



Dave Yost • Auditor of State

**CITY OF HUBBARD
TRUMBULL COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the 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 Hubbard, Trumbull County, Ohio (the "City"), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. 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 Hubbard, Trumbull County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2011, 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

August 5, 2011

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

The management's discussion and analysis of the City of Hubbard's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- The total net assets of the City increased \$2,202,892 from 2009 net assets. Net assets of governmental activities decreased \$169,086 or 6.71% from 2009 and net assets of business-type activities increased \$2,371,978 or 17.13% from 2009.
- General revenues accounted for \$2,746,737 or 83.62% of total governmental activities revenue. Program specific revenues accounted for \$538,183 or 16.38% of total governmental activities revenue.
- The City had \$3,469,321 in expenses related to governmental activities; \$538,183 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,931,138 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$2,746,737.
- The general fund had revenues of \$2,737,995 in 2010. This represents a decrease of \$123,616 from 2009 revenues. The expenditures and other financing uses of the general fund, which totaled \$2,922,411 in 2010, increased \$13,283 from 2009. The net decrease in fund balance for the general fund was \$184,416 or 38.84%.
- Net assets for the business-type activities, which are made up of the water, sewer, electric, guarantee trust (utility connection deposits) and stormwater enterprise funds, increased in 2010 by \$2,371,978. This increase in net assets was due primarily to capital contributions of \$1,775,375 made to the electric fund from outside entities.
- In the general fund, the actual revenues of \$2,736,529 were \$3,434 less than the amount in the final budget and actual expenditures and other financing uses of \$2,925,540 were \$11,180 less than the amount in the final budget. The overall positive variance is the result of the City's conservative budgeting. Budgeted revenues increased \$24,801 from the original to the final budget. Budgeted expenditures and other financing uses increased \$104,829 from the original to the final budget.

Using this Annual Financial Report

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

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

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

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 the City perform financially during 2010?" 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 reflects all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net *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, others not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net 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 and rescue, street maintenance, cemetery, capital improvements, and general administration. These services are funded primarily by property taxes, income taxes, and intergovernmental revenues including federal and State grants and other shared revenues.

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

The City's statement of net assets and statement of activities can be found on pages 17-19 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

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

The City maintains several individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental fund is the general fund. Information for the major funds are presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-24 of this report.

Proprietary Funds

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

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The basic proprietary fund financial statements can be found on pages 25-32 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency and private-purpose trust funds are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 33-34 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 35-67 of this report.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

Government-Wide Financial Analysis

The statement of net assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets at December 31, 2010 and December 31, 2009.

	Net Assets					
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	2010 Total	2009 Total
	<u>2010</u>	<u>2010</u>	<u>2009</u>	<u>2009</u>	<u>Total</u>	<u>Total</u>
<u>Assets</u>						
Current and other assets	\$ 1,925,597	\$ 7,549,450	\$ 2,122,938	\$ 7,045,118	\$ 9,475,047	\$ 9,168,056
Capital assets	<u>4,582,697</u>	<u>14,673,874</u>	<u>4,968,632</u>	<u>13,608,549</u>	<u>19,256,571</u>	<u>18,577,181</u>
Total assets	<u>6,508,294</u>	<u>22,223,324</u>	<u>7,091,570</u>	<u>20,653,667</u>	<u>28,731,618</u>	<u>27,745,237</u>
<u>Liabilities</u>						
Current liabilities	655,500	2,297,643	673,607	2,460,990	2,953,143	3,134,597
Long-term liabilities	<u>3,503,656</u>	<u>3,706,394</u>	<u>3,899,739</u>	<u>4,345,368</u>	<u>7,210,050</u>	<u>8,245,107</u>
Total liabilities	<u>4,159,156</u>	<u>6,004,037</u>	<u>4,573,346</u>	<u>6,806,358</u>	<u>10,163,193</u>	<u>11,379,704</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	1,333,597	9,386,242	1,296,622	7,584,255	10,719,839	8,880,877
Restricted	596,923	-	495,361	-	596,923	495,361
Unrestricted	<u>418,618</u>	<u>6,833,045</u>	<u>726,241</u>	<u>6,263,054</u>	<u>7,251,663</u>	<u>6,989,295</u>
Total net assets	<u>\$ 2,349,138</u>	<u>\$ 16,219,287</u>	<u>\$ 2,518,224</u>	<u>\$ 13,847,309</u>	<u>\$ 18,568,425</u>	<u>\$ 16,365,533</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2010, the City's assets exceeded liabilities by \$18,568,425. At year-end, net assets were \$2,349,138 and \$16,219,287 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 net assets. At year-end, capital assets represented 67.02% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2010, were \$1,333,597 and \$9,386,242 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.

