 2012 were \$2,163,614, an increase of \$159,895 or 7.98% from the final 2011 budgeted amount of \$2,003,719. For the financial reporting purposes of budgetary activity, the general fund is comprised of only the legally budgeted general fund.

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (UNAUDITED)

The average unemployment rate for Trumbull County in 2012 was 8.0%, which represents a slight decline from the 2011 rate of 8.7%. This is the result of a stabilizing demand for manufactured products produced in the region as well as increased economic activity relating to the emerging shale gas industry within the region. The Trumbull County unemployment rate compared slightly higher than the 6.7% State of Ohio average as well as the 7.8% national average. The City Auditor anticipates the 2013 rate to stabilize due to general improvements in the regional and national economies. The combination of the City's stabilizing local income tax collections and conservative budgeting practices should result in a stable financial future for the City.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the City Auditor's Office, Mr. Michael C. Villano, CPA, CMA, CGMA Auditor, City of Hubbard, Ohio, 220 West Liberty Street, Hubbard, Ohio 44425 or visit our website at www.cityofhubbard.com.

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CITY OF HUBBARD, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,555,194	\$ 6,375,591	\$ 7,930,785
Cash in segregated accounts.	550	500	1,050
Receivables (net of allowance for uncollectibles):			
Income taxes.	462,264	-	462,264
Real and other taxes	369,106	2,748	371,854
Accounts.	66,783	782,558	849,341
Special assessments	6,922	-	6,922
Accrued interest	5,455	-	5,455
Internal balance.	(91,508)	91,508	-
Due from other governments.	293,249	-	293,249
Prepayments	4,975	14,354	19,329
Materials and supplies inventory.	29,494	548,764	578,258
Investment in joint ventures	-	218,328	218,328
Regulatory asset.	-	1,038,389	1,038,389
Capital assets:			
Land.	597,871	180,423	778,294
Depreciable capital assets, net.	3,356,324	13,796,798	17,153,122
Total capital assets.	3,954,195	13,977,221	17,931,416
Total assets	6,656,679	23,049,961	29,706,640
Deferred outflows of resources:			
Unamortized deferred charges on debt refunding	-	38,513	38,513
Total deferred outflows of resources	-	38,513	38,513
Liabilities:			
Accounts payable.	41,504	359,631	401,135
Contracts payable.	-	94,717	94,717
Accrued wages and benefits.	28,803	27,168	55,971
Due to other governments	86,846	39,623	126,469
Accrued interest payable	4,049	3,035	7,084
Claims payable.	102,800	-	102,800
Revenue anticipation note.	-	1,564,000	1,564,000
Regulatory liability.	-	461,186	461,186
Long-term liabilities:			
Due within one year	461,388	886,488	1,347,876
Due in more than one year.	2,588,071	2,423,056	5,011,127
Total liabilities	3,313,461	5,858,904	9,172,365
Deferred inflows of resources:			
Property and other taxes levied for the next fiscal year.	311,047	-	311,047
Total deferred inflows of resources	311,047	-	311,047
Net position:			
Net investment in capital assets.	1,164,195	9,875,702	11,039,897
Restricted for:			
Street construction and maintenance.	127,991	-	127,991
State highway	23,246	-	23,246
Law enforcement	19,730	-	19,730
Police pension.	9,224	-	9,224
Maple Grove cemetery.	6,445	-	6,445
Other purposes.	2,768	-	2,768
Perpetual care:			
Expendable.	880	-	880
Nonexpendable.	840	-	840
Unrestricted.	1,676,852	7,353,868	9,030,720
Total net position	\$ 3,032,171	\$ 17,229,570	\$ 20,261,741

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental activities:			
General government.	\$ 239,329	\$ 9,627	\$ -
Security of persons and property	1,614,259	24,437	-
Public health and welfare	18,344	1,295	-
Transportation.	962,701	-	423,254
Community environment	410	-	-
Leisure time activity.	21,578	-	1,100
Interest and fiscal charges.	90,055	-	-
Bond issuance costs.	76,677	-	-
Total governmental activities	<u>3,023,353</u>	<u>35,359</u>	<u>424,354</u>
Business-type activities:			
Sewer.	1,228,019	1,537,733	-
Water.	1,476,992	1,768,380	-
Electric.	6,130,301	6,181,408	-
Other business-type activities:			
Guarantee Trust.	8,557	-	-
Stormwater.	52,701	128,408	-
Total business-type activities	<u>8,896,570</u>	<u>9,615,929</u>	<u>-</u>
Total primary government	<u>\$ 11,919,923</u>	<u>\$ 9,651,288</u>	<u>\$ 424,354</u>

General Revenues:

Property taxes levied for:

- General purposes
- Police pension.

Income taxes levied for:

- General purposes
- Other local taxes
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Miscellaneous

Total general revenues

Change in net position

Net position at beginning of year (restated)

Net position at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$ (229,702)	\$ -	\$ (229,702)
(1,589,822)	-	(1,589,822)
(17,049)	-	(17,049)
(539,447)	-	(539,447)
(410)	-	(410)
(20,478)	-	(20,478)
(90,055)	-	(90,055)
(76,677)	-	(76,677)
<u>(2,563,640)</u>	<u>-</u>	<u>(2,563,640)</u>
-	309,714	309,714
-	291,388	291,388
-	51,107	51,107
-	(8,557)	(8,557)
-	75,707	75,707
<u>-</u>	<u>719,359</u>	<u>719,359</u>
<u>(2,563,640)</u>	<u>719,359</u>	<u>(1,844,281)</u>
188,797	-	188,797
27,307	-	27,307
1,987,850	-	1,987,850
-	31,664	31,664
220,994	-	220,994
66,058	34,177	100,235
141,904	73,097	215,001
<u>2,632,910</u>	<u>138,938</u>	<u>2,771,848</u>
69,270	858,297	927,567
<u>2,962,901</u>	<u>16,371,273</u>	<u>19,334,174</u>
<u>\$ 3,032,171</u>	<u>\$ 17,229,570</u>	<u>\$ 20,261,741</u>

CITY OF HUBBARD, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General</u>	<u>2005 General Obligation Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 366,047	\$ 287,932	\$ 602,193	\$ 1,256,172
Cash in segregated accounts.	200	-	350	550
Receivables (net of allowance for uncollectibles):				
Income taxes.	462,264	-	-	462,264
Real and other taxes	330,402	-	38,704	369,106
Accounts.	25,061	-	200	25,261
Special assessments	6,922	-	-	6,922
Accrued interest	5,387	-	68	5,455
Due from other governments.	116,240	-	177,009	293,249
Prepayments	4,875	-	100	4,975
Materials and supplies inventory.	2,872	-	26,622	29,494
Total assets	<u>\$ 1,320,270</u>	<u>\$ 287,932</u>	<u>\$ 845,246</u>	<u>\$ 2,453,448</u>
Liabilities:				
Accounts payable.	\$ 31,857	\$ -	\$ 9,647	\$ 41,504
Accrued wages and benefits.	18,917	-	9,886	28,803
Compensated absences payable	-	-	24,381	24,381
Retirement incentive payable	-	-	32,406	32,406
Due to other governments	45,137	-	41,709	86,846
Total liabilities	<u>95,911</u>	<u>-</u>	<u>118,029</u>	<u>213,940</u>
Deferred inflows of resources:				
Property and other taxes levied for the next fiscal year.	278,431	-	32,616	311,047
Income tax revenue not available	150,635	-	-	150,635
Delinquent property tax revenue not available.	43,345	-	5,078	48,423
Special assessments revenue not available.	6,922	-	-	6,922
Intergovernmental revenue not available.	48,434	-	114,871	163,305
Total deferred inflows of resources	<u>527,767</u>	<u>-</u>	<u>152,565</u>	<u>680,332</u>
Fund balances:				
Nonspendable	11,156	-	27,562	38,718
Restricted.	-	-	105,505	105,505
Committed	-	-	62,158	62,158
Assigned	106,519	287,932	379,427	773,878
Unassigned.	<u>578,917</u>	<u>-</u>	<u>-</u>	<u>578,917</u>
Total fund balances.	<u>696,592</u>	<u>287,932</u>	<u>574,652</u>	<u>1,559,176</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,320,270</u>	<u>\$ 287,932</u>	<u>\$ 845,246</u>	<u>\$ 2,453,448</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Total governmental fund balances		\$	1,559,176
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,954,195
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows in the funds.			
Income taxes receivable	\$	150,635	
Property taxes receivable		48,423	
Special assessments receivable		6,922	
Intergovernmental receivable		163,305	
Total		163,305	369,285
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(4,049)
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.			237,744
An internal balance is recorded in governmental activities to reflect underpayments or overpayments to the internal service fund by the business-type activities.			(91,508)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(2,790,000)	
Compensated absences payable		(170,267)	
Retirement incentive payable		(32,405)	
Total		(2,992,672)	(2,992,672)
Net position of governmental activities		\$	3,032,171

