



Dave Yost • Auditor of State

CITY OF WILLARD
HURON COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Willard
Huron County
631 Myrtle Avenue
Willard, Ohio 44890-1549

To the Members of City Council:

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 Willard, Huron County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willard, Huron County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the City adopted Government Accounting Standards Board Statement 54 *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

February 4, 2013

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

The management's discussion and analysis of the City of Willard's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The total net assets of the City increased \$450,601. Net assets of governmental activities increased \$537,858 or 3.62% over 2010 net assets and net assets of business-type activities decreased \$87,257 or 0.64% from 2010 net assets.
- General revenues accounted for \$4,337,680 or 72.52% of total governmental activities revenue. Program specific revenues accounted for \$1,644,047 or 27.48% of total governmental activities revenue.
- The City had \$5,418,624 in expenses related to governmental activities; \$1,644,047 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,774,577 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$4,337,680.
- The general fund had revenues and other financing sources of \$3,415,793 in 2011. The expenditures and other financing uses of the general fund totaled \$3,526,317 in 2011. The net decrease in fund balance for the general fund was \$110,524 or 2.54%.
- The bond retirement fund had revenues and other financing sources of \$245,237 in 2011. The expenditures of the bond retirement fund totaled \$151,751 in 2011. The net increase in fund balance for the bond retirement fund was \$93,486 or 20.18%.
- Net assets for the business-type activities, which are made up of the sewer, water and storm water enterprise funds, decreased in 2011 by \$87,257 from 2010 net assets. This decrease in net assets was due to decreasing expenses still exceeding increasing revenue.
- In the general fund, the actual revenues and other financing sources came in \$92,716 more than they were in the final budget and actual expenditures and other financing uses were \$533,521 less than the amount in the final budget. The final budgeted revenues and other financing sources were increased \$38,000 from the original budget, and final budgeted expenditures and other financing uses were \$6,672 less than the amount in the original budget.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these 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.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
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(Continued)**

The statement of net assets and statement of activities provide information about the activities of the City as a whole, 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.

Reporting the City as a Whole

Statement of Net Assets 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 we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account 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 assets and changes in those assets. This change in net assets 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, some 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 assets 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, fire, street maintenance, capital improvements and general administration. These services are funded primarily by property and 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 sewer, water and storm water operations are reported here.

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.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

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 on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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 a multitude of 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 bond retirement fund. Information for 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.

Proprietary Funds

The City maintains one type of proprietary fund. 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 sewer, water and storm water management functions. The City's sewer and water enterprise funds are considered major funds.

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 funds are the City's fiduciary fund type.

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.

Government-Wide Financial Analysis

The statement of net assets serves as a useful indicator of a government's financial position. Certain net asset classifications have been restated in the governmental activities for 2010 to conform to 2011 presentation in accordance with GASB Statement No. 54.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

The table below provides a summary of the City's net assets for 2011 and 2010:

	Net Assets					
	Governmental Activities		Business-type Activities		2011 Total	Restated
	2011	Restated 2010	2011	2010		2010 Total
Assets:						
Current and other assets	\$ 8,061,353	\$ 7,837,235	\$ 5,149,075	\$ 4,111,654	\$ 13,210,428	\$ 11,948,889
Capital assets, net	<u>9,756,341</u>	<u>9,713,139</u>	<u>11,509,600</u>	<u>11,809,639</u>	<u>21,265,941</u>	<u>21,522,778</u>
Total assets	<u>17,817,694</u>	<u>17,550,374</u>	<u>16,658,675</u>	<u>15,921,293</u>	<u>34,476,369</u>	<u>33,471,667</u>
Liabilities:						
Long-term liabilities	1,361,576	1,504,110	1,687,819	1,833,387	3,049,395	3,337,497
Other liabilities	<u>1,062,032</u>	<u>1,190,036</u>	<u>1,438,199</u>	<u>467,992</u>	<u>2,500,231</u>	<u>1,658,028</u>
Total liabilities	<u>2,423,608</u>	<u>2,694,146</u>	<u>3,126,018</u>	<u>2,301,379</u>	<u>5,549,626</u>	<u>4,995,525</u>
Net assets:						
Invested in capital assets, net of related debt	8,290,815	7,987,159	9,895,413	9,961,321	18,186,228	17,948,480
Restricted	4,077,500	4,005,617			4,077,500	4,005,617
Unrestricted	<u>3,025,771</u>	<u>2,863,452</u>	<u>3,637,244</u>	<u>3,658,593</u>	<u>6,663,015</u>	<u>6,522,045</u>
Total net assets	<u>\$ 15,394,086</u>	<u>\$ 14,856,228</u>	<u>\$ 13,532,657</u>	<u>\$ 13,619,914</u>	<u>\$ 28,926,743</u>	<u>\$ 28,476,142</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$28,926,743. At year-end, net assets were \$15,394,086 and \$13,532,657 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 61.69% of total assets. Capital assets include land, land improvements, buildings, equipment, vehicles, infrastructure and utility plant in service. Capital assets, net of related debt to acquire the assets at December 31, 2011, were \$8,290,815 and \$9,895,413 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 investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$4,077,500, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$3,025,771 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2011 and 2010. Certain amounts from 2010 have been reclassified in order to conform with 2011 presentation.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

	Change in Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues						
Program revenues:						
Charges for services	\$ 874,993	\$ 825,097	\$ 3,056,654	\$ 2,944,039	\$ 3,931,647	\$ 3,769,136
Operating grants and contributions	333,148	533,196			333,148	533,196
Capital grants and contributions	435,906	1,772,400			435,906	1,772,400
Total program revenues	1,644,047	3,130,693	3,056,654	2,944,039	4,700,701	6,074,732
General revenues:						
Property taxes	314,377	298,898			314,377	298,898
Income taxes	3,358,462	3,072,553			3,358,462	3,072,553
Payments in lieu of taxes	64,540	74,117			64,540	74,117
Unrestricted grants and entitlements	546,183	523,357			546,183	523,357
Investment earnings	27,475	20,956	5,869	7,591	33,344	28,547
Miscellaneous	26,643	26,894	103,208	6,664	129,851	33,558
Total general revenues	4,337,680	4,016,775	109,077	14,255	4,446,757	4,031,030
Total revenues	5,981,727	7,147,468	3,165,731	2,958,294	9,147,458	10,105,762
Expenses						
General government	821,915	760,998			821,915	760,998
Security of persons and property	2,916,487	2,841,156			2,916,487	2,841,156
Public health and welfare	46,648	43,926			46,648	43,926
Transportation	984,576	1,001,900			984,576	1,001,900
Community environment	280,343	514,862			280,343	514,862
Leisure time activity	326,334	317,023			326,334	317,023
Interest and fiscal charges	42,321	54,980			42,321	54,980
Sewer			1,875,111	1,974,105	1,875,111	1,974,105
Water			1,403,122	1,398,638	1,403,122	1,398,638
Total expenses	5,418,624	5,534,845	3,278,233	3,372,743	8,696,857	8,907,588
Transfers	(25,245)	(25,134)	25,245	25,134		
Change in net assets	537,858	1,587,489	(87,257)	(389,315)	450,601	1,198,174
Net assets at beginning of year	14,856,228	13,268,739	13,619,914	14,009,229	28,476,142	27,277,968
Net assets at end of year	\$ 15,394,086	\$ 14,856,228	\$ 13,532,657	\$ 13,619,914	\$ 28,926,743	\$ 28,476,142

Governmental Activities

Governmental activities net assets increased \$537,858 in 2011. This increase is primarily the result of increased income tax revenues during 2011 when compared to 2010. This is due to the gradually decreasing unemployment rate.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Security of persons and property which primarily supports the operations of the police and fire department accounted for \$2,916,487 or 33.54% of the total expenses of the City. Security of persons and property expenses were partially funded by \$484,116 in direct charges to users of the services. General government expenses totaled \$821,915. General government expenses were partially funded by \$141,658 in direct charges to users of the services.

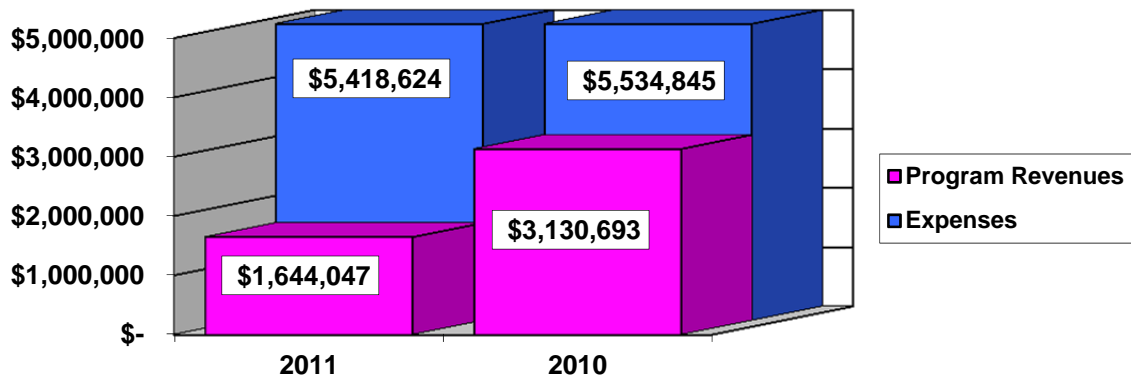
The State and federal government contributed to the City a total of \$333,148 in operating grants and contributions and \$435,906 in capital grants and contributions. These revenues are restricted to a particular program or purpose.

Capital grants and contributions decreased during 2011 because the City received federal grants for construction and improvement of U.S. Route 224 within the City. This project was completed during 2010.

General revenues totaled \$4,337,680 and amounted to 72.52% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$3,672,839. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue and property tax reimbursements received from the State, making up \$546,183.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities. As program revenues are not sufficient to cover total governmental expenses for 2011.