As of December 31, 2010, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$596,923, 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 \$418,618 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

The following table shows the comparative analysis of changes in net assets for 2010 compared to 2009.

	Change in Net Assets					
	Governmental	Business-type	Governmental	Business-type	2010	2009
	Activities	Activities	Activities	Activities	Total	Total
	2010	2010	2009	2009		
Revenues						
Program revenues:						
Charges for services	\$ 49,339	\$ 8,971,890	\$ 52,136	\$ 8,448,456	\$ 9,021,229	\$ 8,500,592
Operating grants and contributions	455,844	-	398,742	-	455,844	398,742
Capital grants and contributions	33,000	1,782,666	70,737	45,048	1,815,666	115,785
Total program revenues	538,183	10,754,556	521,615	8,493,504	11,292,739	9,015,119
General revenues:						
Property taxes	291,107	-	291,044	-	291,107	291,044
Income taxes	1,947,617	-	1,882,307	-	1,947,617	1,882,307
Other local taxes	-	31,264	-	28,124	31,264	28,124
Unrestricted grants and entitlements	238,046	-	258,833	-	238,046	258,833
Investment earnings	126,367	-	234,367	-	126,367	234,367
Miscellaneous	143,600	51,557	187,752	37,980	195,157	225,732
Total general revenues	2,746,737	82,821	2,854,303	66,104	2,829,558	2,920,407
Total revenues	3,284,920	10,837,377	3,375,918	8,559,608	14,122,297	11,935,526
Expenses:						
General government	409,678	-	411,218	-	409,678	411,218
Security of persons and property	1,920,990	-	1,875,313	-	1,920,990	1,875,313
Public health and welfare	30,049	-	26,982	-	30,049	26,982
Transportation	917,874	-	999,817	-	917,874	999,817
Community environment	516	-	400	-	516	400
Leisure time activity	50,463	-	36,897	-	50,463	36,897
Interest and fiscal charges	139,751	-	148,925	-	139,751	148,925
Sewer	-	1,254,613	-	1,080,758	1,254,613	1,080,758
Water	-	1,446,803	-	1,337,741	1,446,803	1,337,741
Electric	-	5,687,937	-	5,929,061	5,687,937	5,929,061
Guarantee trust	-	8,717	-	10,721	8,717	10,721
Stormwater	-	52,014	-	74,374	52,014	74,374
Total expenses	3,469,321	8,450,084	3,499,552	8,432,655	11,919,405	11,932,207
Transfers	15,315	(15,315)	(15,753)	15,753	-	-
Change in net assets	(169,086)	2,371,978	(139,387)	142,706	2,202,892	3,319
Net assets at beginning of year	2,518,224	13,847,309	2,657,611	13,704,603	16,365,533	16,362,214
Net assets at end of year	\$ 2,349,138	\$ 16,219,287	\$ 2,518,224	\$ 13,847,309	\$ 18,568,425	\$ 16,365,533

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

Governmental Activities

Governmental activities net assets decreased \$169,086 in 2010. This decrease is a result of overall economic decline of the automotive and manufacturing sectors of the economy. The City operates in a highly manufacturing-based region of Ohio and the recession has significantly impacted the financial welfare of the City. Further, the sub-prime mortgage crisis has also impacted the City with an increase in real property foreclosures.