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>General</u>	<u>2005 General Obligation Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Income taxes	\$ 1,988,782	\$ -	\$ -	\$ 1,988,782
Property and other taxes.	187,507	-	27,217	214,724
Charges for services.	640	-	1,150	1,790
Licenses and permits	122,330	-	-	122,330
Fines and forfeitures	14,198	-	2,096	16,294
Intergovernmental.	287,738	-	432,267	720,005
Investment income.	66,058	-	845	66,903
Other	19,573	-	19,592	39,165
Total revenues	<u>2,686,826</u>	<u>-</u>	<u>483,167</u>	<u>3,169,993</u>
Expenditures:				
Current:				
General government	234,719	-	-	234,719
Security of persons and property	1,566,825	-	42,364	1,609,189
Public health and welfare.	13,494	-	4,850	18,344
Transportation	-	-	685,208	685,208
Community environment	410	-	-	410
Leisure time activity	3,715	-	16,853	20,568
Capital outlay	-	-	129,150	129,150
Debt service:				
Principal retirement.	12,557	2,885,000	12,557	2,910,114
Interest and fiscal charges	1,843	91,690	643	94,176
Bond issuance costs	-	76,677	-	76,677
Total expenditures	<u>1,833,563</u>	<u>3,053,367</u>	<u>891,625</u>	<u>5,778,555</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>853,263</u>	<u>(3,053,367)</u>	<u>(408,458)</u>	<u>(2,608,562)</u>
Other financing sources (uses):				
Proceeds of refunding bonds.	-	2,890,000	-	2,890,000
Transfers in	-	429,071	463,981	893,052
Transfers out.	<u>(893,052)</u>	<u>-</u>	<u>-</u>	<u>(893,052)</u>
Total other financing sources (uses)	<u>(893,052)</u>	<u>3,319,071</u>	<u>463,981</u>	<u>2,890,000</u>
Net change in fund balances	(39,789)	265,704	55,523	281,438
Fund balances at beginning of year	<u>736,381</u>	<u>22,228</u>	<u>519,129</u>	<u>1,277,738</u>
Fund balances at end of year	<u>\$ 696,592</u>	<u>\$ 287,932</u>	<u>\$ 574,652</u>	<u>\$ 1,559,176</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

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, 2012

Net change in fund balances - total governmental funds	\$	281,438
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital asset additions	\$ 69,539	
Current year depreciation	<u>(364,496)</u>	
Total		(294,957)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(1,288)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	(932)	
Property taxes	1,380	
Special assessments	30	
Intergovernmental revenues	<u>(77,848)</u>	
Total		(77,370)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		4,121
The issuance of refunding bonds is an other financing source in the funds, but it increases long-term liabilities on the statement of net position.		
		(2,890,000)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		2,910,114
Some expenses reported in the statement of activities, such as compensated absences and retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(11,526)
An internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated.		
		<u>148,738</u>
Change in net position of governmental activities	\$	<u>69,270</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property and other taxes.	\$ 144,611	\$ 187,042	\$ 183,229	\$ (3,813)
Charges for services.	505	653	640	(13)
Licenses and permits	97,201	125,723	123,159	(2,564)
Fines and forfeitures	11,206	14,494	14,198	(296)
Intergovernmental.	518,244	670,308	656,640	(13,668)
Investment income.	52,416	67,796	66,414	(1,382)
Other	23,225	30,040	29,427	(613)
Total revenues	847,408	1,096,056	1,073,707	(22,349)
Expenditures:				
Current:				
General government	116,200	117,029	135,023	(17,994)
Security of persons and property	1,670,300	1,586,655	1,585,488	1,167
Public health and welfare.	14,500	13,500	13,494	6
Community environment	500	280	280	-
Leisure time activity	3,000	3,750	3,715	35
Debt service:				
Principal retirement.	7,200	7,200	12,557	(5,357)
Interest and fiscal charges	7,200	7,200	1,843	5,357
Total expenditures	1,818,900	1,735,614	1,752,400	(16,786)
Excess of expenditures over revenues	(971,492)	(639,558)	(678,693)	(39,135)
Other financing sources (uses):				
Sale of capital assets.	2,651	3,429	3,359	(70)
Transfers in	1,135,401	1,468,553	1,438,608	(29,945)
Transfers out.	(200,000)	(428,000)	(427,717)	283
Total other financing sources (uses)	938,052	1,043,982	1,014,250	(29,732)
Net change in fund balance	(33,440)	404,424	335,557	(68,867)
Fund balance at beginning of year.	27,081	27,081	27,081	-
Fund balance (deficit) at end of year	<u>\$ (6,359)</u>	<u>\$ 431,505</u>	<u>\$ 362,638</u>	<u>\$ (68,867)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF HUBBARD, OHIO
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

Business-type Activities - Enterprise Funds

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Nonmajor</u>
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 718,909	\$ 1,084,383	\$ 4,199,522	\$ 372,777
Cash in segregated accounts.	150	150	200	-
Receivables (net of allowance for uncollectibles):				
Real and other taxes	-	-	2,748	-
Accounts.	123,208	143,745	501,853	13,752
Due from other funds.	-	-	3,152	-
Prepayments	6,147	5,836	717	1,654
Materials and supplies inventory.	2,348	102,020	444,396	-
Total current assets	<u>850,762</u>	<u>1,336,134</u>	<u>5,152,588</u>	<u>388,183</u>
Noncurrent assets:				
Investment in joint ventures.	-	-	218,328	-
Regulatory asset.	-	-	1,038,389	-
Capital assets:				
Land	95,078	85,345	-	-
Depreciable capital assets, net.	<u>5,405,797</u>	<u>4,751,720</u>	<u>3,561,681</u>	<u>77,600</u>
Total capital assets.	<u>5,500,875</u>	<u>4,837,065</u>	<u>3,561,681</u>	<u>77,600</u>
Total noncurrent assets	<u>5,500,875</u>	<u>4,837,065</u>	<u>4,818,398</u>	<u>77,600</u>
Total assets	<u>6,351,637</u>	<u>6,173,199</u>	<u>9,970,986</u>	<u>465,783</u>
Deferred outflows of resources:				
Unamortized deferred charges on debt refunding	<u>38,513</u>	-	-	-
Total deferred outflows of resources	<u>38,513</u>	-	-	-
Liabilities:				
Current liabilities:				
Accounts payable.	6,714	38,424	313,683	810
Contracts payable.	-	94,717	-	-
Accrued wages and benefits.	5,517	7,540	14,111	-
Compensated absences.	4,361	17,611	40,030	-
Retirement incentive payable.	47,593	-	-	-
Due to other governments	5,714	10,088	23,821	-
Due to other funds.	3,152	-	-	-
Claims payable	-	-	-	-
Revenue anticipation note.	-	-	1,564,000	-
Regulatory liability.	-	-	461,186	-
City owned debt.	515,000	-	-	-
Current portion of OWDA loans.	-	135,068	-	-
Current portion of OPWC loans.	25,050	44,217	-	-
Current portion of potential stranded cost liability.	-	-	57,558	-
Accrued interest payable	-	-	3,035	-
Total current liabilities	<u>613,101</u>	<u>347,665</u>	<u>2,477,424</u>	<u>810</u>
Long-term liabilities:				
OWDA loans	-	1,121,089	-	-
OPWC loans.	310,721	386,374	-	-
Potential stranded cost liability.	-	-	519,645	-
Compensated absences.	10,585	21,302	53,340	-
Total long-term liabilities	<u>321,306</u>	<u>1,528,765</u>	<u>572,985</u>	<u>-</u>
Total liabilities	<u>934,407</u>	<u>1,876,430</u>	<u>3,050,409</u>	<u>810</u>
Net position:				
Net investment in capital assets.	4,650,104	3,150,317	1,997,681	77,600
Unrestricted	<u>805,639</u>	<u>1,146,452</u>	<u>4,922,896</u>	<u>387,373</u>
Total net position.	<u>\$ 5,455,743</u>	<u>\$ 4,296,769</u>	<u>\$ 6,920,577</u>	<u>\$ 464,973</u>

Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds.