Governmental Activities – Program Revenues vs. Total Expenses



**CITY OF WILLARD
HURON COUNTY**

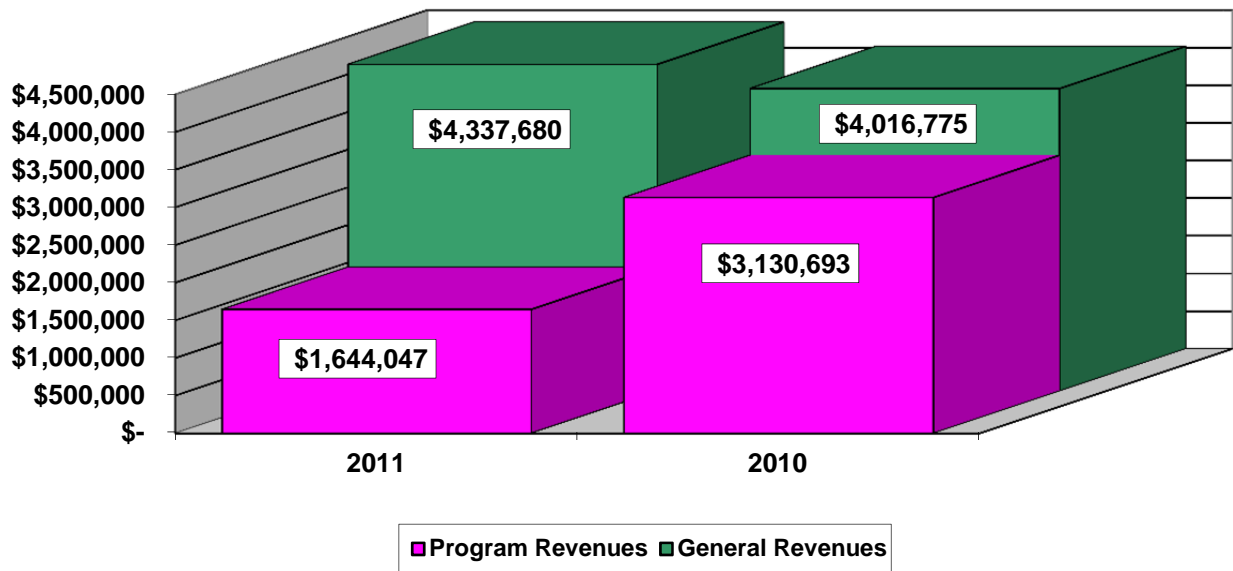
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Governmental Activities

	Total Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2011	Net Cost of Services 2010
Program expenses:				
General government	\$ 821,915	\$ 760,998	\$ 677,757	\$ 546,551
Security of persons and property	2,916,487	2,841,156	2,287,341	2,444,183
Public health and welfare	46,648	43,926	26,888	27,876
Transportation	984,576	1,001,900	228,256	(1,169,427)
Community environment	280,343	514,862	262,782	302,216
Leisure time activity	326,334	317,023	249,232	197,773
Interest and fiscal charges	42,321	54,980	42,321	54,980
Total	\$ 5,418,624	\$ 5,534,845	\$ 3,774,577	\$ 2,404,152

The dependence upon general revenues for governmental activities is apparent, with 69.66% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2011 and 2010.

Governmental Activities – General and Program Revenues

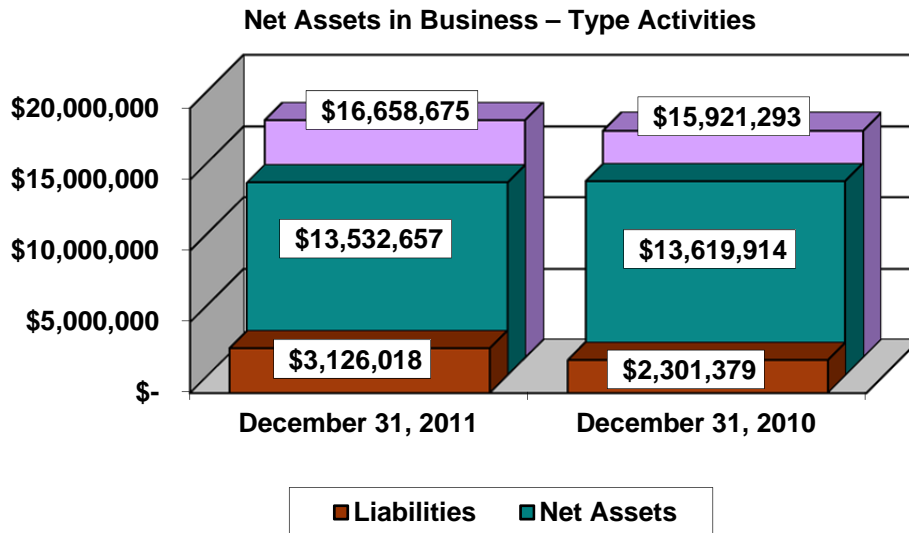


Business-type Activities

Business-type activities include the sewer, water and storm water enterprise funds. These programs had program revenues of \$3,056,654, general revenues of \$109,077 and expenses of \$3,278,233 for 2011. The graph below shows the business-type activities assets, liabilities and net assets at year-end 2011 and 2010.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**



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. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds reported a combined fund balance of \$6,451,803, which is \$94,283 greater than the previous year's fund balance of \$6,357,520. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and nonmajor governmental funds. The fund balances of the City were restated at December 31, 2010 as described in Note 3.B to the basic financial statements.

	Fund Balances (Deficits) <u>12/31/11</u>	Restated Fund Balances (Deficits) <u>12/31/10</u>	Increase (Decrease) <u></u>
Major funds:			
General	\$ 4,244,222	\$ 4,354,746	\$ (110,524)
Bond retirement	(369,825)	(463,311)	93,486
Other nonmajor governmental funds	<u>2,577,406</u>	<u>2,466,085</u>	<u>111,321</u>
Total	<u>\$ 6,451,803</u>	<u>\$ 6,357,520</u>	<u>\$ 94,283</u>

**CITY OF WILLARD
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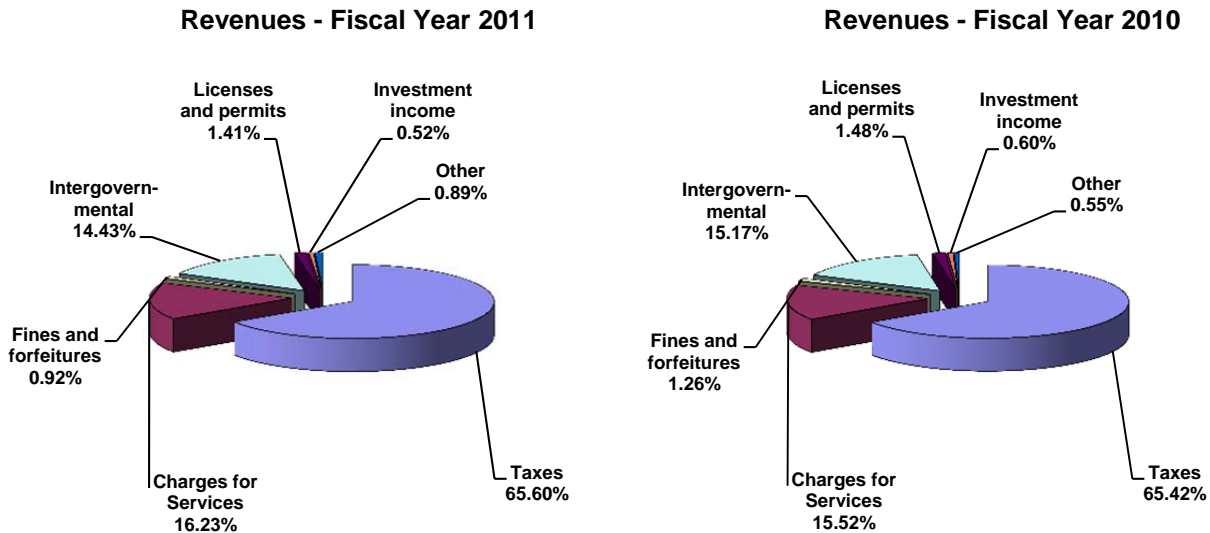
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

General Fund

The City's general fund balance decreased \$110,524. The table that follows assists in illustrating the revenues of the general fund. The fund balances of the City were restated at December 31, 2010 as described in Note 3.B to the basic financial statements.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Percentage <u>Change</u>
Revenues			
Taxes	\$ 2,239,108	\$ 2,245,289	(0.28) %
Charges for services	553,778	532,487	4.00 %
Fines and forfeitures	31,520	43,181	(27.00) %
Intergovernmental	492,510	520,733	(5.42) %
Licenses and permits	48,028	50,995	(5.82) %
Investment income	17,858	20,486	(12.83) %
Other	<u>30,491</u>	<u>18,975</u>	60.69 %
Total	<u>\$ 3,413,293</u>	<u>\$ 3,432,146</u>	(0.55) %

Tax revenue represents 65.60% of all general fund revenue. The decrease in intergovernmental revenue is due to a decrease in the amount of local government revenue received from the State. The decrease in investment income is due to decreased interest rates in 2011 compared to 2010. All other amounts remained comparable to 2010.



The table that follows assists in illustrating the expenditures of the general fund. The fund balances of the City were restated at December 31, 2010 as described in Note 3.B to the basic financial statements.

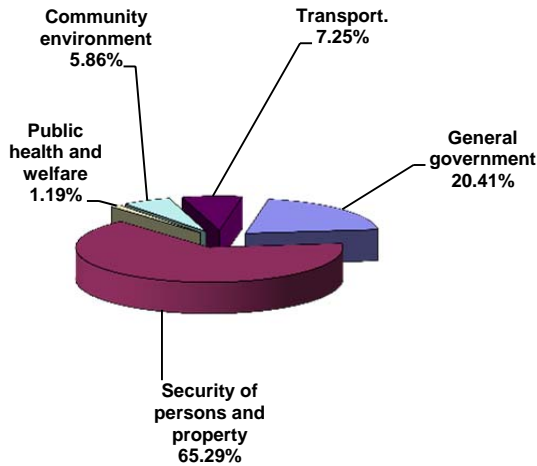
**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

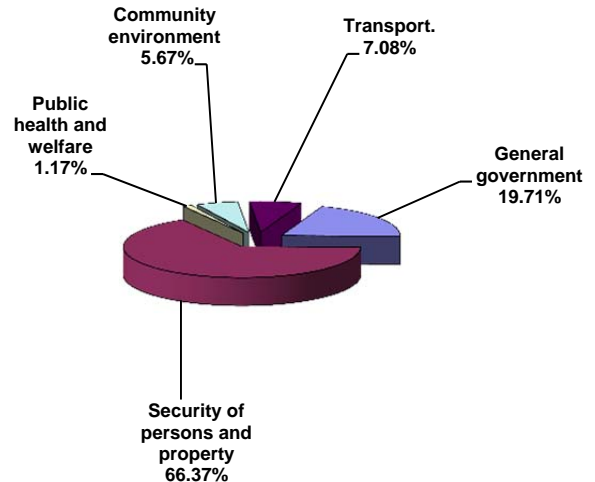
	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	<u>Percentage Change</u>
<u>Expenditures</u>			
General government	\$ 717,166	\$ 652,168	9.97
Security of persons and property	2,294,470	2,196,059	4.48
Public health and welfare	41,745	38,630	8.06
Transportation	254,822	234,185	8.81
Community environment	<u>206,114</u>	<u>187,901</u>	9.69
 Total	 <u>\$ 3,514,317</u>	 <u>\$ 3,308,943</u>	 6.21

The City increased total general fund expenditures by 6.21%. The increase in expenditures can be attributed to the City's positive outlook on future revenues.