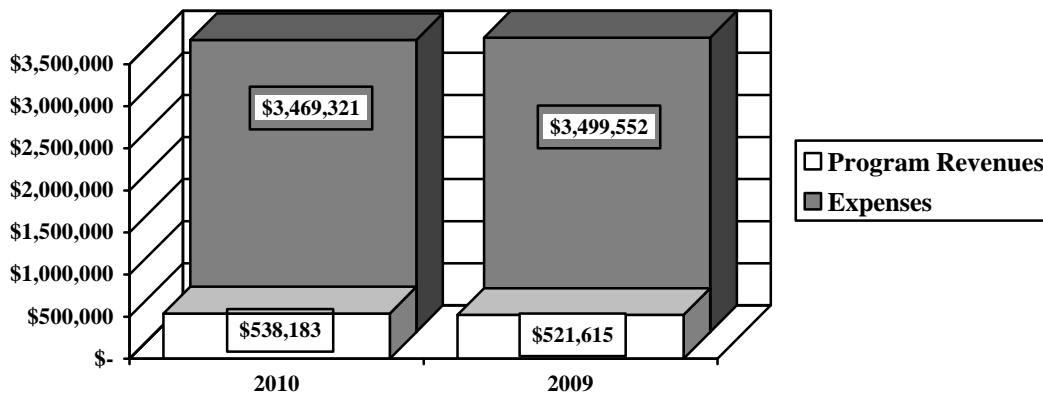
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$1,920,990 of the total expenses of the City. These expenses were partially funded by \$34,755 in direct charges to users of the services and \$1,515 in operating grants and contributions. Transportation expenses totaled \$917,874. Transportation expenses were partially funded by \$453,129 in operating grants and contributions and \$33,000 in capital grants and contributions.

The State and federal government contributed to the City a total of \$455,844 in operating grants and contributions and \$33,000 capital grants and contributions. These revenues are restricted to a particular program or purpose. The entire amount of capital grants and contributions subsidized transportation programs.

General revenues totaled \$2,746,737, and amounted to 83.62% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,238,724. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$238,046.

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

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF HUBBARD, OHIO

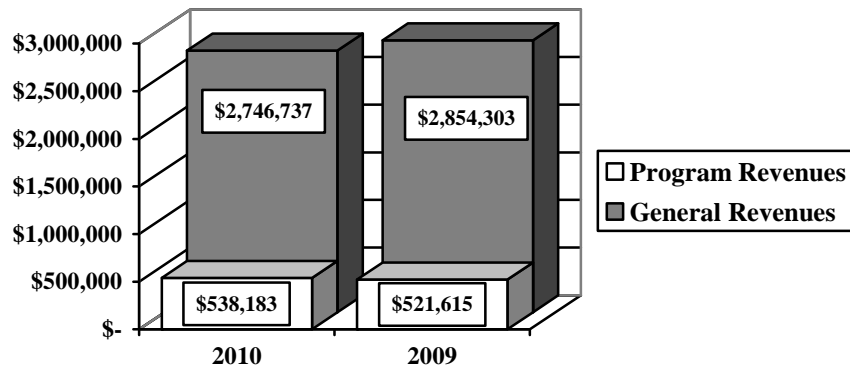
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

The following table shows, for governmental activities, the total cost of services and the net cost of services for 2010 and 2009. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program Expenses:				
General government	\$ 409,678	\$ 404,169	\$ 411,218	\$ 395,887
Security of persons and property	1,920,990	1,884,720	1,875,313	1,841,509
Public health and welfare	30,049	20,974	26,982	23,981
Transportation	917,874	431,745	999,817	531,538
Community environment	516	516	400	400
Leisure time activity	50,463	49,263	36,897	35,697
Interest and fiscal charges	139,751	139,751	148,925	148,925
Total	\$ 3,469,321	\$ 2,931,138	\$ 3,499,552	\$ 2,977,937

The dependence upon general revenues for governmental activities is apparent, with 84.49% of expenses supported through taxes and other general revenues.