Net position of business-type activities

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 6,375,591	\$ 299,022
500	-
2,748	-
782,558	41,522
3,152	-
14,354	-
548,764	-
<u>7,727,667</u>	<u>340,544</u>
218,328	-
1,038,389	-
180,423	-
13,796,798	-
<u>13,977,221</u>	<u>-</u>
15,233,938	-
<u>22,961,605</u>	<u>340,544</u>
38,513	-
<u>38,513</u>	<u>-</u>
359,631	-
94,717	-
27,168	-
62,002	-
47,593	-
39,623	-
3,152	-
-	102,800
1,564,000	-
461,186	-
515,000	-
135,068	-
69,267	-
57,558	-
3,035	-
<u>3,439,000</u>	<u>102,800</u>
1,121,089	-
697,095	-
519,645	-
85,227	-
<u>2,423,056</u>	<u>-</u>
<u>5,862,056</u>	<u>102,800</u>
9,875,702	-
<u>7,262,360</u>	<u>237,744</u>
17,138,062	\$ 237,744
91,508	
<u>\$ 17,229,570</u>	

CITY OF HUBBARD, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Electric	Nonmajor
Operating revenues:				
Charges for services	\$ 1,537,733	\$ 1,768,380	\$ 6,181,408	\$ 128,408
Other	18,276	-	29,693	15,617
Total operating revenues.	<u>1,556,009</u>	<u>1,768,380</u>	<u>6,211,101</u>	<u>144,025</u>
Operating expenses:				
Personal services	494,650	578,341	1,189,038	-
Contract services.	143,739	600,206	4,274,721	51,101
Materials and supplies.	96,195	64,507	53,156	-
Other	-	-	-	8,557
Depreciation.	245,148	155,202	362,338	1,600
Total operating expenses.	<u>979,732</u>	<u>1,398,256</u>	<u>5,879,253</u>	<u>61,258</u>
Operating income.	<u>576,277</u>	<u>370,124</u>	<u>331,848</u>	<u>82,767</u>
Nonoperating revenues (expenses):				
Interest expense and fiscal charges.	(74,092)	(90,993)	(24,363)	-
Note issuance costs.	-	-	(12,085)	-
Bond issuance costs.	(27,751)	-	-	-
Investment income.	-	-	34,177	-
Loss on disposal of capital assets	(156,846)	-	-	-
Investment in joint ventures.	-	-	(19,142)	-
Other nonoperating expenses	-	-	(218,347)	-
Other nonoperating revenues.	-	9,511	31,664	-
Total nonoperating revenues (expenses).	<u>(258,689)</u>	<u>(81,482)</u>	<u>(208,096)</u>	<u>-</u>
Income before transfers.	317,588	288,642	123,752	82,767
Transfers in	10,000	-	-	-
Transfers out.	-	-	-	(10,000)
Change in net position	327,588	288,642	123,752	72,767
Net position at beginning of year (restated)	<u>5,128,155</u>	<u>4,008,127</u>	<u>6,796,825</u>	<u>392,206</u>
Net position at end of year	<u>\$ 5,455,743</u>	<u>\$ 4,296,769</u>	<u>\$ 6,920,577</u>	<u>\$ 464,973</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Change in net position of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 9,615,929	\$ 1,083,459
63,586	-
9,679,515	1,083,459
2,262,029	-
5,069,767	889,173
213,858	-
8,557	-
764,288	-
8,318,499	889,173
1,361,016	194,286
(189,448)	-
(12,085)	-
(27,751)	-
34,177	-
(156,846)	-
(19,142)	-
(218,347)	-
41,175	-
(548,267)	-
812,749	194,286
10,000	-
(10,000)	-
812,749	194,286
	43,458
	\$ 237,744
45,548	
\$ 858,297	

CITY OF HUBBARD, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

Business-type Activities - Enterprise Funds

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Nonmajor</u>
Cash flows from operating activities:				
Cash received from customers	\$ 1,533,489	\$ 1,764,256	\$ 6,206,206	\$ 128,032
Cash received from other operations	18,276	-	30,066	15,617
Cash payments for personal services	(478,226)	(576,439)	(1,191,671)	-
Cash payments for contract services	(145,152)	(603,126)	(4,359,172)	(51,945)
Cash payments for materials and supplies	(85,957)	(69,727)	(167,723)	-
Cash payments for other expenses	-	-	-	(8,557)
Net cash provided by operating activities	<u>842,430</u>	<u>514,964</u>	<u>517,706</u>	<u>83,147</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in	10,000	-	-	-
Cash payments for transfers out	-	-	-	(10,000)
Cash received from property and other taxes	-	-	31,603	-
Cash received from other nonoperating revenues	-	9,511	-	-
Cash payments for joint venture expenses	-	-	(218,347)	-
Net cash provided by (used in) noncapital financing activities	<u>10,000</u>	<u>9,511</u>	<u>(186,744)</u>	<u>(10,000)</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(92,952)	(134,878)	(8,803)	-
Principal retirement on City owned debt	(485,000)	-	-	-
Principal retirement on loans	(24,271)	(193,056)	-	-
Principal retirement on notes	-	-	(1,676,000)	-
Principal retirement on capital leases	(25,114)	-	-	-
Proceeds of City owned debt	1,000,000	-	-	-
Payment to refunded bond escrow agent	(972,249)	-	-	-
Bond issuance costs	(27,751)	-	-	-
Proceeds of loans	22,893	-	-	-
Sale of notes	-	-	1,564,000	-
Note issuance costs	-	-	(12,085)	-
Interest and fiscal charges	(50,510)	(90,993)	(25,483)	-
Net cash used in capital and related financing activities	<u>(654,954)</u>	<u>(418,927)</u>	<u>(158,371)</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	-	-	31,025	-
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>31,025</u>	<u>-</u>
Net increase in cash and cash equivalents	197,476	105,548	203,616	73,147
Cash and cash equivalents at beginning of year	521,583	978,985	3,996,106	299,630
Cash and cash equivalents at end of year	<u>\$ 719,059</u>	<u>\$ 1,084,533</u>	<u>\$ 4,199,722</u>	<u>\$ 372,777</u>

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 9,631,983	\$ 1,041,937
63,959	-
(2,246,336)	-
(5,159,395)	(912,149)
(323,407)	-
(8,557)	-
<u>1,958,247</u>	<u>129,788</u>
10,000	-
(10,000)	-
31,603	-
9,511	-
(218,347)	-
<u>(177,233)</u>	<u>-</u>
(236,633)	-
(485,000)	-
(217,327)	-
(1,676,000)	-
(25,114)	-
1,000,000	-
(972,249)	-
(27,751)	-
22,893	-
1,564,000	-
(12,085)	-
(166,986)	-
<u>(1,232,252)</u>	<u>-</u>
<u>31,025</u>	<u>-</u>
<u>31,025</u>	<u>-</u>
579,787	129,788
5,796,304	169,234
<u>\$ 6,376,091</u>	<u>\$ 299,022</u>

--Continued

CITY OF HUBBARD, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2012

Business-type Activities - Enterprise Funds

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Nonmajor</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 576,277	\$ 370,124	\$ 331,848	\$ 82,767
Adjustments:				
Depreciation	245,148	155,202	362,338	1,600
Changes in assets and liabilities:				
(Increase) decrease in materials and supplies inventory . .	13,898	(6,638)	(117,317)	-
(Increase) decrease in accounts receivable.	(4,244)	(4,124)	24,011	(376)
Decrease in due from other governments	-	-	1,160	-
(Increase) decrease in prepayments.	(5,298)	907	(256)	(1,654)
Increase (decrease) in accounts payable	1,432	(2,409)	(81,445)	810
Increase in accrued wages and benefits.	1,039	585	1,198	-
(Decrease) in due to other governments.	(5,753)	(1,470)	(3,498)	-
Increase (decrease) in compensated absences payable . .	(27,662)	2,787	(333)	-
Increase in retirement incentive payable	47,593	-	-	-
(Decrease) in claims payable	-	-	-	-
Net cash provided by operating activities	<u>\$ 842,430</u>	<u>\$ 514,964</u>	<u>\$ 517,706</u>	<u>\$ 83,147</u>

Non-cash transactions:

During 2012 and 2011, the sewer fund purchased \$783 and \$533 in capital assets on account, respectively.
 During 2012 and 2011, the water fund purchased \$95,500 and \$90,503 in capital assets on account, respectively.
 During 2012 and 2011, the electric fund purchased \$783 and \$533 in capital assets on account, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 1,361,016	\$ 194,286
764,288	-
(110,057)	-
15,267	(41,522)
1,160	-
(6,301)	-
(81,612)	(576)
2,822	-
(10,721)	-
(25,208)	-
47,593	-
-	(22,400)
<u>\$ 1,958,247</u>	<u>\$ 129,788</u>

CITY OF HUBBARD, OHIO

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
DECEMBER 31, 2012

	Private Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 7,562	\$ 1,670
Receivables:		
Real and other taxes.	-	25,392
Due from other governments.	-	1,726
Total assets	7,562	\$ 28,788
Liabilities:		
Due to other governments.	-	\$ 27,118
Deposits held and due to others	-	1,670
Total liabilities.	-	\$ 28,788
Net position:		
Held in trust for other purposes.	7,562	
Total net position	\$ 7,562	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Private Purpose Trust
Additions:	
Interest	\$ 3
Total additions	<u>3</u>
Change in net position	3
Net position at beginning of year.	<u>7,559</u>
Net position at end of year	<u><u>\$ 7,562</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 - DESCRIPTION OF THE CITY

The City of Hubbard, Ohio (the "City") was created in 1868. It is located in Trumbull County and is a politic and corporate body 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 operates under a Council-Mayor form of government and provides the following services to its residents: public safety (police), Mayor's court, highways and streets, public improvements, community development (planning and zoning), water, sewer, electric, parks and recreation and general administrative services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City 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's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City, this includes police and fire protection, parks and recreation, water and sewer service, street maintenance and repairs and general administrative services.

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 influence significantly 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; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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 the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the City has no component units for 2012.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the City:

JOINTLY GOVERNED ORGANIZATIONS

Municipal Energy Services Agency (MESA) - The City has signed an Intergovernmental Joint Venture Agreement with MESA to access a pool of personnel experienced in the planning, management, engineering, construction, safety training and other technical aspects of the operation and maintenance of municipal electric and other utility systems; and to provide those services on call, as needed and as available for the benefit of the City. The City will incur no financial obligation to the jointly governed organization unless and until it avails itself of the services of the jointly governed organization.

Hubbard Township-City of Hubbard Joint Economic Development District (District) - The City has entered into a contractual agreement with the Township to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the State, Trumbull County, the Township and the City. The District is administered by a five member Board of Directors consisting of a Trustee representative of the Township, a representative of the City, a representative of business owners within the District, a representative of persons working within the District, and an additional member selected by the previously mentioned members who shall serve as Board Chairman. The City and the Township are to make a minimum annual contribution of \$500 each to the District's operation reserve fund to provide for administrative costs and expenses of the Board. In 2012, the Board waived the \$500 annual contribution. The City has an ongoing financial responsibility to fund the District. Upon termination of the contractual agreement, any property, assets and obligations of the District shall be divided equally between the parties, except that any items of infrastructure constructed by or for anybody shall be retained by that party.

Eagle Joint Fire District (District) - The Eagle Joint Fire District is a jointly governed organization pursuant to the Ohio Revised Code 505.371. The District was formed in 2008 and consists of the City of Hubbard and Hubbard Township. The District Board consists of a Trustee from the City, a Trustee from the Township and three residents of the District. Each year a new resident is appointed by the City in odd numbered years and by the Township in even numbered years. Revenues are generated from fire district levies. During 2012, the City did not make any contributions to the District.

JOINT VENTURE WITH EQUITY INTEREST

Ohio Municipal Electric Generation Agency Joint Ventures (OMEGA JV1-OMEGA JV5) - The City's electric enterprise fund participates in a joint venture agreement with 20 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) for the purpose of providing electric power and energy to its participants on a cooperative basis. Title to these six diesel-powered generating units was transferred to the 21 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. Each member has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. In accordance with the joint venture agreement, the City remitted \$8,005 to the joint venture for 2012. Complete financial statements for OMEGA JV1 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The City is a Financing Participant with an ownership percentage of 2.07% and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interest, as tenants in common, without the right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA JV5 Agreement (Agreement), the Participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Pursuant to the Agreement each Participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each Participant's System and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net position will be shared by the Financing Participants on a percentage of ownership basis.

Under the terms of the Agreement each Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2012, the City has met its debt coverage obligation.

The Agreement provides that the failure of any OMEGA JV5 Participant to make payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting OMEGA JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting OMEGA JV5's Participant's entitlement to Project Power, which together with the share of the other non-defaulting OMEGA JV5 Participants, is equal to the defaulting OMEGA JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting OMEGA JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting OMEGA JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001, AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates on behalf of the Financing Participants of OMEGA JV5. The 2001 certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004, the 1993 certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric enterprise fund. The City's net investment in OMEGA JV5 was \$202,280 at December 31, 2012. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following is a summary of audited financial information for OMEGA JV1 and OMEGA JV5 as of the year ended December 31, 2012:

	<u>OMEGA JV1</u>	<u>OMEGA JV5</u>
Total assets	\$ 516,465	\$ 144,064,651
Total liabilities	93,039	134,292,688
Net position	423,426	9,771,963
Total revenues	213,846	23,047,152
Total expenses	255,149	23,896,304
Change in net position	(41,303)	(849,152)

The City's undivided ownership of OMEGA JV1 and OMEGA JV5 is 3.79 percent and 2.07 percent, respectively.

The City reports equity interest equal to their undivided ownership percentage of the joint ventures members' equity. OMEGA JV1 does not have any debt outstanding. Separate financial statements for both joint ventures are available through either the City or AMP-Ohio.

The City will report the equity interest of these joint ventures on the balance sheet as follows:

Equity interest in OMEGA JV1	\$ 16,048
Equity interest in OMEGA JV5	<u>202,280</u>
Total investment in joint ventures	<u><u>\$ 218,328</u></u>

The following tables show the major participants and percentage of ownership for the OMEGA JV1 and OMEGA JV5 projects:

<u>OMEGA JV1</u>		<u>OMEGA JV5</u>	
<u>Participants</u>	<u>Percentage of Ownership</u>	<u>Participants</u>	<u>Percentage of Ownership</u>
Cuyahoga Falls	21.05	Cuyahoga Falls	16.67
Niles	17.71	Bowling Green	15.73
Wadsworth	11.24	Niles	10.63
Hudson	10.37	Napoleon	7.35
Galion	6.53	Jackson	7.14
Oberlin	5.52	Hudson	5.69
Amherst	5.42	Wadsworth	5.62
Hubbard	3.79	Oberlin	3.02
Columbiana	3.03	New Bremen	2.38
Wellington	2.95	Bryan	2.19
Other	<u>12.39</u>	Other	<u>23.58</u>
Total	<u><u>100.00</u></u>	Total	<u><u>100.00</u></u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements - The statement of net position 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 activities of the internal service fund are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. On the statement of activities, interfund services provided and used are not eliminated in the process of consolidation.

The statement of net position 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 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 which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid 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 and enterprise fund 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. The internal service fund is presented in a single column on the face of the proprietary fund financial statements. Fiduciary funds are reported by type.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for services. Operating expenses for the enterprise funds include personnel and other expenses related to sewer, water and electric operations and operating expenses for the internal service fund include claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The private purpose trust funds are reported using the economic resources measurement focus. The agency funds do not report a measurement focus as they do not report operations.

C. 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 HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows, liabilities and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

2005 general obligation bond retirement fund - The 2005 general obligation bond retirement fund accounts for monies assigned for payment of the bonded debt service obligations of the City.

Other governmental funds of the City are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise funds - The 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:

Sewer fund - This fund accounts for the operations of providing sewage services to customers and to maintain the local sewer system of the City.

Water fund - This fund accounts for the operations of providing water services to its customers and to maintain the local water system of the City.

Electric fund - This fund accounts for the operations of providing electric services to customers and to maintain the local electric system of the City.

Other enterprise funds of the City are used to account for Guarantee Trust and stormwater operations.

Internal service fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on the operations of hospitalization and health insurance.

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are private purpose trust funds, which account for the maintenance of the Mizner and Hultz family plots, and agency funds, which account for the Mayor's Court and Hubbard Union Cemetery.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities and deferred inflows associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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 deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing 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 of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the financial statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets, deferred outflows, liabilities and deferred inflows associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and agency funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

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

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On the accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the 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 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, State-levied locally shared taxes (including gasoline tax and local government funds), fines and forfeitures and fees.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations, have been recorded as deferred inflows on both the government-wide and fund financial statements. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred inflows on the governmental fund financial statements.