Expenditures - Fiscal Year 2011



Expenditures - Fiscal Year 2010



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 came in \$92,716 more than they were in the final budget and actual expenditures and other financing uses were \$533,521 less than the amount in the final budget. The final budgeted revenues were increased \$38,000 from the original budget, and final budgeted expenditures and other financing uses were \$6,672 less than the amount in the original budget.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

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.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the City had \$21,265,941 (net of accumulated depreciation) invested in land, land improvements, buildings, equipment, vehicles, infrastructure and utility plant in service. Of this total, \$9,756,341 was reported in governmental activities and \$11,509,600 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows 2011 balances compared to 2010:

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

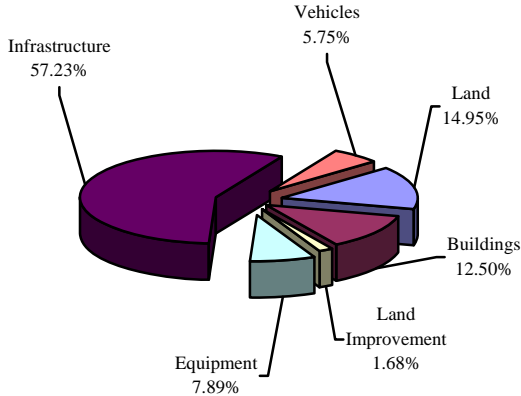
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 1,458,892	\$ 1,458,892	\$ 1,068,291	\$ 1,068,291	\$ 2,527,183	\$ 2,527,183
Buildings	1,219,776	1,340,488	1,505,056	1,606,710	2,724,832	2,947,198
Land improvements	163,661	182,438	40,180	48,005	203,841	230,443
Equipment	770,059	687,890	548,244	610,621	1,318,303	1,298,511
Vehicles	560,488	799,522	86,619	133,307	647,107	932,829
Utility plant in service			8,261,210	8,342,705	8,261,210	8,342,705
Infrastructure	5,583,465	5,243,909			5,583,465	5,243,909
Totals	\$ 9,756,341	\$ 9,713,139	\$ 11,509,600	\$ 11,809,639	\$ 21,265,941	\$ 21,522,778

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010.

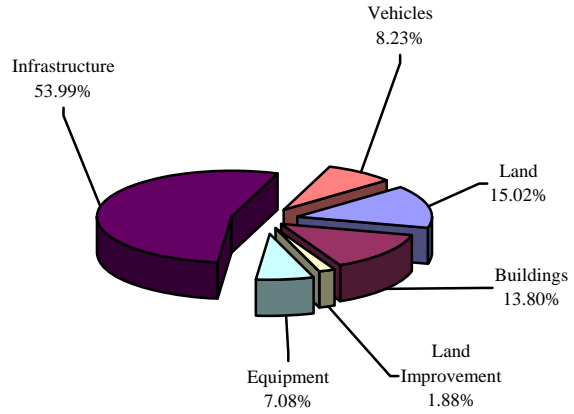
**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Capital Assets - Governmental Activities 2011



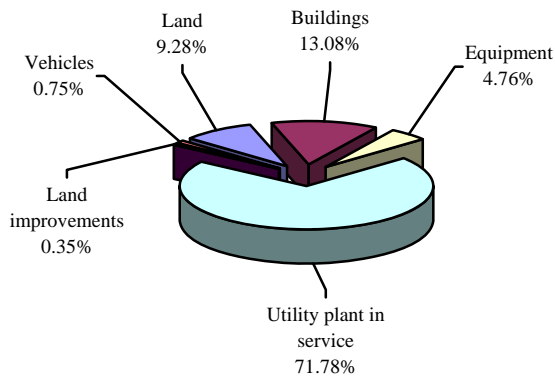
Capital Assets - Governmental Activities 2010



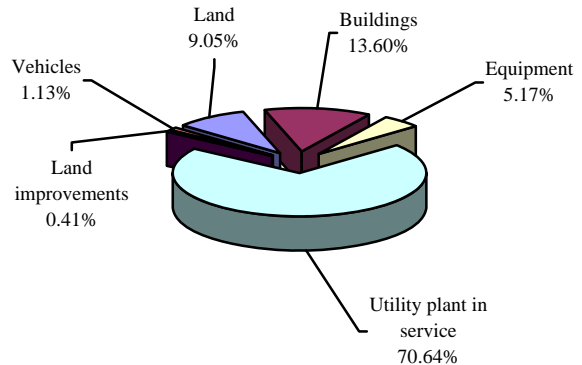
The City's infrastructure is the largest capital asset category. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 57.23% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2011 and 2010.

Capital Assets - Business-type Activities 2011



Capital Assets - Business-type Activities 2010



The City's largest business-type capital asset category is utility plant in service, which includes water and sewer lines and the water plant. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's utility plant in service (cost less accumulated depreciation) represents approximately 71.78% of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2011 and 2010.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

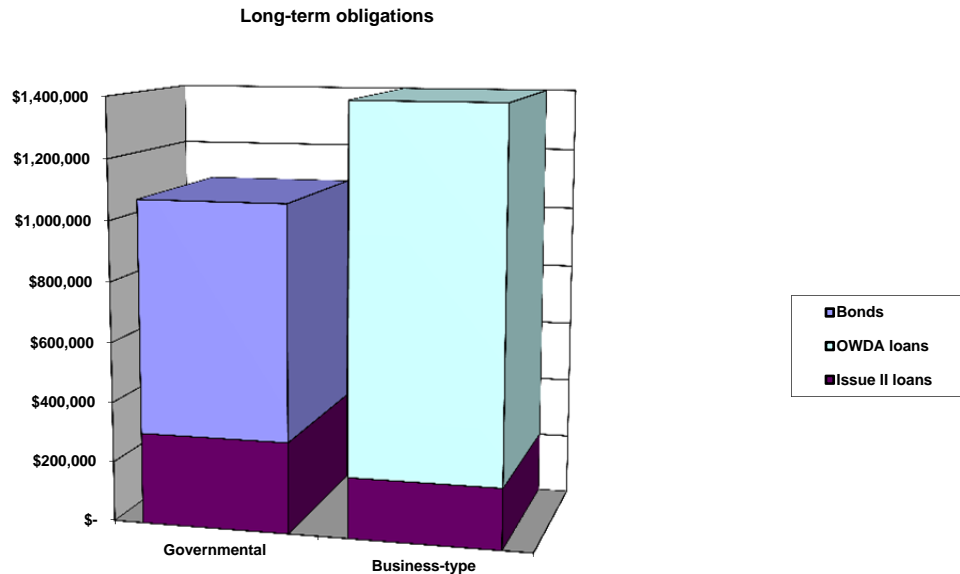
Governmental Activities

	2011	2010
General obligation bonds	\$ 770,000	\$ 940,000
Issue II loans	302,526	315,980
Total long-term obligations	\$ 1,072,526	\$ 1,255,980

Business-type Activities

	2011	2010
OWDA loans	\$ 1,196,905	\$ 1,312,022
General obligation bonds	-	45,000
Issue II loans	201,282	221,296
Total long-term obligations	\$ 1,398,187	\$ 1,578,318

A comparison of the long-term obligations by category is depicted in the chart below.



Further detail on the City's long-term obligations can be found in Note 13 to the financial statements.

Economic Conditions and Outlook

The City of Willard currently is home to about 6,200 residents and serves an additional 3,000 area residents through our fire and rescue department as well as our water department. We are the second largest city in Huron County and are proud to be home to several successful manufacturing plants including RR Donnelley & Sons, MTD, Pepperidge Farms and Guardian Manufacturing.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

The City currently has a 1.375% income tax rate, a portion of which is earmarked for capital improvements, maintenance and repair; an equal portion is used to provide funds for payment of service debt on bonds, notes, loans and other obligations issued prior to January 1, 2005, and the remainder is allocated to various other funds of the City for operational expenses. Income tax collections for 2011 were approximately \$3.07 million (on a cash-basis). Local taxes account for about 27% of the City of Willard's revenue sources.

Although there is little growth in the City's revenue, the City was able to maintain services and activities normally provided to the residents. Our recreation department held its annual festival in the park, fireworks display and summer concert series. The City's swimming pool and parks were able to remain open to area residents. We also had a spring and fall trash clean up.

The City is pursuing every opportunity to secure grants and funding from State and Federal programs to repair streets throughout the City. Due to the increase in road construction projects the City continues to struggle to properly maintain the roadways. Myrtle Avenue was resurfaced from Howard to Perry St. The funding for this project came primarily from grants.

The maintenance department assisted contractors in the Main Street culvert repairs and replaced approximately 40 feet of 10" water main as part of that project. The maintenance department also assisted contractors in the B&O Pike culvert replacement by relocating approximately 220 feet of 10" water main. Waterlines were also installed on Woodbine Street near the old hospital. The maintenance department also installed storm sewer pipe and catch basins at the Laurel St. parking lot.

The Willard Police Department continues to be proactive in the fight against drugs and crime utilizing education and enforcement as a means of reaching this goal. Our mission is to keep Willard a safe place to live, work and raise a family. Drug investigations are a prime focus for our department. Drug use and sales are a problem not just confined to Willard, but the entire region. Police Chief, Mark Holden, has made it his primary function to fight the dealers and users in our City.

After a year-long drive, TASERS were purchased and delivered to the Willard Police Department. The department purchased the TASERS with donations made from the community, with the majority of the donations coming from the Willard Moose Lodge. The Willard Moose Lodge also donated approximately \$6,000 to the DARE program to purchase supplies for all participants.

The Fire department was awarded \$123,000 from the Federal Emergency Management Agency (FEMA) to purchase three new twelve lead defibrillators and three automatic CPR compression systems. The wireless technology on the defibrillators will enable the receiving hospital to obtain the EKG while the medic unit is enroute and still performing patient care.

The economy in Willard has been slow to recover from the economic downturn seen throughout the United States. There have been some indicators of improvement within our City. The new hospital and a companion building for a nursing home are under construction. O'Reilly's Auto Parts store has located next to Sutton Bank on U.S. Route 224. Many building permits have been issued indicating citizens are beginning to remodel/repair their homes.

The year 2012 will prove to be another tightly budgeted year due to State budget cuts. Employment levels are low and several houses are still vacant throughout our community. The decrease in population reflected in the last census will reduce our ability to secure grant funding.

The City of Willard will see reductions in employment in many departments. Each department has been charged with providing the best possible service to our citizens at the lowest possible cost. We will continue to look for innovative ways to cut costs and operate as efficiently as possible. All of our tax dollars are put to work within our community to make Willard a great place to live, work and raise a family.

**CITY OF WILLARD
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 please contact: Ms. Jody Wagoner, Director of Finance, at 631 S. Myrtle Ave. P.O. Box 367, Willard, Ohio 44890.