Governmental Activities – General and Program Revenues



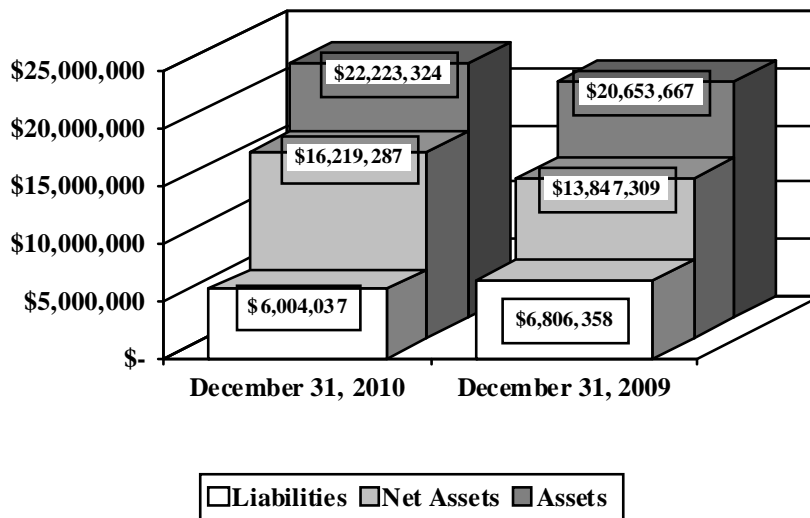
CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

Business-type Activities

Business-type activities include the water, sewer, electric, guarantee trust and stormwater enterprise funds. These programs had program revenues of \$10,754,556, general revenues of \$82,821, expenses of \$8,450,084 and transfers out of \$15,315 for 2010. The graph below shows the business-type activities assets, liabilities and net assets at December 31, 2010 and December 31, 2009.

Net Assets in Business-type Activities



Business-type activities net assets increased \$2,371,978 in 2010. This increase is primarily a result of capital contributions in the electric fund related to traffic signal upgrades that were completed and donated to the City by the Ohio Department of Transportation (ODOT).

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.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$814,972 which is \$68,745 below last year's total of \$883,717. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2010 and December 31, 2009 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> <u>12/31/10</u>	<u>Fund Balances</u> <u>12/31/09</u>	<u>Increase/</u> <u>(Decrease)</u>
Major fund:			
General	\$ 290,338	\$ 474,754	\$ (184,416)
Other nonmajor governmental funds	<u>524,634</u>	<u>408,963</u>	<u>115,671</u>
Total	<u>\$ 814,972</u>	<u>\$ 883,717</u>	<u>\$ (68,745)</u>

General Fund

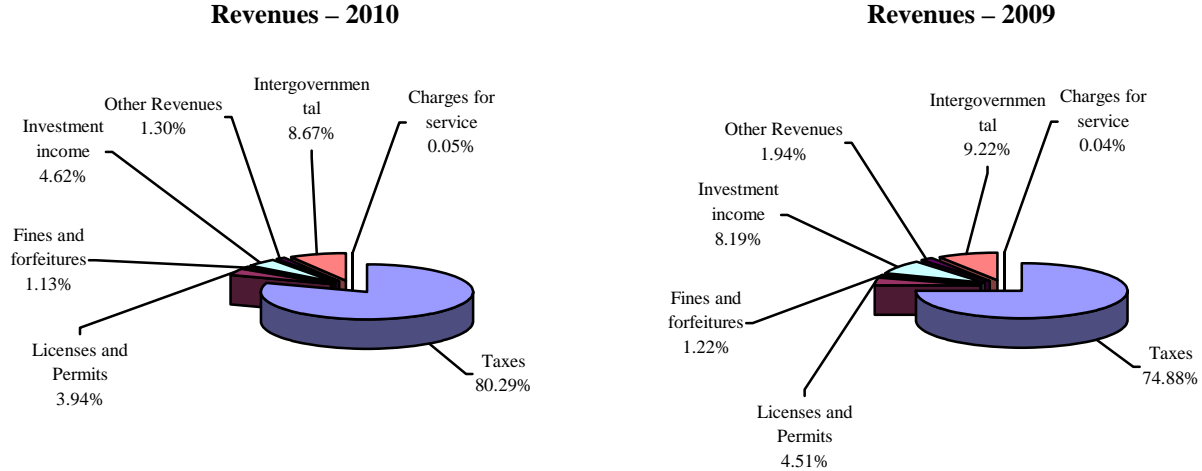
The City's general fund balance decreased \$184,416. The table that follows assists in illustrating the revenues of the general fund.