On the governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows.

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.

F. Budgetary Data

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

Tax Budget - A tax budget of estimated revenue and expenditures for all funds 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. All funds, except agency funds, are legally required to be budgeted; however, only the general fund and major special revenue funds are legally required to be reported.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The 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 revenue of each fund. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances at December 31. Further amendments may be made during the year if money from a new revenue source is received or if actual receipts exceed current estimates. The amounts reported on the budgetary statements reflect the amounts in the original and final amended official certificate of estimated resources issued during 2012.

Appropriations - A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, function, department and line item level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by an ordinance of Council. The amounts on the budgetary statement reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by Council.

Budgeted Level of Expenditures - Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority of Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by fund, function (e.g. security of persons and property), department (e.g. police), and line item (e.g. salaries). This is known as the legal level of budgetary control. Any changes in appropriations outside of the legal level of budgetary control require the approval of Council by an appropriation amendment ordinance.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Health Care

The Comprehensive Omnibus Budget Reconciliation Act (COBRA) of 1986 required the City to offer and provide terminated or retired employees continued participation in the City's employee health care benefits program, provided that the employees pay the rate established by the plan administrator. The City incurred no expenditures or revenues in providing these services. The participating former employees make premium payments directly to the City's Insurance Provider and the Provider is responsible for all claims.

H. Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), investments in City owned debt, and nonnegotiable certificates of deposit. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices.

The City has invested funds in STAR Ohio during 2012. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price, which is the price the investment could be sold for on December 31, 2012.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During 2012, interest revenue credited to the general fund amounted to \$66,058 which includes \$64,060 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. The accounts are presented on the financial statements as "cash in segregated accounts" since they are not required to be deposited into the City treasury.

For purposes of the statement of cash flows and for presentation on the statement of net position, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City's investments at year end is provided in Note 4.

I. Inventories of Materials and Supplies

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported materials and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of current net position.

Inventory consists of expendable supplies held for consumption.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary 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 position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of traffic signals, sidewalks, storm sewers, streets, and water, sewer, and electric lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Autos and trucks	4	4
Machinery, equipment, furniture and fixtures	5 - 20	5 - 20
Building improvements	15	15
Sewer and water treatment plants and buildings	N/A	20 - 40
Other buildings	40	40
Infrastructure	15 - 30	20 - 50

K. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences", vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City 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 vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. For purposes of establishing a liability for severance on those employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service or any employee with at least twenty years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

L. Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2012 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

On the fund financial statements, reported prepayments is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of current net position.

M. Bond Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss

On the government-wide financial statements and proprietary fund financial statements, issuance costs are expensed during the year in which they are incurred.

Bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts are presented as a reduction to the face amount of the bonds. The City did not report any unamortized bond premiums or discounts as of December 31, 2012.

For advance refundings resulting in the defeasance of debt reported on the government-wide financial statements and in the proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources on the statement of net position on the government-wide financial statements and in the proprietary funds.

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported on the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary 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. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Interfund Balances

On the fund financial statements, unpaid amounts for interfund services are reported as “due from/to other funds”. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as “internal balances”.

P. Interfund Activity

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 nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Fund Balance

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

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

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the City Auditor the authority to constrain monies for intended purposes.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

R. Estimates

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

S. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2012.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2012, the City has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government’s *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the City’s financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 affected the financial statements of the City as described in Note 3.B.

B. Restatement of Net Position

The City’s governmental activities and business-type activities net position were restated at December 31, 2011 as a result of both the removal of unamortized bond and note issuance costs in accordance with the implementation of GASB Statement No. 65 and the recording of a long-term obligation for a loan not previously reported in the sewer fund. These prior period adjustments had the following effect on governmental activities and business-type activities net position as previously reported:

	Governmental Activities	Sewer	Water	Electric	Nonmajor Enterprise	Business-type Activities *
Net position as previously reported	\$ 3,022,507	\$ 5,404,312	\$ 4,008,127	\$ 6,807,655	\$ 392,206	\$ 16,658,260
Unamortized bond issuance costs	(59,606)	(32,977)	-	-	-	(32,977)
Unamortized note issuance costs	-	-	-	(10,830)	-	(10,830)
Ohio Public Works Commission loan balance not previously reported	-	(243,180)	-	-	-	(243,180)
Restated net position at January 1, 2012	<u>\$ 2,962,901</u>	<u>\$ 5,128,155</u>	<u>\$ 4,008,127</u>	<u>\$ 6,796,825</u>	<u>\$ 392,206</u>	<u>\$ 16,371,273</u>

* The amounts reported for business-type activities include the December 31, 2011 adjustment for consolidation of the internal service fund related to enterprise funds in the amount of \$45,960.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - 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 the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the City 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 monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any 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. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 4 - 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 monies 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year end, the City had \$1,050 in undeposited cash on hand which is included on the financial statements of the City as part of "cash in segregated accounts".

B. Deposits with Financial Institutions

At December 31, 2012, the carrying amount of all City deposits was \$7,419,965. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2012, \$6,891,211 of the City's bank balance of \$7,628,285 was exposed to custodial risk as discussed below, while \$737,074 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no investment policy dealing with investment custodial risk beyond the requirement in Ohio law that prohibits payments for investments prior to the delivery of the securities representing such investments to the City Auditor or qualified trustee. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of December 31, 2012, the City had the following investments and maturities:

<u>Investment type</u>	<u>Investment Maturities</u>		
	<u>Fair Value</u>	<u>6 months or less</u>	<u>7 to 12 months</u>
City owned debt	\$ 515,000	\$ -	\$ 515,000
STAR Ohio	<u>5,052</u>	<u>5,052</u>	<u>-</u>
Total	<u>\$ 520,052</u>	<u>\$ 5,052</u>	<u>\$ 515,000</u>

The weighted average maturity of investments is 0.86 years.

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City's investment policy does not specifically address credit risk beyond requiring the City to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, 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 investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the City Auditor or qualified trustee.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
City owned debt	\$ 515,000	99.03
STAR Ohio	<u>5,052</u>	<u>0.97</u>
Total	<u>\$ 520,052</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,419,965
Investments	520,052
Cash on hand	<u>1,050</u>
Total	<u>\$ 7,941,067</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 1,555,744
Business-type activities	6,376,091
Private-purpose trust funds	7,562
Agency funds	<u>1,670</u>
Total	<u>\$ 7,941,067</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2012, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
2005 general obligation bond retirement fund	\$ 429,071
Nonmajor governmental funds	463,981
<u>Transfer from nonmajor enterprise fund to:</u>	
Sewer fund	<u>10,000</u>
Total	<u>\$ 903,052</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During 2012, the City reported a transfer of \$10,000 from the stormwater fund (a nonmajor enterprise fund) to the sewer fund for payments made on the capital lease obligation recorded in the sewer fund.

Transfers between governmental funds and transfers between enterprise funds are eliminated for reporting on the statement of activities. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B. Due from/to other funds consisted of the following at December 31, 2012, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
Electric fund	Sewer fund	<u>\$ 3,152</u>

Amounts due from/to other funds represent amounts owed between funds for goods or services provided. The balances result from the time lag between the dates that payments between the funds are made. Interfund balances between business-type activities are eliminated on the government-wide financial statements.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value 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 revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Hubbard. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by a deferred inflow since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is considered a deferred inflow.

The full tax rate for all City operations for the year ended December 31, 2012 was \$3.10 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2012 property tax receipts were based are as follows:

Real property tax	\$ 105,888,790
Public utility tangible personal property	<u>1,100,030</u>
Total assessed valuation	<u>\$ 106,988,820</u>

NOTE 7 - LOCAL INCOME TAX

The one and a half percent City income tax, which is not subject to renewal, is levied on substantially all income earned within the City. In addition, the residents of the City are required to pay City income tax on income they earn outside the City, however, full credit is allowed for all income taxes these residents pay to other municipalities. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City at least quarterly. Major employers are required to remit withholdings to the City monthly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City. For governmental funds, income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2012. Income tax revenue for 2012 was \$1,988,782 in the general fund.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 8 - RECEIVABLES

Receivables at December 31, 2012, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest and intergovernmental receivables arising from grants, entitlements, estate taxes and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2012.