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**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 6,101,054	\$ 4,102,904	\$ 10,203,958
Cash with fiscal and escrow agents.	225,076		225,076
Receivables:			
Income taxes.	779,802		779,802
Real and other taxes	379,750		379,750
Payments in lieu of taxes.	64,000		64,000
Accounts.	129,410	761,988	891,398
Special assessments	16,926		16,926
Due from other governments.	293,672		293,672
Accrued interest	12,597		12,597
Materials and supplies inventory.	29,504	218,783	248,287
Prepayments	29,562	12,484	42,046
Restricted assets:			
Equity in pooled cash and cash equivalents. . .		52,916	52,916
Capital assets:			
Land.	1,458,892	1,068,291	2,527,183
Depreciable capital assets, net.	8,297,449	10,441,309	18,738,758
Total capital assets, net.	<u>9,756,341</u>	<u>11,509,600</u>	<u>21,265,941</u>
Total assets	<u>17,817,694</u>	<u>16,658,675</u>	<u>34,476,369</u>
Liabilities:			
Accounts payable.	66,764	72,241	139,005
Accrued wages and benefits payable	70,682	48,159	118,841
Due to other governments	182,041	45,659	227,700
Accrued interest payable	3,543	3,224	6,767
Notes payable.	393,000	1,216,000	1,609,000
Payable from restricted assets:			
Refundable deposits payable.		52,916	52,916
Unearned revenue	346,002		346,002
Long-term liabilities:			
Due within one year	339,955	251,098	591,053
Due in more than one year.	1,021,621	1,436,721	2,458,342
Total liabilities	<u>2,423,608</u>	<u>3,126,018</u>	<u>5,549,626</u>
Net assets:			
Invested in capital assets, net of related debt	8,290,815	9,895,413	18,186,228
Restricted for:			
Capital projects	1,336,409		1,336,409
Transportation projects	595,721		595,721
Recreation.	6,325		6,325
Electric system sale.	1,575,000		1,575,000
Police and fire purposes.	468,232		468,232
Perpetual care.	16,607		16,607
Other purposes.	79,206		79,206
Unrestricted	<u>3,025,771</u>	<u>3,637,244</u>	<u>6,663,015</u>
Total net assets	<u>\$ 15,394,086</u>	<u>\$ 13,532,657</u>	<u>\$ 28,926,743</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government.	\$ 821,915	\$ 141,658	\$ 2,500	
Security of persons and property . . .	2,916,487	484,116	21,981	\$ 123,049
Public health and welfare	46,648	19,760		
Transportation.	984,576	147,215	296,248	312,857
Community environment	280,343	11,061	6,500	
Leisure time activity.	326,334	71,183	5,919	
Interest and fiscal charges.	42,321			
Total governmental activities	5,418,624	874,993	333,148	435,906
Business-type activities:				
Sewer.	1,875,111	1,584,637		
Water.	1,403,122	1,472,017		
Total business-type activities	3,278,233	3,056,654		
Total primary government	8,696,857	3,931,647	333,148	435,906

General revenues:

Property taxes levied for:

General purposes

Recreation.

Police and fire pension.

Income taxes levied for:

General purposes

Police.

Capital projects.

Payments in lieu of taxes

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-type Activities	Total
\$ (677,757)		\$ (677,757)
(2,287,341)		(2,287,341)
(26,888)		(26,888)
(228,256)		(228,256)
(262,782)		(262,782)
(249,232)		(249,232)
(42,321)		(42,321)
<u>(3,774,577)</u>		<u>(3,774,577)</u>
	\$ (290,474)	(290,474)
	68,895	68,895
	<u>(221,579)</u>	<u>(221,579)</u>
<u>(3,774,577)</u>	<u>(221,579)</u>	<u>(3,996,156)</u>
246,007		246,007
44,351		44,351
24,019		24,019
2,518,901		2,518,901
279,854		279,854
559,707		559,707
64,540		64,540
546,183		546,183
27,475	5,869	33,344
26,643	103,208	129,851
<u>4,337,680</u>	<u>109,077</u>	<u>4,446,757</u>
<u>(25,245)</u>	<u>25,245</u>	
<u>4,312,435</u>	<u>134,322</u>	<u>4,446,757</u>
537,858	(87,257)	450,601
<u>14,856,228</u>	<u>13,619,914</u>	<u>28,476,142</u>
<u>\$ 15,394,086</u>	<u>\$ 13,532,657</u>	<u>\$ 28,926,743</u>

**CITY OF WILLARD
HURON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents . . .	\$ 3,616,375	\$ 24,217	\$ 2,460,462	\$ 6,101,054
Cash in segregated accounts.			225,076	225,076
Receivables:				
Income taxes.	779,802			779,802
Real and other taxes	299,866		79,884	379,750
Payments in lieu of taxes.			64,000	64,000
Accounts.	128,639		771	129,410
Special assessments	16,926			16,926
Interfund loans.	84,000			84,000
Due from other governments.	166,172		127,500	293,672
Accrued interest	12,597			12,597
Materials and supplies inventory.	9,233		20,271	29,504
Prepayments	24,619		4,943	29,562
Total assets	<u>5,138,229</u>	<u>24,217</u>	<u>2,982,907</u>	<u>8,145,353</u>
Liabilities:				
Accounts payable.	37,938		28,826	66,764
Accrued wages.	59,295		11,387	70,682
Due to other governments	130,187		51,854	182,041
Interfund loans payable.			84,000	84,000
Accrued interest payable		1,042		1,042
Notes payable		393,000		393,000
Deferred revenue	393,368		156,651	550,019
Unearned revenue	273,219		72,783	346,002
Total liabilities	<u>894,007</u>	<u>394,042</u>	<u>405,501</u>	<u>1,693,550</u>
Fund balances:				
Nonspendable	1,609,902		41,821	1,651,723
Restricted.			2,416,898	2,416,898
Committed			153,003	153,003
Assigned	535,996		48,757	584,753
Unassigned (deficit)	<u>2,098,324</u>	<u>(369,825)</u>	<u>(83,073)</u>	<u>1,645,426</u>
Total fund balances (deficit)	<u>4,244,222</u>	<u>(369,825)</u>	<u>2,577,406</u>	<u>6,451,803</u>
Total liabilities and fund balances	<u>\$ 5,138,229</u>	<u>\$ 24,217</u>	<u>\$ 2,982,907</u>	<u>\$ 8,145,353</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balances		\$	6,451,803
 <i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			9,756,341
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Income taxes receivable	226,852		
Real and other taxes receivable	33,748		
Payments in lieu of taxes receivable	64,000		
Intergovernmental receivable	199,062		
Special assessments receivable	16,926		
Accrued interest receivable	9,431		
Total	550,019		550,019
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.			(2,501)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	289,050		
Bonds payable	770,000		
Issue II loans payable	302,526		
Total	(1,361,576)		(1,361,576)
Net assets of governmental activities		\$	15,394,086

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	\$ 1,993,722		\$ 1,145,061	\$ 3,138,783
Real and other taxes.	245,386		68,319	313,705
Charges for services.	553,778		183,815	737,593
Licenses and permits	48,028			48,028
Fines and forfeitures	31,520		2,093	33,613
Intergovernmental.	492,510		782,400	1,274,910
Investment income.	17,858	\$ 100	1,379	19,337
Rental income			39,863	39,863
Contributions and donations.	15,439		11,453	26,892
Payments in lieu of taxes.			64,540	64,540
Other	15,052	137	211	15,400
Total revenues	<u>3,413,293</u>	<u>237</u>	<u>2,299,134</u>	<u>5,712,664</u>
Expenditures:				
Current:				
General government	717,166			717,166
Security of persons and property	2,294,470		232,050	2,526,520
Public health and welfare.	41,745			41,745
Transportation	254,822		541,516	796,338
Community environment	206,114		12,284	218,398
Leisure time activity			274,254	274,254
Capital outlay			829,409	829,409
Debt service:				
Principal retirement.		133,454	70,000	203,454
Interest and fiscal charges		18,297	24,500	42,797
Total expenditures	<u>3,514,317</u>	<u>151,751</u>	<u>1,984,013</u>	<u>5,650,081</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(101,024)</u>	<u>(151,514)</u>	<u>315,121</u>	<u>62,583</u>
Other financing sources (uses):				
Issue II loan.			20,000	20,000
Sale of capital assets.	2,500		9,200	11,700
Transfers in		245,000	75,000	320,000
Transfers (out).	(12,000)		(308,000)	(320,000)
Total other financing sources (uses)	<u>(9,500)</u>	<u>245,000</u>	<u>(203,800)</u>	<u>31,700</u>
Net change in fund balances	(110,524)	93,486	111,321	94,283
Fund balances (deficit) at beginning of year (restated).	<u>4,354,746</u>	<u>(463,311)</u>	<u>2,466,085</u>	<u>6,357,520</u>
Fund balances (deficit) at end of year	<u>\$ 4,244,222</u>	<u>\$ (369,825)</u>	<u>\$ 2,577,406</u>	<u>\$ 6,451,803</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, 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, 2011

Net change in fund balances - total governmental funds	\$	94,283
<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 cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	780,600	
Current year depreciation	<u>(725,717)</u>	
Total		54,883
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(11,681)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	219,679	
Real and other taxes	260	
Intergovernmental revenues	27,581	
Special assessments	412	
Investment income	<u>9,431</u>	
Total		257,363
Proceeds of loans are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(20,000)
Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		203,454
In the statement of activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due.		
		476
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(40,920)</u>
Change in net assets of governmental activities	\$	<u>537,858</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, 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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 1,955,200	\$ 1,955,200	\$ 1,955,200	
Real and other taxes.	272,300	272,300	245,386	\$ (26,914)
Charges for services.	559,500	559,500	514,272	(45,228)
Licenses and permits	47,000	47,000	48,028	1,028
Fines and forfeitures	46,000	46,000	31,520	(14,480)
Intergovernmental.	435,200	435,200	504,800	69,600
Investment income.	10,000	10,000	10,884	884
Contributions and donations.	13,500	13,500	15,439	1,939
Other	7,000	7,000	14,387	7,387
Total revenues	<u>3,345,700</u>	<u>3,345,700</u>	<u>3,339,916</u>	<u>(5,784)</u>
Expenditures:				
Current:				
General government	657,386	596,058	537,770	58,288
Security of persons and property	2,688,388	2,688,388	2,293,728	394,660
Public health and welfare.	61,869	61,869	43,948	17,921
Transportation	302,122	302,122	260,078	42,044
Community environment	243,628	243,628	223,020	20,608
Total expenditures	<u>3,953,393</u>	<u>3,892,065</u>	<u>3,358,544</u>	<u>533,521</u>
Excess of expenditures over revenues	<u>(607,693)</u>	<u>(546,365)</u>	<u>(18,628)</u>	<u>527,737</u>
Other financing sources (uses):				
Sale of capital assets.			2,500	2,500
Advances in		38,000	134,000	96,000
Advances (out)		(68,000)	(68,000)	
Transfers (out).	(12,000)	(12,000)	(12,000)	
Total other financing sources (uses)	<u>(12,000)</u>	<u>(42,000)</u>	<u>56,500</u>	<u>98,500</u>
Net change in fund balances	<u>(619,693)</u>	<u>(588,365)</u>	<u>37,872</u>	<u>626,237</u>
Fund balances at				
beginning of year (restated).	1,452,682	1,452,682	1,452,682	
Prior year encumbrances appropriated	50,793	50,793	50,793	
Fund balance at end of year	<u>\$ 883,782</u>	<u>\$ 915,110</u>	<u>\$ 1,541,347</u>	<u>\$ 626,237</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
DECEMBER 31, 2011