	<u>2010</u> <u>Amount</u>	<u>2009</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 2,198,312	\$ 2,142,609	2.60 %
Charges for services	1,226	1,139	7.64 %
Licenses and permits	107,927	129,145	(16.43) %
Fines and forfeitures	31,074	34,995	(11.20) %
Intergovernmental	237,418	263,757	(9.99) %
Investment income	126,365	234,364	(46.08) %
Other	<u>35,673</u>	<u>55,602</u>	<u>(35.84) %</u>
Total	<u>\$ 2,737,995</u>	<u>\$ 2,861,611</u>	<u>(4.32) %</u>

Tax revenue represents 80.29% of all general fund revenue, and remained comparable to 2009. Licenses and permits revenue experienced a moderate decrease of \$21,218 or 16.43% due to limited construction activity within the City during 2010. Intergovernmental revenue decreased \$26,339 or 9.99% primarily due to a decrease in inheritance tax. Investment income decreased \$107,999 or 46.08% due to declining interest rates.

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**



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

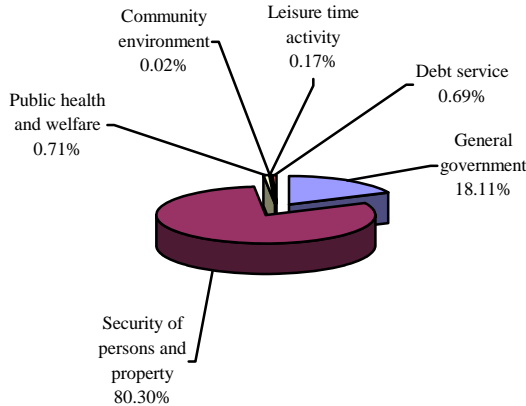
	2010 <u>Amount</u>	2009 <u>Amount</u>	Percentage <u>Change</u>
<u>Expenditures</u>			
General government	\$ 379,670	\$ 387,286	(1.97) %
Security of persons and property	1,683,672	1,637,801	2.80 %
Public health and welfare	14,974	14,721	1.72 %
Community environment	516	400	29.00 %
Leisure time activity	3,550	3,937	(9.83) %
Debt service	14,388	13,400	7.37 %
Total	<u>\$ 2,096,770</u>	<u>\$ 2,057,545</u>	<u>1.91 %</u>

Overall expenditures of the general fund increased slightly during 2010, but remained comparable in all areas to 2009. This moderate increase is a result of conservative budgeting and cost containment measures that have been enacted to address the continued sluggish economy.

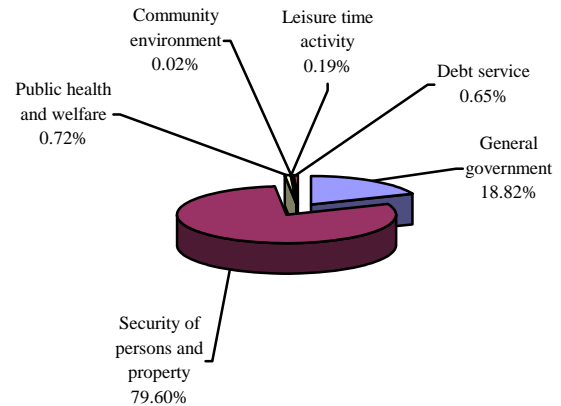
CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

Expenditures – 2010



Expenditures – 2009



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 of \$2,736,529 were \$3,434 less than the amount in the final budget and actual expenditures and other financing uses of \$2,925,540 were \$11,180 less than the amount in the final budget. The overall positive variance is the result of the City's conservative budgeting. Budgeted revenues increased \$24,801 from the original to the final budget. Budgeted expenditures and other financing uses increased \$104,829 from the original to the final budget.