A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Income taxes	\$ 462,264
Real and other taxes	369,106
Accounts	66,783
Special assessments	6,922
Accrued interest	5,455
Due from other governments	293,249

Business-type activities:

Real and other taxes	2,748
Accounts	782,558

Receivables have been disaggregated on the face of the BFS. The only receivables not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

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CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 - CAPITAL ASSETS

A. Governmental activities capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 597,871	\$ -	\$ -	\$ 597,871
Total capital assets, not being depreciated	<u>597,871</u>	<u>-</u>	<u>-</u>	<u>597,871</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	608,277	-	-	608,277
Buildings and improvements	2,297,951	-	-	2,297,951
Furniture and equipment	644,879	-	-	644,879
Vehicles	1,391,987	64,164	(43,543)	1,412,608
Infrastructure	<u>5,504,800</u>	<u>5,375</u>	<u>-</u>	<u>5,510,175</u>
Total capital assets, being depreciated	<u>10,447,894</u>	<u>69,539</u>	<u>(43,543)</u>	<u>10,473,890</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(278,577)	(30,655)	-	(309,232)
Buildings and improvements	(704,721)	(46,268)	-	(750,989)
Furniture and equipment	(539,769)	(26,725)	-	(566,494)
Vehicles	(1,242,357)	(55,228)	42,255	(1,255,330)
Infrastructure	<u>(4,029,901)</u>	<u>(205,620)</u>	<u>-</u>	<u>(4,235,521)</u>
Total accumulated depreciation	<u>(6,795,325)</u>	<u>(364,496)</u>	<u>42,255</u>	<u>(7,117,566)</u>
Total capital assets being depreciated, net	<u>3,652,569</u>	<u>(294,957)</u>	<u>(1,288)</u>	<u>3,356,324</u>
Governmental activities capital assets, net	<u>\$ 4,250,440</u>	<u>\$ (294,957)</u>	<u>\$ (1,288)</u>	<u>\$ 3,954,195</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 15,897
Security of persons and property	84,712
Transportation	263,019
Leisure time activity	<u>868</u>
Total depreciation expense - governmental activities	<u>\$ 364,496</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Business-type activities capital asset activity for the year ended December 31, 2012 was as follows:

	<u>Balance</u> <u>12/31/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
Business-type activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 180,423	\$ -	\$ -	\$ 180,423
Construction in progress	<u>357,875</u>	<u>43,058</u>	<u>(400,933)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>538,298</u>	<u>43,058</u>	<u>(400,933)</u>	<u>180,423</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	320,582	-	-	320,582
Buildings and improvements	4,860,728	-	(380,235)	4,480,493
Furniture and equipment	6,063,589	345,435	-	6,409,024
Vehicles	896,589	24,993	-	921,582
Infrastructure	<u>16,438,510</u>	<u>229,577</u>	<u>-</u>	<u>16,668,087</u>
Total capital assets, being depreciated	<u>28,579,998</u>	<u>600,005</u>	<u>(380,235)</u>	<u>28,799,768</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(202,390)	(12,030)	-	(214,420)
Buildings and improvements	(2,612,669)	(111,931)	223,389	(2,501,211)
Furniture and equipment	(4,842,209)	(221,682)	-	(5,063,891)
Vehicles	(715,839)	(44,036)	-	(759,875)
Infrastructure	<u>(6,088,964)</u>	<u>(374,609)</u>	<u>-</u>	<u>(6,463,573)</u>
Total accumulated depreciation	<u>(14,462,071)</u>	<u>(764,288)</u>	<u>223,389</u>	<u>(15,002,970)</u>
Total capital assets being depreciated, net	<u>14,117,927</u>	<u>(164,283)</u>	<u>(156,846)</u>	<u>13,796,798</u>
Business-type activities capital assets, net	<u>\$ 14,656,225</u>	<u>\$ (121,225)</u>	<u>\$ (557,779)</u>	<u>\$ 13,977,221</u>

Depreciation expense was charged to the enterprise funds as follows:

<u>Business-type activities:</u>	
Water	\$ 155,202
Sewer	245,148
Electric	362,338
Stormwater (nonmajor enterprise fund)	<u>1,600</u>
Total depreciation expense - business-type activities	<u>\$ 764,288</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 10 - EMPLOYEE BENEFITS

Vacation and sick leave accumulated by governmental fund type employees have been recorded in the statement of net position to the extent the liability was due at year end. Vacation and sick leave earned by proprietary fund type employees is expensed when earned and has been recorded in the fund.

Upon termination of City service, a fully vested employee is entitled to a percentage of accumulated sick leave based on years of service. At December 31, 2012, vested benefits for vacation leave for governmental fund type employees totaled \$74,601 and vested benefits for sick leave totaled \$95,666. The governmental funds are also responsible for severance payments in the amount of \$24,381, which is recorded as a current liability in the street construction, maintenance, and repair fund (a nonmajor governmental fund). For proprietary fund type employees, vested benefits for vacation leave totaled \$62,002 and vested benefits for sick leave totaled \$85,227 at December 31, 2012. Included in the vested benefits for sick leave figures is an additional liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

The City is also responsible for payments on a retirement incentive provided through the Ohio Public Employees Retirement System. The retirement incentive is applicable to two former City employees that are receiving payments over a three year period based on a calculation of service credit cost. As of December 31, 2012, the City had outstanding liabilities related to retirement incentives in the amounts of \$64,811 and \$47,593 in the governmental activities (street construction, maintenance, and repair fund) and business-type activities (sewer fund), respectively.

NOTE 11 - CAPITAL LEASES

In a prior year, the City entered into a capital lease agreement for a sewer cleaner. The sewer cleaner has been capitalized on a basis of one-half in the governmental activities and one-half in the sewer fund, because the asset will be used by all of the funds. This lease agreement meets the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The amount in governmental activities of \$120,186 represents the present value of the minimum lease payments at the time of acquisition and the amount of \$120,186 represents the present value of the minimum lease payments at the time of acquisition for the sewer fund. As of December 31, 2012, accumulated depreciation was \$67,604 in governmental activities, resulting in a carrying value of \$52,582. A corresponding liability was recorded in the governmental activities long-term obligations. As of December 31, 2012, accumulated depreciation was \$67,604 in the sewer fund, resulting in a carrying value of \$52,582. A corresponding liability was recorded in the sewer fund. Principal payments in 2012 totaled \$25,114 in the governmental activities and \$25,114 in the sewer fund. The capital lease obligations in both the governmental activities and business-type activities were retired during 2012.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS

A. The City's long-term obligations were restated at December 31, 2011 due to the inclusion of an Ohio Public Works Commission (OPWC) loan that was initiated in 2011, but not previously reported in the sewer fund. The City's long-term obligations at December 31, 2012 were as follows:

	Interest	(Restated) Balance			Balance	Amounts
<u>Governmental activities:</u>	<u>Rate</u>	<u>12/31/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/12</u>	<u>Due in</u>
Compensated absences		\$ 191,146	\$ 73,152	\$ (69,650)	\$ 194,648	\$ 98,982
Retirement incentive		-	97,217	(32,406)	64,811	32,406
Capital lease obligation		25,114	-	(25,114)	-	-
General obligation bonds	2.6-3.7%	2,785,000	-	(2,785,000)	-	-
Refunding bonds	0.6-2.4%	-	2,890,000	(100,000)	2,790,000	330,000
Total long-term obligations, governmental activities		<u>\$ 3,001,260</u>	<u>\$ 3,060,369</u>	<u>\$ (3,012,170)</u>	<u>\$ 3,049,459</u>	<u>\$ 461,388</u>
<u>Business-type activities:</u>						
<u>Refunding BAN:</u>						
Sewer System - 2007	4.00-4.13%	\$ 935,000	\$ -	\$ (935,000)	\$ -	\$ -
<u>City Owned Debt:</u>						
Sewer System - 2012	2.70-2.75%	-	1,000,000	(485,000)	515,000	515,000
<u>OPWC Loans:</u>						
Sewer Issue II Lift Station	0.00%	93,969	-	(17,619)	76,350	11,746
Bar Screen Replacement	0.00%	243,180	22,893	(6,652)	259,421	13,304
Waterline Looping	0.00%	51,923	-	(9,735)	42,188	6,490
Waterline Replacement	0.00%	85,057	-	(11,599)	73,458	7,732
N. Main Waterline	0.00%	359,938	-	(44,993)	314,945	29,995
Total OPWC Loans		<u>834,067</u>	<u>22,893</u>	<u>(90,598)</u>	<u>766,362</u>	<u>69,267</u>
<u>OWDA Loan:</u>						
Transmission Waterlines	6.58%	1,382,886	-	(126,729)	1,256,157	135,068
<u>Other Long-Term Obligations:</u>						
Compensated absences		172,437	3,104	(28,312)	147,229	62,002
Retirement incentive		-	142,779	(95,186)	47,593	47,593
Potential stranded cost liability		585,567	44,399	(52,763)	577,203	57,558
Capital lease obligation		25,114	-	(25,114)	-	-
Total other long-term obligations		<u>783,118</u>	<u>190,282</u>	<u>(201,375)</u>	<u>772,025</u>	<u>167,153</u>
Total long-term obligations, business-type activities		<u>\$ 3,935,071</u>	<u>\$ 1,213,175</u>	<u>\$ (1,838,702)</u>	<u>\$ 3,309,544</u>	<u>\$ 886,488</u>

Capital lease obligations are described in Note 11.