	Business-type Activities			
	Sewer	Water	Nonmajor	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents . . .	\$ 2,045,729	\$ 1,962,036	\$ 95,139	\$ 4,102,904
Receivables:				
Accounts	433,989	327,999		761,988
Materials and supplies inventory.	163,237	55,546		218,783
Prepayments	3,641	8,843		12,484
Restricted assets:				
Equity in pooled cash and cash equivalents . .		52,916		52,916
Total current assets	<u>2,646,596</u>	<u>2,407,340</u>	<u>95,139</u>	<u>5,149,075</u>
Noncurrent assets:				
Capital assets:				
Land.	505,410	562,881		1,068,291
Depreciable capital assets, net.	4,955,936	5,485,373		10,441,309
Total capital assets, net.	<u>5,461,346</u>	<u>6,048,254</u>		<u>11,509,600</u>
Total noncurrent assets	<u>5,461,346</u>	<u>6,048,254</u>		<u>11,509,600</u>
Total assets	<u>8,107,942</u>	<u>8,455,594</u>	<u>95,139</u>	<u>16,658,675</u>
Liabilities:				
Current liabilities:				
Accounts payable.	45,297	26,944		72,241
Accrued wages	30,220	17,939		48,159
Compensated absences	82,777	44,578		127,355
Due to other governments	27,853	17,806		45,659
Accrued interest payable	2,651	573		3,224
Payable from restricted assets:				
Refundable deposits payable.		52,916		52,916
Current portion of OWDA loans.	92,627	24,444		117,071
Current portion of Issue II loans.	1,210	5,462		6,672
Notes payable	1,000,000	216,000		1,216,000
Total current liabilities	<u>1,282,635</u>	<u>406,662</u>		<u>1,689,297</u>
Long-term liabilities:				
Compensated absences	104,553	57,724		162,277
OWDA loans	880,148	199,686		1,079,834
Issue II loans	81,418	113,192		194,610
Total long-term liabilities	<u>1,066,119</u>	<u>370,602</u>		<u>1,436,721</u>
Total liabilities	<u>2,348,754</u>	<u>777,264</u>		<u>3,126,018</u>
Net assets:				
Invested in capital assets, net of related debt. . .	4,405,943	5,489,470		9,895,413
Unrestricted	1,353,245	2,188,860	95,139	3,637,244
Total net assets	<u>\$ 5,759,188</u>	<u>\$ 7,678,330</u>	<u>\$ 95,139</u>	<u>13,532,657</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Business-type Activities

	<u>Sewer</u>	<u>Water</u>	<u>Nonmajor</u>	<u>Total</u>
Operating revenues:				
Charges for services	\$ 1,583,137	\$ 1,463,767		\$ 3,046,904
Tap-in fees.	1,500	8,250		9,750
Other operating revenues	1,806	6,288		8,094
Total operating revenues.	<u>1,586,443</u>	<u>1,478,305</u>		<u>3,064,748</u>
Operating expenses:				
Personal services	1,147,411	760,791		1,908,202
Contract services.	87,440	56,823		144,263
Materials and supplies.	67,672	186,447		254,119
Administrative costs.	31,042	31,041		62,083
Utilities	247,024	91,187		338,211
Depreciation.	272,276	256,500		528,776
Other	3,063	5,347		8,410
Total operating expenses.	<u>1,855,928</u>	<u>1,388,136</u>		<u>3,244,064</u>
Operating income (loss)	<u>(269,485)</u>	<u>90,169</u>		<u>(179,316)</u>
Nonoperating revenues (expenses):				
Interest and fiscal charges	(19,183)	(14,529)		(33,712)
Loss on sale of capital assets		(457)		(457)
Interest income.	3,071	2,798		5,869
Other nonoperating revenues	95,114			95,114
Total nonoperating revenues (expenses).	<u>79,002</u>	<u>(12,188)</u>		<u>66,814</u>
Income (loss) before capital contributions.	(190,483)	77,981		(112,502)
Capital contributions.	25,245			25,245
Change in net assets	(165,238)	77,981		(87,257)
Net assets at beginning of year (restated)	<u>5,924,426</u>	<u>7,600,349</u>	<u>\$ 95,139</u>	<u>13,619,914</u>
Net assets at end of year	<u>\$ 5,759,188</u>	<u>\$ 7,678,330</u>	<u>\$ 95,139</u>	<u>\$ 13,532,657</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities			
	Sewer	Water	Nonmajor	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,563,646	\$ 1,455,936		\$ 3,019,582
Cash received from other operations	1,806	14,868		16,674
Cash payments for personal services.	(1,125,071)	(747,187)		(1,872,258)
Cash payments for contract services	(79,040)	(54,284)		(133,324)
Cash payments for materials and supplies	(107,055)	(168,108)		(275,163)
Cash payments for administrative costs.	(31,042)	(31,041)		(62,083)
Cash payments for utilities	(229,841)	(89,304)		(319,145)
Cash payments for other expenses	(3,643)	(10,338)		(13,981)
Net cash provided by (used in) operating activities	(10,240)	370,542		360,302
Cash flows from noncapital financing activities:				
Cash received for other nonoperating purposes.	95,114			95,114
Net cash provided by noncapital financing activities.	95,114			95,114
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(36,134)	(167,815)		(203,949)
Sale of notes	1,000,000	216,000		1,216,000
Principal retirement.	(94,786)	(355,345)		(450,131)
Interest and fiscal charges	(16,532)	(15,306)		(31,838)
Net cash provided by (used in) capital and related financing activities.	852,548	(322,466)		530,082
Cash flows from investing activities:				
Interest received	3,071	2,798		5,869
Net cash provided by investing activities	3,071	2,798		5,869
Net increase in cash and cash equivalents	940,493	50,874		991,367
Cash and cash equivalents at beginning of year beginning of year (restated).	1,105,236	1,964,078	\$ 95,139	3,164,453
Cash and cash equivalents at end of year	\$ 2,045,729	\$ 2,014,952	\$ 95,139	\$ 4,155,820

(Continued)

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities			
	Sewer	Water	Nonmajor	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (269,485)	\$ 90,169		\$ (179,316)
Adjustments:				
Depreciation.	272,276	256,500		528,776
Changes in assets and liabilities:				
Decrease (increase) in materials and supplies inventory	(13,693)	5,589		(8,104)
(Increase) in accounts receivable.	(20,991)	(16,081)		(37,072)
(Increase) in prepayments	(302)	(576)		(878)
Increase (decrease) in accounts payable	(310)	17,748		17,438
Increase (decrease) in accrued wages and benefits	623	(2,726)		(2,103)
Increase in intergovernmental payable.	2,523	981		3,504
Increase in compensated absences payable.	19,119	15,444		34,563
Increase in payable from restricted assets.		3,494		3,494
Net cash provided by (used in) operating activities	<u>\$ (10,240)</u>	<u>\$ 370,542</u>		<u>\$ 360,302</u>

During 2011, the sewer fund received \$25,245 in capital contributions from other funds

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2011

Assets:

Equity in pooled cash and cash equivalents	<u>\$ 13,953</u>
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Liabilities:

Deposits held and due to others	<u>\$ 13,953</u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Willard ("The City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio.

The City was originally organized as the Village of Chicago Junction in 1874. The name was changed to the Village of Willard in 1917, which became the City of Willard in 1959 as a home rule municipal corporation under the laws of the State of Ohio. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety, public services, recreation and development.

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 also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided it does not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB guidance issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply this FASB guidance. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's Governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

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 of Willard, this includes police protection, street maintenance and repairs, planning and zoning, parks and recreation, water, sewer and storm water. The operation of each of these activities is directly controlled by Council through the budgetary process.

The City of Willard owns and is responsible for the lighting and any major repairs and improvements of the Willard Airport. Rental fees for use of public property and proceeds from the sale of airplane fuel are collected by the City; however, minor repairs, services, and operations at the airport are provided by a private business and its related financial statements are not included in the financial statements of the City.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

Mercy Hospital is a non-profit corporation privately owned by Willard Area Hospital, Inc. The Board is appointed by the Willard Area Hospital, Inc., whose board members are appointed from private citizens within the community. Although the City originally purchased the land, built the building and had issued debt relating to capital improvements, the administration of the hospital is controlled by the Mercy staff. A lease agreement was entered into in 1968 and on December 31, 2013, the property and operations of the hospital will be returned and to be managed by the City unless Willard Area Hospital, Inc. exercises its purchase option. The financial statements of the hospital are not included with the financial statements of the City of Willard. See Note 9 for detail.

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

B. Basis of Presentation - Fund Accounting

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

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore 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.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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. Fiduciary funds are reported by type.

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.

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 and liabilities is reported as fund balance. The following are the City's major governmental funds:

General - The general fund accounts and reports for all financial resources except those not accounted for in another fund. This includes, but is not limited to, police and fire protection, public health activities, cemetery, and the general administration of City functions. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement - This fund accounts and reports for the accumulation of resources for, and payment of, long-term debt principal, interest and related costs.

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, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise funds or internal service funds. The City has no internal service funds.

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 - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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

The City's nonmajor enterprise fund accounts for the provision of storm drainage runoff services to the residents and commercial users located within the City.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. 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. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has three agency funds used to account for cash deposits in lieu of bonds for contracts formally bid, deposits for patrons of the City's recreational facilities and refundable deposits for use of City owned duck blinds.

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 and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other 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 and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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 sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activities. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

CITY OF WILLARD
HURON COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)

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

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 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 revenue 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days after year end.

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 an 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 a 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, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the fiscal year for which they were intended to finance, have been recorded as unearned revenue. Income taxes, payments in lieu of 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, 2011, are recorded as deferred revenue in the governmental funds.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget - A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year, for the period of January 1, to December 31 of the following year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1. As part of this process, the City receives the official certificate of estimated resources, which states the projected cash receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered cash balances from the preceding year.

Appropriations - 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, department, and object 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 allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council.

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.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized during the year for budget control purposes. Encumbrances outstanding at year-end are reported as expenditures under the City's budgetary basis of accounting. For GAAP reporting purposes, encumbrances outstanding at year end are reported in the various fund balance classifications as part of fund balance.

H. Inventories of Materials and Supplies

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

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Inventories of the proprietary funds are expensed when used.

I. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

J. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary 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.

During 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), and nonnegotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office that 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, 2011.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2011 amounted to \$17,858 which included \$8,667 assigned from other funds of the City.

For purpose of presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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 investment account at year end is provided in Note 4.

K. 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 assets, 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 assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements 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 \$1,000. The City's infrastructure consists of streets, and water and sewer lines. 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:

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	20-50 years	20-50 years
Buildings	50 years	50 years
Equipment	5-20 years	5-20 years
Vehicles	5 years	5 years
Infrastructure	40 years	-----
Utility plant in service	-----	40-80 years

L. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed 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. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as 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 (severance) payments and by those employees for whom it is probable they will become eligible to receive termination (severance) benefits in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service; or 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

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

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.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in 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.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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 and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

N. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

O. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after 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 BFS.

P. 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.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

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 Finance Director the authority to constrain monies for intended purposes.

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.

Q. Restricted Assets

Amounts held as deposits for water service are restricted and can only be expended for the return of such deposit, or to apply to the customer's account when the service is discontinued.