Proprietary Funds

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

CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

Capital Assets and Debt Administration

Capital Assets

At the end of 2010, the City had \$19,256,571 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and construction in progress. Of this total, \$4,582,697 was reported in governmental activities and \$14,673,874 was reported in business-type activities. See Note 9 to the basic financial statements for detail. The following table shows December 31, 2010 balances compared to December 31, 2009:

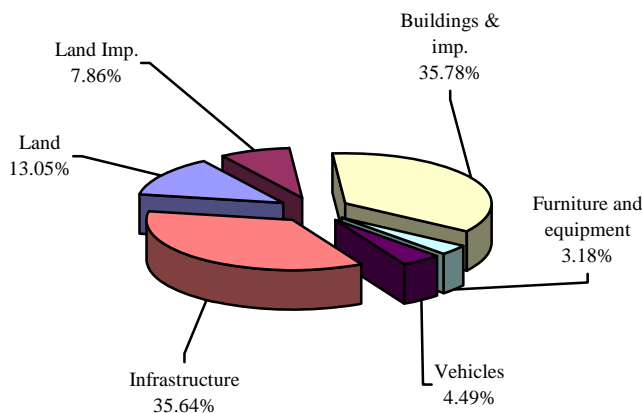
**Capital Assets at December 31
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 597,871	\$ 597,871	\$ 180,423	\$ 180,423	\$ 778,294	\$ 778,294
Construction in progress	-	-	-	442,021	-	442,021
Land improvements	360,357	391,244	130,223	142,254	490,580	533,498
Buildings and improvements	1,639,910	1,687,624	2,369,496	2,491,666	4,009,406	4,179,290
Furniture and equipment	145,820	178,253	1,279,759	1,471,891	1,425,579	1,650,144
Vehicles	205,614	262,477	225,015	273,958	430,629	536,435
Infrastructure	<u>1,633,125</u>	<u>1,851,163</u>	<u>10,488,958</u>	<u>8,606,336</u>	<u>12,122,083</u>	<u>10,457,499</u>
Totals	\$ 4,582,697	\$ 4,968,632	\$ 14,673,874	\$ 13,608,549	\$ 19,256,571	\$ 18,577,181

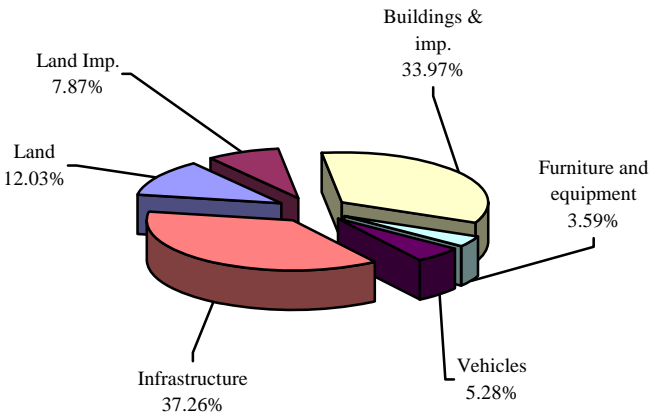
The overall decrease in governmental capital assets of \$385,935 is due to depreciation expense of \$434,250 exceeding capital outlays of \$48,315 for 2010. The overall increase in business-type capital assets of \$1,065,325 is due to capital outlays of \$1,796,492 exceeding depreciation expense of \$731,167.

The following graphs show the breakdown of governmental activities capital assets by category at December 31, 2010 and December 31, 2009.