Compensated absences and retirement incentives will be paid from the fund from which the employee is paid, which is primarily the general fund and the street construction, maintenance, and repair fund (a nonmajor governmental fund) for governmental activities and the electric, sewer and water funds for business-type activities.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

- B.** On August 15, 2012, the City issued \$1,000,000 in sewer system mortgage revenue refunding bonds to refund outstanding sewer system refunding bond anticipation notes. The refunded debt is considered defeased (in-substance) and, accordingly, has been removed from the statement of net position. The issuance of the refunding bonds was completed through the City's electric fund, resulting in a manuscript debt transaction in which the sewer fund will now make debt service payments on the refunding bonds to the electric fund. Therefore, this long-term obligation has been classified as "City Owned Debt" with a corresponding investment reported in Note 4. The balance of the refunding bonds at December 31, 2012 is \$515,000. The refunding bonds bear an annual interest rate ranging from 2.70% - 2.75% and will mature in 2013.

The reacquisition price exceeded the net carrying amount of the old debt by \$55,019. This amount is being amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The City has pledged future sewer customer revenues, net of specified operating expenses, to repay \$1,000,000 in Series 2012 sewer system mortgage revenue refunding bonds. Proceeds of the refunding bonds were used to refund the outstanding balance of previously issued Series 2007 sewer system refunding bond anticipation notes. The Series 2012 refunding bonds are payable solely from sewer customer net revenues and are payable through 2013. Annual principal and interest payments on the refunding bonds are expected to require 59.87 percent of net revenues and 31.60 percent of total revenues. The total principal and interest remaining to be paid on the refunding bonds is \$529,163. Principal and interest paid for the current year was \$491,750, total net revenues were \$821,425 and total revenues were \$1,556,009.

The City has entered into five debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund a lift station replacement, wastewater bar screen replacement, waterline looping project and two waterline replacements. The amounts due to the OPWC are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2012, the City has outstanding borrowings of \$76,350, \$259,421, \$42,188, \$73,458 and \$314,945 in the water and sewer funds. The loan agreements require semi-annual payments based on the actual amount loaned. The OPWC loans are interest free.

The City has pledged future water revenues to repay an Ohio Water Development Authority (OWDA) loan related to construction projects. The loan is payable solely from water fund revenues and is payable through 2020. Annual principal and interest payments on the loan are expected to require 41.45 percent of net revenues and 12.31 percent of total revenues. The total principal and interest remaining to be paid on the loan is \$1,632,924. Principal and interest paid for the current year was \$217,723, total net revenues were \$525,326 and total revenues were \$1,768,380.

On August 16, 2012, the City issued \$2,890,000 in general obligation capital improvement refunding bonds to refund outstanding general obligation capital improvement bonds. The refunded debt was retired during 2012 and, accordingly, has been removed from the statement of net position. The refunding bonds bear an annual interest rate ranging from 0.60% - 2.40% and mature in 2020. The general obligation refunding bonds are secured by the full faith and credit of the City. The general obligation refunding bonds will be paid from the 2005 general obligation bond retirement fund. The principal balance of the general obligation capital improvement refunding bonds at December 31, 2012 is \$2,790,000.

Although the current refunding increased the combined total debt service payments over the eight year period by \$59,724, it did result in an economic gain of \$47,055.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

In 2011, the City was notified it would be held liable for stranded costs associated with the abandonment of the American Municipal Power Generating Station Project (“AMPGS Project”). The City has recorded a long-term obligation for the potential stranded cost liability in the electric fund. A debt payment schedule for the duration of the liability was unavailable at December 31, 2012 (See Note 14 for more detail on the AMPGS Project).

The following is the summary of the City’s future annual debt service and interest requirements for long-term obligations:

Year Ending December 31,	General Obligation Capital Improvement Refunding Bonds			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
	2013	\$ 330,000	\$ 48,585	\$ 378,585	\$ 69,267	\$ -
2014	335,000	45,285	380,285	69,268	-	69,268
2015	340,000	40,930	380,930	69,267	-	69,267
2016	345,000	35,830	380,830	69,268	-	69,268
2017	350,000	30,310	380,310	69,267	-	69,267
2018 - 2022	1,090,000	49,800	1,139,800	278,644	-	278,644
2023 - 2027	-	-	-	81,515	-	81,515
2028 - 2032	-	-	-	59,866	-	59,866
	<u>\$ 2,790,000</u>	<u>\$ 250,740</u>	<u>\$ 3,040,740</u>	<u>\$ 766,362</u>	<u>\$ -</u>	<u>\$ 766,362</u>

Year Ending December 31,	Sewer System Refunding Bonds			OWDA Loan		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 515,000	\$ 14,163	\$ 529,163	\$ 135,068	\$ 82,655	\$ 217,723
2014	-	-	-	143,955	73,768	217,723
2015	-	-	-	153,428	64,295	217,723
2016	-	-	-	163,524	54,199	217,723
2017	-	-	-	174,283	43,440	217,723
2018 - 2020	-	-	-	485,899	58,410	544,309
Total	<u>\$ 515,000</u>	<u>\$ 14,163</u>	<u>\$ 529,163</u>	<u>\$ 1,256,157</u>	<u>\$ 376,767</u>	<u>\$ 1,632,924</u>

NOTE 13 - SHORT-TERM OBLIGATIONS

On November 10, 2012, the City issued \$1,564,000 in electric system improvement notes through American Municipal Power of Ohio and simultaneously retired the old notes in the amount of \$1,676,000. The notes, which are a liability of the electric fund, are due within one year. The following is a summary of the note activity for 2012:

	Interest Rate	Balance 12/31/11	Additions	Reductions	Balance 12/31/12
<u>Revenue Anticipation Notes</u>					
Electric System Improvements	1.75%	\$ 1,676,000	\$ -	\$ (1,676,000)	\$ -
Electric System Improvements	1.37%	-	1,564,000	-	1,564,000
Total		<u>\$ 1,676,000</u>	<u>\$ 1,564,000</u>	<u>\$ (1,676,000)</u>	<u>\$ 1,564,000</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

The City is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The City executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMPGS Project voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the AMPGS Project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the AMPGS Project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested American Municipal Power ("AMP") members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS Project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2012, the type of generating asset has not been determined.

As mentioned above, the AMPGS Project participants signed take-or-pay contracts with AMP. As such, the participants of the AMPGS Project are obligated to pay all costs incurred for the AMPGS Project. To date it has not been determined what those total final costs are for the participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the take-or-pay contract. At December 31, 2012, AMP has a regulatory asset of \$96,544,650 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS Project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS Project participants as to the risks and uncertainties with respect to the outstanding potential liability the City has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011, AMP sent memos to AMPGS Project participants providing the participant's information identifying their potential AMPGS Project stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT - (Continued)

Based on an allocation to the City of 6,400 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2012 the City has a potential stranded cost obligation of \$1,091,152 for the AMPGS Project. The City has made payments of \$52,763, which are on deposit with AMP at December 31, 2012. Therefore, the City's remaining unpaid potential stranded cost liability at December 31, 2012 is \$1,038,389.

AFEC Development Fee

The AFEC Development Fee ("Development Fee") is the amount paid by AFEC participants to the AMPGS Project as a Development Fee in August 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC participants is credited to the potential AMPGS Project costs of each AFEC participant that is also an AMPGS Project participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board. The City is a participant in the AFEC project and has received a credit to reduce its share of AMPGS Project potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the City receives a credit of \$461,186 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 4,405 and the total kW share of those participating in both projects. The City has recorded this credit in its financial statements as of December 31, 2012.