R. Estimates

The preparation of the BFS 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.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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

S. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

T. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

U. 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 Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - Continued)

B. Fund Reclassifications

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. These fund reclassifications had the following effect on the City's governmental fund balances as previously reported:

	General	Electric System Sale	CDBG	Bond Retirement	Capital Improvement	Nonmajor Governmental	Total Governmental
Fund balance (deficit) as previously reported	\$ 1,650,562	\$ 1,786,802	\$ (133,115)	\$ (463,311)	\$ 877,305	\$ 2,639,277	\$ 6,357,520
Fund reclassifications:							
Electric system sale	1,786,802	(1,786,802)					
School resource officer	(1,982)					1,982	
Income tax	919,364					(919,364)	
CDBG			133,115			(133,115)	
Capital improvement					(877,305)	877,305	
Total fund reclassifications	<u>2,704,184</u>	<u>\$ (1,786,802)</u>	<u>\$ 133,115</u>		<u>\$ (877,305)</u>	<u>(173,192)</u>	
Restated fund balance (deficit) at January 1, 2011	<u>\$ 4,354,746</u>			<u>\$ (463,311)</u>		<u>\$ 2,466,085</u>	<u>\$ 6,357,520</u>

The fund reclassifications did not have an effect on net assets as previously reported.

C. Budgetary Prior Period Adjustment

In prior years certain funds that are legally budgeted in separate special revenue funds were considered part of the general fund on a budgetary basis. The City has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The City is also restating the beginning budgetary balance to correct an error reported in the prior year. The restatement of the general fund's budgetary-basis fund balance at December 31, 2011 is as follows:

	Budgetary Basis
	<u>General Fund</u>
Balance at December 31, 2010	\$ 1,576,209
Correction of error	(120,882)
Funds budgeted elsewhere	(2,645)
Restated balance at January 1, 2011	<u>\$ 1,452,682</u>

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - Continued)

D. Restatement of Proprietary Fund Net Assets

The net assets of the water and sewer funds have been restated to properly report the activity of the utility debt service fund, which is split between the water and sewer funds. The following is the effect on net assets previously reported as of December 31, 2010:

	Water	Sewer	Nonmajor Proprietary Fund
Net assets, December 31, 2010	\$ 7,306,672	\$ 6,218,103	\$ 95,139
Utility debt service fund activity correction	293,677	(293,677)	
Restated net assets, January 1, 2011	\$ 7,600,349	\$ 5,924,426	\$ 95,139

The restatement did not have an effect on business-type activities net assets as previously reported.

E. Deficit Fund Balances

Fund balances at December 31, 2011 included the following individual fund deficits:

<u>Major governmental fund:</u>	<u>Deficit</u>
Bond retirement	\$ 369,825
<u>Nonmajor governmental fund:</u>	
CDBG fund	83,073

The deficit fund balance in the bond retirement fund resulted from notes payable being recorded as liabilities within the fund. The CDBG fund deficit resulted from an interfund loan payable. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - DEPOSITS AND INVESTMENTS

Monies held by the City are classified by State statute 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 Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must 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.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim deposits are deposits in 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 monies may be deposited or invested in the following:

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 or 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) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,
3. Obligations of the City.

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

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 Finance Director or qualified trustee 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 \$950 in undeposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and cash equivalents", but is not considered part of the City's carrying amount of deposits at year end.

B. Cash in Segregated Accounts

At year end, the City had \$225,076 deposited with a financial institution for monies related to the municipal road fund permissive tax. These amounts are included in the City's depository balance below.

C. Deposits with Financial Institutions

At December 31, 2011, the carrying amount of all City deposits, including cash in segregated accounts, was \$10,143,636. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, \$5,936,287 of the City's bank balance of \$10,336,287 was exposed to custodial risk as discussed below, while \$4,400,000 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 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 WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of December 31, 2011, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 126,241	\$ 126,241
Total	<u>\$ 126,241</u>	<u>\$ 126,241</u>

Interest Rate Risk: 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.

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, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 126,241	100.00%
Total	<u>\$ 126,241</u>	<u>100.00%</u>

E. Reconciliation of Cash and Investments to the Statement of Net Assets

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 assets as of December 31, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 10,143,636
Investments	126,241
Cash in segregated accounts	225,076
Cash on hand	950
Total	<u>\$ 10,495,903</u>

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 6,326,130
Business-type activities	4,155,820
Agency funds	<u>13,953</u>
Total	<u><u>\$ 10,495,903</u></u>

NOTE 5 - INTERFUND ACTIVITY

A. Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfer From</u>	<u>Transfer To</u>		<u>Total</u>
	<u>Bond Retirement</u>	<u>Nonmajor Governmental</u>	
General	\$ 12,000		\$ 12,000
Nonmajor governmental	<u>233,000</u>	<u>\$ 75,000</u>	<u>308,000</u>
Total	<u><u>\$ 245,000</u></u>	<u><u>\$ 75,000</u></u>	<u><u>\$ 320,000</u></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.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

B. Interfund loans consisted of the following at December 31, 2011, as reported on the fund financial statements.

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 84,000

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at December 31, 2011 are reported on the statement of net assets.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 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 Willard. 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, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue 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 deferred.

The full tax rate for all City operations for the year ended December 31, 2011 was \$3.80 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

Real property	
<hr/>	
Residential/agricultural	\$ 58,545,400
Commercial/industrial/mineral	27,519,760
Public utility	
<hr/>	
Real	2,565,020
Personal	3,362,640
	<hr/>
Total assessed value	<u>\$ 91,992,820</u>

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 7 - LOCAL INCOME TAX

The City levies an income tax of 1.375% on the gross salaries, wages and other personnel service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a full credit for taxes paid to other Ohio municipalities, up to the percentage which would be due to the City.

All the revenue received from income tax is recorded directly into the City income tax fund. The costs of operating the income tax department and income tax refunds are expended from this fund. Pursuant to 197.14 of the City Charter, at least 40% of the remaining funds shall be allocated to capital improvements, maintenance and repair. The remaining balance shall be used in accordance with ordinances adopted and approved by Council.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2011, consisted of taxes, payments in lieu of taxes, accounts (billings for user charged services), accrued interest, special assessments, and intergovernmental receivables arising from grants, entitlements, 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, 2011, as well as intended to finance 2011 operations.

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

Governmental Activities:

Income taxes	\$ 779,802
Real and other taxes	379,750
Payments in lieu of taxes	64,000
Accounts	129,410
Special assessments	16,926
Due from other governments	293,672
Accrued interest	12,597

Business-Type Activities:

Accounts	761,988
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year is the special assessments receivable which is collected over the life of the assessments.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 9 - LEASE

The City has a lease with the Willard Area Hospital, Inc., a non-profit corporation, for the operation of the hospital facilities. The terms of the lease state that the City will undertake improvements to the hospital and the lessee (hospital) will make lease payments of:

1. Basic rent, \$1.00 per year
2. Monthly amount to pay the interest on the bonds
3. Monthly amount to pay the principal on the bonds
4. Monthly amount to provide payments in the debt service reserve fund
5. Monthly amount to provide the payments in the contingency reserve fund

This revenue was paid to a trustee, with the exception of the basic rent which is paid to the City's general fund. During 1994, the bonds were repaid in full to the trustee and the debt service reserve and the contingency reserve were released.

When the lessee discontinues operations of the hospital, the City is required to either operate the hospital or find another operator for the hospital. Upon expiration of the lease or its termination for any reason, after paying the accounts payable, all of the assets of the lessee, including cash on hand, accounts receivable, stocks, bonds, and all other property, real or personal, used in connection with the operation of the hospital facilities shall become the property of the City immediately with the exception of any funds or securities which had been transferred to the lessee by way of gift, endowment, bequest, devise, annuity, insurance or similar method which will remain the property of the lessee.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS

A. Governmental capital asset activity for the year ended December 31, 2011, was as follows:

Governmental activities:	Balance 1/1/11	Additions	Disposals	Balance 12/31/11
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,458,892			\$ 1,458,892
Total capital assets, not being depreciated	1,458,892			1,458,892
<i>Capital assets, being depreciated:</i>				
Land improvements	258,797	\$ 1,613		260,410
Buildings	4,032,766	11,181		4,043,947
Equipment	2,359,127	202,957	\$ (44,092)	2,517,992
Vehicles	2,578,149	48,286	(125,901)	2,500,534
Infrastructure	6,678,465	516,563		7,195,028
Total capital assets, being depreciated	15,907,304	780,600	(169,993)	16,517,911
<i>Less: accumulated depreciation:</i>				
Land improvements	(76,359)	(20,390)		(96,749)
Buildings	(2,692,278)	(131,893)		(2,824,171)
Equipment	(1,671,237)	(110,827)	34,131	(1,747,933)
Vehicles	(1,778,627)	(285,600)	124,181	(1,940,046)
Infrastructure	(1,434,556)	(177,007)		(1,611,563)
Total accumulated depreciation	(7,653,057)	(725,717)	158,312	(8,220,462)
Total capital assets, being depreciated, net	8,254,247	54,883	(11,681)	8,297,449
Governmental activities capital assets, net	<u>\$ 9,713,139</u>	<u>\$ 54,883</u>	<u>\$ (11,681)</u>	<u>\$ 9,756,341</u>

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS - (Continued)

B. Business-type activities capital asset activity for the year ended December 31, 2011, was as follows:

<u>Business-type activities:</u>	Balance 1/1/11	Additions	Disposals	Balance 12/31/11
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,068,291			\$ 1,068,291
Total capital assets, not being depreciated	1,068,291			1,068,291
<i>Capital assets, being depreciated:</i>				
Land improvements	78,249			78,249
Buildings	6,411,584			6,411,584
Equipment	5,264,809	\$ 12,681	\$ (2,350)	5,275,140
Vehicles	429,638		(16,137)	413,501
Utility plant in service	11,915,779	216,513		12,132,292
Total capital assets, being depreciated	24,100,059	229,194	(18,487)	24,310,766
<i>Less: accumulated depreciation:</i>				
Land improvements	(30,244)	(7,825)		(38,069)
Buildings	(4,804,874)	(101,654)		(4,906,528)
Equipment	(4,654,188)	(74,601)	1,893	(4,726,896)
Vehicles	(296,331)	(46,688)	16,137	(326,882)
Utility plant in service	(3,573,074)	(298,008)		(3,871,082)
Total accumulated depreciation	(13,358,711)	(528,776)	18,030	(13,869,457)
Total capital assets, being depreciated, net	10,741,348	(299,582)	(457)	10,441,309
Business-type activities capital assets, net	<u>\$ 11,809,639</u>	<u>\$ (299,582)</u>	<u>\$ (457)</u>	<u>\$ 11,509,600</u>

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS - (Continued)

C. Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 78,334
Security of persons and property	335,214
Public health and welfare	4,229
Transportation	191,959
Community environment	61,687
Leisure time activities	<u>54,294</u>
Total depreciation expense - governmental activities	<u><u>\$ 725,717</u></u>

Business-type activities:

Sewer	\$ 272,276
Water	<u>256,500</u>
Total depreciation expense - business-type activities	<u><u>\$ 528,776</u></u>

NOTE 11 - VACATION, SICK LEAVE AND ACCUMULATED UNPAID EMPLOYEE BENEFITS

Vacation is earned and accrued monthly based upon the years of service, ranging from 4 hours/month to 20 hours/month. Vacation may be accrued up to two full years. Accrued vacation is paid at termination unless the employee has not completed one full year of service. The total obligation for vacation accrual for the City as a whole amounted to \$280,160 at December 31, 2011. Sick leave accumulates at a rate of 10 hours/month for all full-time employees. Accumulation of sick leave is limited to 1,440 hours. The amount payable to an eligible retiree is 35% of the unused accumulated sick leave.