Capital Assets - Governmental Activities 2010



Capital Assets - Governmental Activities 2009



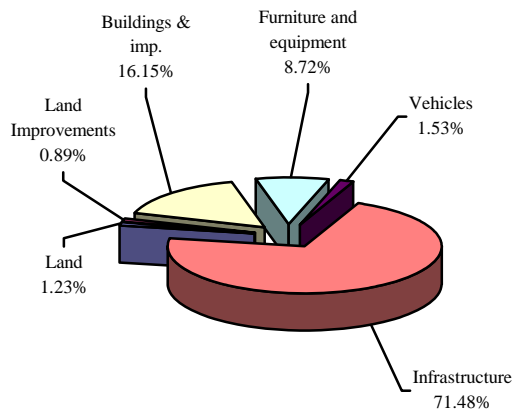
CITY OF HUBBARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
(UNAUDITED)**

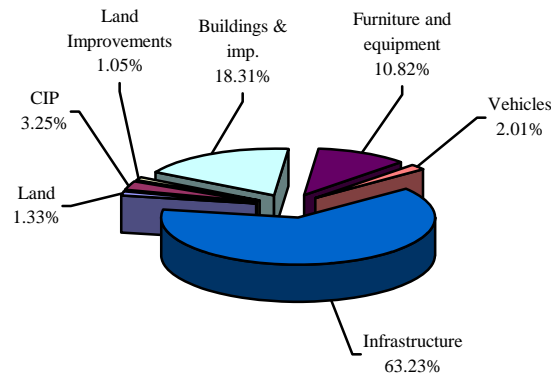
One of the City's largest capital asset categories is infrastructure which includes roads, sidewalks, traffic lights and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents 35.64% of the City's total governmental capital assets. Buildings and improvements is also a significant capital asset category, accounting for 35.78% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type activities capital assets by category at December 31, 2010 and December 31, 2009.

Capital Assets - Business-type Activities 2010



Capital Assets - Business-type Activities 2009



The City's largest business-type capital asset category is infrastructure that primarily includes water, sewer, and electrical lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 71.48% of the City's total business-type capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2010 and December 31, 2009 (See Note 12 to the basic financial statements for detail):

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 3,200,000	\$ 3,600,000
Capital lease obligation	49,100	72,010
Compensated absences	<u>254,556</u>	<u>227,729</u>
Total long-term obligations	<u>\$ 3,503,656</u>	<u>\$ 3,899,739</u>
	<u>Business-type Activities</u>	
	<u>2010</u>	<u>2009</u>
Refunding BAN	\$ 1,370,000	\$ 1,790,000
OPWC loans	618,867	702,813
OWDA loan	1,501,791	1,613,355
Capital lease obligation	49,101	72,011
Compensated absences	<u>206,762</u>	<u>221,074</u>
Total long-term obligations	<u>\$ 3,746,521</u>	<u>\$ 4,399,253</u>

CITY OF HUBBARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2010 (UNAUDITED)

Economic Conditions and Next Year's General Fund Budget Outlook

The City's Administration considers the impact of various economic factors when establishing the 2010 budget. The continued challenges resulting from regional loss of employment, stagnant economic development, and the general national recession, have continued to influence the objectives established in the 2010 budget. Despite the continued downturn in the regional economy, the City's revenue and expenditure patterns have gained stability. As a result, the City continues to operate its financial decision making conservatively.

The City continues to carefully monitor two primary sources of revenue – local income taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to make efforts to maintain its employment base, maintain the community's reputation for high public safety standards, and adopt a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2010 budget, the City emphasized various efforts to continue to contain costs.

Final budgeted revenues in the general fund for 2010 were \$2,739,963, a decrease of \$73,161 or 2.60% from final 2009 budgeted revenues of \$2,813,124. Final budgeted expenditures and other financing uses in the general fund for 2010 were \$2,936,720, an increase of \$29,203 or 1.00% from the final 2009 budgeted amount of \$2,907,517. For financial reporting purposes, the general fund is comprised of the following funds: the general fund, income tax fund, and unclaimed monies fund.

The average unemployment rate for Trumbull County in 2010 was 11.78% – considerably lower than the 2009 rate of 14.5%. The county unemployment rate compared slightly higher than the 10.9% State of Ohio average and 10.0% national average. The City Auditor anticipates the 2011 rate to stabilize due to the lessening impact of the overall national recession. The combination of the City's stabilizing local income tax collections and conservative budgeting practices should result in a stable financial future for the City.