Recording of Stranded Costs

In 2011, the City chose not to record the total potential stranded costs identified as a current expense. The City instead chose to adopt GASB Statement No. 62, paragraphs 476-500 and has recorded a regulatory asset on the statement of net position for the dollar amount identified in AMP's memos (less payments held by AMP at December 31, 2012) mentioned above anticipating recovery in future rates. The City formally adopted GASB Statement No. 62 on February 8, 2012, at which time the City specified the dollar amount booked and expected recovery period through its power cost adjustment. This dollar amount is subject to revision, pending the results of AMP's litigation with the EPC contractor. Further, as part of the GASB Statement No. 62 implementation, the City has also recorded a regulatory liability for the AFEC Development Fee, which will be offset against the revenues recovered in future rates. The City has requested of AMP to incorporate the potential stranded cost liability of \$577,203 into its monthly power cost invoices and will be recovering it directly from its customers through the City's power costs adjustment over the next nine years (See Note 12 for the reporting of the potential stranded cost liability).

Had the City chosen to record the potential stranded costs as an expense in 2011, the City believes it would have violated its debt covenant obligations for its electric fund. Based on the City's 2011 operating income in the electric fund, the City would only have been permitted to report \$14,791 of the total \$585,567 in initial potential stranded costs as an expense before violating the debt covenant obligations for its electric fund.

In making its determination as to how to proceed with the accounting treatment for the potential AMPGS Project liability, the City relied upon its Law Director, information provided by AMP and its legal counsel with respect to the data, as well as the City's audit team and City management.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 15 - RISK MANAGEMENT

A. Comprehensive

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2012, the City was insured through the Argonaut Insurance Group for all property and equipment, general liability, wrongful acts, law enforcement, public official, employment practices, automobile, employee dishonesty, money and securities, inland marine, EDP and umbrella liability. The insurance plan was purchased through Guy G. Latessa Insurance Agency. The City has transferred risk of loss to the insurance carrier to the extent of the limits below.

<u>Type of Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
Property and Equipment Breakdown	\$32,631,430	\$1,000
General liability:		
Per occurrence	1,000,000	0
Aggregate	3,000,000	0
Law enforcement liability/wrongful acts:		
Per occurrence	1,000,000	10,000
Aggregate	2,000,000	0
Public official liability/wrongful acts:		
Per occurrence	1,000,000	10,000
Aggregate	2,000,000	0
Employment Practices Liability	1,000,000	10,000
Automobile:		
Liability	1,000,000	0
Comprehensive	1,000,000	500
Collision	1,000,000	500
Employee Dishonesty	250,000	500
Money and Securities	5,000	0
Inland Marine - scheduled	1,678,500	500
EDP	399,000	500
Umbrella Liability	7,000,000	10,000
Inland Marine - hired/leased	200,000	2,500
Cyber Liability	1,000,000	25,000

B. Employee Health Insurance

The City maintains an Employees Health Self-Insurance Fund which has been classified as an internal service fund in the accompanying BFS. The purpose of this fund is to pay the cost of medical benefits provided to City employees and their covered dependents for which the City is self-insured. The City is self-insured for the first \$45,000 per participant plus a \$25,000 annual aggregating specific; annual claims above such amount are paid for by specific stop-loss insurance which the City maintains.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 15 - RISK MANAGEMENT - (Continued)

The City had one occurrence in a prior year in which settled claims exceeded the self-insurance amount. The liability for unpaid claims of \$102,800 reported in the internal service fund at December 31, 2012, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30 "Risk Financing Omnibus", which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The entire claims liability is expected to be paid within the current year.

Changes in the claims liability amount for the last two years are:

	Balance at Beginning of Year	Current Claims	Claims Payment	Balance at End of Year
2012	\$ 125,200	\$ 889,749	\$ (912,149)	\$ 102,800
2011	158,900	899,445	(933,145)	125,200

C. Workers' Compensation

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate of \$100 of payroll plus administrative costs. The rate is determined based on accident history of the City. The City also pays unemployment claims to the State of Ohio as incurred.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 16 - PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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% 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 Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 16 - PENSION PLANS - (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00% for members. The City's contribution rate for 2012 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2012 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$179,912, \$194,007, and \$168,543, respectively; 100% has been contributed for 2012, 2011, and 2010. Contributions to the member-directed plan for 2012 were \$1,382 made by the City and \$987 made by the plan members.

B. Ohio Police and Fire Pension Fund

Plan Description - 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 statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at www.op-f.org.

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2012, the portion of the City's contributions to fund pension obligations was 12.75% for police officers. The City's required contributions for pension obligations to OP&F for police officers were \$88,047 for the year ended December 31, 2012, \$101,196 for the year ended December 31, 2011, and \$101,517 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 75.73% has been contributed for police for 2012. The remaining 2012 pension liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - 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 Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. 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.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 was 6.05%.

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. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$74,398, \$80,229, and \$94,928, respectively; 100% has been contributed for 2012, 2011, and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care 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-employment health care coverage to 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 Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care 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 statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at www.op-f.org.

Funding Policy - 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, 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 account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 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 into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care 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 City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers were \$46,613 for the year ended December 31, 2012, \$53,574 for the year ended December 31, 2011, and \$53,744 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 75.73% has been contributed for police for 2012. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law 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 and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 335,557
Net adjustment for revenue accruals	(379,246)
Net adjustment for expenditure accruals	1,231,461
Net adjustment for other sources/uses	(1,224,250)
Funds budgeted elsewhere	<u>(3,311)</u>
GAAP basis	<u>\$ (39,789)</u>

Certain funds that are legally budgeted in separate fund classifications are considered part of the general fund on a GAAP basis. This includes the income tax fund and the unclaimed monies fund.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 19 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2012.

B. Litigation

The City is not currently a party to any legal proceedings that would have a materially adverse effect on the financial statements at December 31, 2012.

NOTE 20 - OPERATING LEASE

The City passed Ordinance No. 15-08 on September 2, 2008, to enter into a 60-month lease and maintenance agreement with IKON Office Solutions (IOS), Inc., for the lease of five photocopier machines, at a monthly rate of \$515 for 13,500 black and white copies, commencing on September 11, 2008 and concluding on September 10, 2013.

The following is a schedule of future minimum lease payments:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2013	\$ 4,292
Total - Present value of minimum lease payments	<u>\$ 4,292</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 21 - FUND BALANCE

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

Fund balance	General	2005 General Obligation Bond Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Prepayments	\$ 4,875	\$ -	\$ 100	\$ 4,975
Materials and supplies inventory	2,872	-	26,622	29,494
Unclaimed monies	3,409	-	-	3,409
Perpetual care	<u>-</u>	<u>-</u>	<u>840</u>	<u>840</u>
Total nonspendable	<u>11,156</u>	<u>-</u>	<u>27,562</u>	<u>38,718</u>
Restricted:				
Street construction and maintenance	-	-	59,300	59,300
State highway	-	-	14,825	14,825
Law enforcement	-	-	19,730	19,730
Maple Grove cemetery	-	-	6,445	6,445
Police pension	-	-	1,557	1,557
Perpetual care	-	-	880	880
Other purposes	<u>-</u>	<u>-</u>	<u>2,768</u>	<u>2,768</u>
Total restricted	<u>-</u>	<u>-</u>	<u>105,505</u>	<u>105,505</u>
Committed:				
Law enforcement	-	-	12,239	12,239
Recreation	-	-	42,524	42,524
Other purposes	<u>-</u>	<u>-</u>	<u>7,395</u>	<u>7,395</u>
Total committed	<u>-</u>	<u>-</u>	<u>62,158</u>	<u>62,158</u>
Assigned:				
Debt service	-	287,932	-	287,932
Capital projects	-	-	379,427	379,427
Subsequent year's appropriations	<u>106,519</u>	<u>-</u>	<u>-</u>	<u>106,519</u>
Total assigned	<u>106,519</u>	<u>287,932</u>	<u>379,427</u>	<u>773,878</u>
Unassigned	<u>578,917</u>	<u>-</u>	<u>-</u>	<u>578,917</u>
Total fund balances	<u>\$ 696,592</u>	<u>\$ 287,932</u>	<u>\$ 574,652</u>	<u>\$ 1,559,176</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Hubbard
Trumbull County
220 West Liberty Street
Hubbard, Ohio 44425

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hubbard, Trumbull County, (the "City") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 9, 2013, wherein we noted that the City adopted the provisions of Governmental Accounting Standards Board Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and No. 65 "Items Previously Reported as Assets and Liabilities".

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

October 9, 2013



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CITY OF HUBBARD

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 22, 2013**