The pay-off of the sick leave provision is also applicable in the case of death. The maximum liability to the City for accumulated sick leave vested employees on December 31, 2011 was \$298,522.

The City has a union agreement with the Fraternal Order of Police. This agreement covers all the full-time police officers and dispatchers except the chief of police and probationary employees in the first sixty days of employment. Non-union employees are governed by the charter and ordinances. The City has historically matched the union employees pay increases and other benefits.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

**NOTE 11 - VACATION, SICK LEAVE AND ACCUMULATED UNPAID EMPLOYEE BENEFITS –
(Continued)**

The agreement states that 35% of accrued unpaid sick leave will be paid to an employee when the employee retires from active service with the City and qualifies and begins to receive pension payments under the Ohio Public Employees Retirement System (OPERS) or other State operated pension and retirement programs. Sick leave may be accumulated to a total of 180 working days or 1,440 hours. A full-time employee shall be entitled to a cash payment, equal to 35% of his daily wage, of any unused sick leave accumulated in the current year above the 180 day limit. This payment is made during the last pay period each year. After an employee has worked for the City for one year, the employee is entitled to vacation leave following his anniversary date. An employee may accumulate two years of unused vacation. No employee shall be compensated for any vacation not taken unless the employee is leaving the service of the City.

NOTE 12 - NOTES PAYABLE

The City had the following bond anticipation notes outstanding at December 31, 2011:

	Issue Date	Interest Rate	Balance 12/31/2010	Issued	Reductions	Balance 12/31/2011
Governmental activities:						
<u>Bond retirement fund:</u>						
Fire truck	2010	1.50%	\$ 328,800		\$ (328,800)	
Fire truck	2011	0.80%		\$ 288,000		\$ 288,000
Street improvement	2010	1.50%	141,200		(141,200)	
Street improvement	2011	0.80%		105,000		105,000
Total governmental activities			470,000	393,000	(470,000)	393,000
Business-type activities:						
<u>Water fund:</u>						
Dale Street waterline	2010	1.50%	270,000		(270,000)	
Dale Street waterline	2011	0.80%		216,000		216,000
<u>Sewer fund:</u>						
WWTP upgrade	2011	0.80%		1,000,000		1,000,000
Total business-type activities			270,000	1,216,000	(270,000)	1,216,000
Total notes payable			\$ 740,000	\$ 1,609,000	\$ (740,000)	\$ 1,609,000

Bond anticipation notes - street improvement: On September 3, 2010, the City issued \$141,200 in street improvement bond anticipation notes. These notes bore an interest rate of 1.50% and matured on September 1, 2011. On August 31, 2011, the City issued \$105,000 in street improvement bond anticipation notes. The proceeds were used to retire the 2010 notes. These notes bear an interest rate of 0.80% and mature on August 30, 2012. These notes are recorded as a liability in the bond retirement fund, which is the fund that received the proceeds.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 12 - NOTES PAYABLE – (Continued)

Bond anticipation notes - fire truck: On September 3, 2010, the City issued \$328,800 in fire truck bond anticipation notes. These notes bore an interest rate of 1.50% and matured on September 1, 2011. On August 31, 2011, the City issued \$288,000 in fire truck bond anticipation notes. The proceeds were used to retire the 2010 notes. These notes bear an interest rate of 0.80% and mature on August 30, 2012. These notes are recorded as a liability in the bond retirement fund, which is the fund that received the proceeds.

Bond anticipation notes - Dale Street waterline: On September 3, 2010, the City issued \$270,000 in bond anticipation notes. The debt was incurred to pay the costs of construction and improvements to the Dale Street waterline. These notes bore an interest rate of 1.50% and matured on September 1, 2011. On August 31, 2011, the City issued \$216,000 in bond anticipation notes. The proceeds were used to retire the 2010 notes. These notes bear an interest rate of 0.80% and mature on August 30, 2012. These notes are recorded as a liability in the water fund, which is the fund that received the proceeds.

Bond anticipation notes – WWTP upgrade: On August 31, 2011, the City issued \$1,000,000 in bond anticipation notes. The debt was incurred to pay the costs of upgrades at the wastewater treatment plant. These notes bear an interest rate of 0.80% and mature on August 30, 2012. These notes are recorded as a liability in the sewer fund, which is the fund that received the proceeds.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - LONG-TERM OBLIGATIONS

A. During 2011, the following changes occurred in governmental activities long-term obligations:

Governmental activities:	Date of Issue	Interest Rate	Balance 12/31/2010	Additions	Retirements	Balance 12/31/2011	Amounts Due in One Year
<u>Issue II loans:</u>							
Pearl Street repavement	1999	0.00%	\$ 66,796		\$ (10,547)	\$ 56,249	\$ 3,515
East Howard repavement I	2002	0.00%	2,299		(287)	2,012	95
East Howard repavement II	2003	0.00%	35,620		(3,686)	31,934	1,228
Ash Street reconstruction I	2005	0.00%	30,705		(2,971)	27,734	991
North Main reconstruction	2005	0.00%	30,361		(3,036)	27,325	1,012
Ash Street reconstruction II	2006	0.00%	100,949		(9,177)	91,772	3,059
Myrtle Avenue curbs and ramps	2009	0.00%	29,250		(2,250)	27,000	750
US 224 widening	2010	0.00%	20,000		(1,500)	18,500	500
Myrtle Avenue Phase VII	2011	0.00%		\$ 20,000		20,000	1,000
Total Issue II loans			<u>315,980</u>	<u>20,000</u>	<u>(33,454)</u>	<u>302,526</u>	<u>12,150</u>
<u>Bond payable:</u>							
Industrial park	2009	3.0-4.5%	630,000		(70,000)	560,000	70,000
Fire station	2009	3.0-3.5%	310,000		(100,000)	210,000	105,000
Total bonds payable			<u>940,000</u>		<u>(170,000)</u>	<u>770,000</u>	<u>175,000</u>
<u>Other long-term obligations:</u>							
Compensated absences			248,130	189,325	(148,405)	289,050	152,805
Total governmental activities long-term obligations			<u>\$ 1,504,110</u>	<u>\$ 209,325</u>	<u>\$ (351,859)</u>	<u>\$ 1,361,576</u>	<u>\$ 339,955</u>

Issue II loans: These loans were issued for the purpose of repaving Pearl Street, Howard Street, Ash Street, North Main and Myrtle Street and widening US 224. Funding came from Issue II monies in the form of a note payable that is to be repaid from local funds over a period of 20 years from the bond retirement fund. These loans are interest free.

Bonds payable: On April 16, 2009, the City issued \$770,000 in industrial park bonds. These bonds bear interest rates ranging from 3% to 4.5% and mature on December 1, 2018. These bonds are being paid from the TIF improvement fund into which all service payments in lieu of taxes are to be deposited.

On April 16, 2009, the City issued \$505,000 in fire station bonds. These bonds bear interest rates ranging from 3% to 3.5% and mature on December 1, 2013. These bonds are being retired from the bond improvement fund.

Compensated absences: The liability reported in the statement of net assets for governmental activities compensated absences will be paid from the fund from which the employee's salaries are paid, which, for the City, is the general fund and the following nonmajor governmental funds: income tax fund, street construction, maintenance & repair fund and the recreation fund.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The following is the summary of the City's future annual debt service and interest requirements for governmental activities obligations:

Year Ending December 31,	Issue II Loans			Bonds Payable		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 12,150		\$ 12,150	\$ 175,000	\$ 29,050	\$ 204,050
2013	23,302		23,302	180,000	23,800	203,800
2014	23,302		23,302	75,000	17,500	92,500
2015	23,304		23,304	80,000	14,687	94,687
2016	23,303		23,303	85,000	11,487	96,487
2017 - 2021	105,967		105,967	175,000	11,925	186,925
2022 - 2026	73,889		73,889			
2027 - 2029	17,309		17,309			
	<u>\$ 302,526</u>		<u>\$302,526</u>	<u>\$ 770,000</u>	<u>\$ 108,449</u>	<u>\$ 878,449</u>

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2011, the following changes occurred in the City's business-type long-term obligations:

Business-type activities:	Date of Issue	Interest Rate	Balance 12/31/10	Additions	Retirements	Balance 12/31/11	Amounts Due in One Year
<u>Bonds payable:</u>							
Water system improvement	2009	3-3.25%	\$ 45,000		\$ (45,000)		
Total bonds payable			45,000		(45,000)		
<u>OWDA loans:</u>							
Drinking water loan	2000	2.00%	248,091		(23,961)	\$ 224,130	\$ 24,444
Water pollution loan	2000	1.20%	165,416		(16,540)	148,876	16,739
Sewer loan	2001	2.20%	304,513		(26,081)	278,432	26,658
Storm water loan	1998	1.20%	226,523		(25,470)	201,053	25,777
Storm water loan	2001	2.20%	151,625		(12,987)	138,638	13,274
US 224 lift station	2010	1.00%	215,854		(10,078)	205,776	10,179
Total OWDA loans			1,312,022		(115,117)	1,196,905	117,071
<u>Issue II loans:</u>							
Water line	1996	0.00%	23,838		(5,959)	17,879	1,987
Myrtle Avenue	2006	0.00%	111,200		(10,425)	100,775	3,475
Woodbine Street	2005	0.00%	36,296		(3,630)	32,666	1,210
US 224 pump station	2010	0.00%	49,962			49,962	
Total Issue II loans			221,296		(20,014)	201,282	6,672
<u>Other long-term obligations:</u>							
Compensated absences			255,069	\$ 146,966	(112,403)	289,632	127,355
Total business type activities long-term obligations			<u>\$ 1,833,387</u>	<u>\$ 146,966</u>	<u>\$ (292,534)</u>	<u>\$ 1,687,819</u>	<u>\$ 251,098</u>

Issue II loans: These loans were issued for the purpose of advancing funds so as to improve the Tiffin Street water line, the Myrtle Avenue water line system, the Woodbine Street sewer system and the US 224 pump station. Funding for the projects came from the local funds and the above-mentioned note for a period of 20 years. The loans are interest free. The water line and Myrtle Avenue loans are to be repaid from the water fund. The Woodbine Avenue and US 224 pump station loans are to be repaid from the sewer fund. The US 224 pump station loan is not closed as of December 31, 2011 and therefore is not presented in the amortization schedule below.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

OWDA loans:

Drinking water loan: The debt was incurred in 2000 to pay the cost of improvements to the water plant. The project was funded by local funds which were borrowed from the OWDA. A cooperative agreement was entered into in 2000 to finance the local portion. The loan is payable from revenues of the water fund. This loan bears an interest rate of 2.0% and matures on July 1, 2020.

Water pollution loan: The debt was incurred in 2000 to pay the cost of improvements to the storm water drainage system. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2000 to finance the local portion. The loan is payable from revenues of the sewer fund. This loan bears an interest rate of 1.20% and matures on July 1, 2020.

Sewer loan: The debt was incurred in 2001 to pay the cost of improvements to the sewer line on South Main Street. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2001 to finance the local portion. The loan is payable from revenues of the sewer fund. This loan bears an interest rate of 2.20% and matures on July 1, 2021.

Storm water loan 1998: The debt was incurred in 1998 to pay the cost of improvements to the storm water drainage system and the wastewater treatment plant. The projects were funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement with OWDA was entered into in 1998 to finance the local portion. The loan is payable from the sewer fund. This loan bears an interest rate of 1.20% and matures on July 1, 2019.

Storm water loan 2001: The debt was incurred in 2001 to pay the cost of improvements to the storm water drainage system at U.S. Route 224 - Section A. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2001 to finance the local portion. The loan is payable from the sewer fund. This loan bears an interest rate of 2.20% and matures on July 1, 2021.

US 224 lift station 2010: The debt was incurred in 2010 to pay the cost of improvements to the US 224 lift station. The loan is payable from the sewer fund. This loan bears an interest rate of 1.00% and matures on July 1, 2030.

Bond payable: On April 16, 2009, the City issued \$125,000 in water improvement bonds. These bonds bore interest rates ranging from 3% to 3.25% and matured on December 1, 2011. The bonds were retired from the water fund.

Compensated absences: The liability reported the statement of net assets for business-type activities compensated absences will be paid from the fund from which the employee's salaries are paid, which, for the City, is the water fund and the sewer fund.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The following is the summary of the City's future annual debt service and interest requirements for business-type activities obligations:

Year Ending December 31,	Issue II Loans			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 6,672		\$ 6,672	\$ 117,071	\$ 19,421	\$ 136,492
2013	13,343		13,343	119,059	17,434	136,493
2014	13,342		13,342	121,085	15,410	136,495
2015	13,342		13,342	123,144	13,347	136,491
2016	13,342		13,342	125,245	11,568	136,813
2017 - 2021	46,849		46,849	492,031	25,862	517,893
2022 - 2026	44,430		44,430	57,373	3,684	61,057
2027 - 2030				41,897	842	42,739
	<u>\$ 151,320</u>		<u>\$151,320</u>	<u>\$ 1,196,905</u>	<u>\$ 107,568</u>	<u>\$ 1,304,473</u>

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2011, the City's total debt margin was \$8,889,246 and the unvoted debt margin was \$5,059,605.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City participates with other cities in the Buckeye Ohio Risk Management Agency, Inc. (BORMA, Inc.), in jointly funded risk financing programs administered by Arthur J. Gallagher & Co. BORMA, Inc. includes two separate pools which provide separate and distinct coverages.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 14 - RISK MANAGEMENT – (Continued)

The first pool provides comprehensive automobile liability, automobile physical damage, comprehensive general liability, crime and property liability, and public officials' liability coverage up to specific limits. The pool includes the following municipalities: Archbold, Bowling Green, Defiance, Huron, Napoleon, Sandusky and Willard. Member contributions are calculated annually to produce a sufficient sum of money within the pool to fund administrative expenses and to create reserves for claims. As of December 31, 2011, the pool had cash reserves of \$723,835. The amount of risk retained with the pool is \$150,000 per occurrence for all coverages, except limited to \$25,000 per occurrence for crime only claims. Claims in excess of these BORMA, Inc. retentions are paid by the Public Entity Risk Corporation up to \$250,000 property/crime and \$500,000 liability per occurrence inclusive of the BORMA, Inc. retention. Claims in excess of \$250,000 property/crime and \$500,000 liability are covered by various insurance carriers up to \$250,000,000 property, \$1,000,000 crime and \$10,000,000 liability.

The second pool is for employee benefits and includes life insurance, accidental death and dismemberment insurance, health insurance and prescription drug insurance. Each member has an option on the coverage it has elected to provide for its employees. Willard provides to its employees all available options offered by the pool. The employee benefits pool includes the following municipalities: Archbold, Bowling Green, Carey, Clyde, Defiance, Fayette, Hicksville, Macedonia, Napoleon, Oberlin, Oregon, Sandusky, Upper Sandusky and Willard. As of December 31, 2010 (the latest information available), the pool had cash reserves of \$3,714,339.

Premiums are paid to the employee benefits pool at a cost of \$1,453.21 for family coverage and \$526.52 for single party coverage. Life insurance monthly premiums are \$3.60. During 2011, the City paid \$904,946 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the employee is \$125,000 per individual with excess claims coverage provided by Sun Life.

BORMA, Inc. has the ability to require the member cities to make supplemental payments in the event reserves are not adequate to cover claims. The probability of this occurring is considered remote due to the adequacy of the pool reserves and premium levels, therefore, no amount have been reserved in the financial statements. Audited financial statements are maintained separately by BORMA, Inc.

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 converge in any of the past three fiscal years.

Workers' compensation coverage is provided by the State of Ohio. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 15 - 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.

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 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$229,351, \$207,348, and \$192,731, respectively; 87.91% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$6,442 made by the City and \$4,601 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.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 15 - PENSION PLANS – (Continued)

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 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$146,003 and \$54,771 for the year ended December 31, 2011, \$148,723 and \$50,728 for the year ended December 31, 2010, and \$151,853 and \$49,316, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 76.67% has been contributed for 2011.

NOTE 16 - 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 2011, 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 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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, 2011, 2010, and 2009 were \$94,249, \$117,169, and \$139,359, respectively; 87.91% has been contributed for 2011 and 100% has been contributed for 2010 and 2009.

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

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.

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.

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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, 2011, 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 and firefighters were \$77,296 and \$21,432 for the year ended December 31, 2011, \$78,735 and \$19,850 for the year ended December 31, 2010, and \$80,393 and \$19,297, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 76.67% has been contributed for 2011.

NOTE 17 - 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 and disbursements.

The statement of revenue, 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);

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) 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

	General Fund
Budget basis	\$ 37,872
Net adjustment for revenue accruals	30,382
Net adjustment for expenditure accruals	(28,786)
Net adjustment for other sources/uses	(66,000)
Funds budgeted elsewhere	(161,780)
Adjustment for encumbrances	77,788
GAAP basis	\$ (110,524)

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the income tax fund, the electric system sale fund and the unclaimed monies fund.

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2011.

B. Litigation

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

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 19 - 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	Bond Retirement	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Materials and supplies inventory	\$ 9,233		\$ 20,271	\$ 29,504
Prepays	24,619		4,943	29,562
Electric system sale	1,575,000			1,575,000
Unclaimed monies	1,050			1,050
Perpetual care			16,607	16,607
Total nonspendable	1,609,902		41,821	1,651,723
Restricted:				
Capital improvements			1,336,409	1,336,409
Recreation programs			6,325	6,325
Transportation projects			530,919	530,919
Police and fire purposes			464,039	464,039
Other purposes			79,206	79,206
Total restricted			2,416,898	2,416,898
Committed:				
Recreation programs			123,452	123,452
Transportation projects			12,156	12,156
Other purposes			17,395	17,395
Total committed			153,003	153,003
Assigned:				
Debt service			7,023	7,023
Capital improvements			41,734	41,734
Subsequent year appropriations	492,910			492,910
Other purposes	43,086			43,086
Total assigned	535,996		48,757	584,753
Unassigned (deficit)	2,098,324	\$ (369,825)	(83,073)	1,645,426
Total fund balances	\$ 4,244,222	\$ (369,825)	\$ 2,577,406	\$ 6,451,803

**CITY OF WILLARD
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 20 - OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General fund	\$ 43,930
Other governmental	47,221
Total	\$ 91,151

NOTE 21 - RESTRICTED ASSETS

Restricted assets are specifically restricted for repayment to water customers who were required to make deposits for the guarantee of payment of water and sewer bills. Restricted cash and cash equivalents designated by the City or provided by operations are equally offset by a net assets restriction. Restricted assets at December 31, 2011 are comprised of the following:

	Cash and Cash Equivalents
Water fund:	
Customer deposits	\$ 52,916

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Dave Yost • Auditor of State

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

City of Willard
Huron County
631 Myrtle Avenue
Willard, Ohio 44890-1549

To the Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Willard, Huron County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 4, 2013, wherein we noted the City adopted Government Accounting Standards Board Statement 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

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

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated February 4, 2013.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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

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

Dave Yost
Auditor of State

February 4, 2013

**CITY OF WILLARD
HURON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011**

FINDING NUMBER 2011-001

Material Weakness

In November, 2010, the City Council adopted Ordinance 5384 establishing a utility capital charge that represents a portion of the rate charged for the provision of water and sewer services. The ordinance established a percentage applicable to the charges for customers residing inside and outside of City limits to be used for water and sewer capital.

The City maintains a Utility Debt Service fund in the accounting system. Historically this fund had been used to account for the repayment of debt issued for water utility purposes and was combined with the Water Fund for external financial reporting. In 2010 and 2011 the City was utilizing the Utility Debt Service Fund for the repayment of debt issued for water and sewer purposes as well as co-mingling the utility capital charges that are earmarked for water and sewer capital. For external reporting the activity of the Utility Debt Service fund should be reported with the applicable Water Fund and Sewer Fund. The financial statements and City's accounting system have been adjusted to properly reflect this activity for 2011.

Water and sewer utility activities are separate from one another, and the ordinance established by Council created a restriction on the use of these monies. Comingling of these monies within one fund results in the inability to demonstrate funds have been disbursed in accordance with the restrictions established by City Council upon adoption of the ordinance.

The City should establish separate funds in the accounting system to properly segregate the portion of revenues designated for water capital and sewer capital. Absent the creation of separate funds the City could consider creating sub-funds within the Utility Debt Service fund to properly segregate receipt and disbursement activity within the accounting system.

Officials' Response:

The City is in agreement that any utility capital charges that are specifically earmarked for Water or Sewer are to be reported on the financial statements as a component of these respective funds. The City was internally accounting for the amounts designated to the Water and Sewer Funds however during the GAAP Conversion process the Utility Debt Service Fund was combined with the Sewer Fund due to the fact that only Sewer debt had been reported in that fund for many years. The City has adjusted the financial statements for 2011 to report the earmarked funds and related disbursements in the Water Fund or Sewer Fund as appropriate. It is important to note that the cash activity recorded on the City's financial accounting system in the Utility Debt Service Fund was proper in terms of cash receipts, cash disbursements and cash balances. The adjustment for splitting the Utility Debt Service Fund activity between the Water Fund and Sewer Fund is an external reporting issue in the annual financial statements and has been corrected for subsequent years.

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CITY OF WILLARD

HURON 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
MARCH 5, 2013