Contacting the City's Financial Management

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

CITY OF HUBBARD, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 530,516	\$ 5,995,255	\$ 6,525,771
Cash in segregated accounts	550	200	750
Receivables (net of allowance for uncollectibles):			
Income taxes	490,488	-	490,488
Real and other taxes	391,703	2,426	394,129
Accounts	74,927	743,215	818,142
Special assessments	7,125	-	7,125
Internal balance	36,660	(36,660)	-
Due from other governments	289,825	-	289,825
Prepayments	5,998	17,870	23,868
Materials and supplies inventory	28,124	523,681	551,805
Deferred charges	-	11,715	11,715
Unamortized bond issuance costs	69,681	50,182	119,863
Investment in joint ventures	-	241,566	241,566
Capital assets:			
Land	597,871	180,423	778,294
Depreciable capital assets, net	3,984,826	14,493,451	18,478,277
Total capital assets	<u>4,582,697</u>	<u>14,673,874</u>	<u>19,256,571</u>
Total assets	<u>6,508,294</u>	<u>22,223,324</u>	<u>28,731,618</u>
Liabilities:			
Accounts payable	15,936	418,735	434,671
Accrued wages and benefits	24,395	24,701	49,096
Due to other governments	101,661	54,385	156,046
Unearned revenue	345,331	-	345,331
Accrued interest payable	9,277	11,822	21,099
Claims payable	158,900	-	158,900
Revenue anticipation note	-	1,788,000	1,788,000
Long-term liabilities:			
Due within one year	545,094	676,817	1,221,911
Due in more than one year	2,958,562	3,029,577	5,988,139
Total liabilities	<u>4,159,156</u>	<u>6,004,037</u>	<u>10,163,193</u>
Net assets:			
Invested in capital assets, net of related debt	1,333,597	9,386,242	10,719,839
Restricted for:			
Debt service	2,402	-	2,402
Capital projects	303,759	-	303,759
Street construction and maintenance	200,186	-	200,186
State highway	22,596	-	22,596
Law enforcement	31,130	-	31,130
Police pension	7,586	-	7,586
Maple Grove cemetery	1,958	-	1,958
Recreation	23,735	-	23,735
Other purposes	1,854	-	1,854
Perpetual care:			
Expendable	877	-	877
Nonexpendable	840	-	840
Unrestricted	<u>418,618</u>	<u>6,833,045</u>	<u>7,251,663</u>
Total net assets	<u>\$ 2,349,138</u>	<u>\$ 16,219,287</u>	<u>\$ 18,568,425</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 409,678	\$ 5,509	\$ -	\$ -
Security of persons and property	1,920,990	34,755	1,515	-
Public health and welfare	30,049	9,075	-	-
Transportation	917,874	-	453,129	33,000
Community environment	516	-	-	-
Leisure time activity	50,463	-	1,200	-
Interest and fiscal charges	139,751	-	-	-
Total governmental activities	3,469,321	49,339	455,844	33,000
Business-type Activities:				
Sewer	1,254,613	1,295,582	-	7,291
Water	1,446,803	1,686,949	-	-
Electric	5,687,937	5,860,382	-	1,775,375
Other business-type activities:				
Guarantee Trust	8,717	-	-	-
Stormwater	52,014	128,977	-	-
Total business-type activities	8,450,084	8,971,890	-	1,782,666
Total primary government	\$ 11,919,405	\$ 9,021,229	\$ 455,844	\$ 1,815,666

General Revenues:

Property taxes levied for:

 General purposes

 Police pension

Income taxes levied for:

 General purposes

Other local taxes

Grants and entitlements not restricted to specific programs

Investment earnings

Miscellaneous

Total general revenues

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
\$ (404,169)	\$ -	\$ (404,169)
(1,884,720)	-	(1,884,720)
(20,974)	-	(20,974)
(431,745)	-	(431,745)
(516)	-	(516)
(49,263)	-	(49,263)
(139,751)	-	(139,751)
<u>(2,931,138)</u>	<u>-</u>	<u>(2,931,138)</u>
-	48,260	48,260
-	240,146	240,146
-	1,947,820	1,947,820
-	(8,717)	(8,717)
-	76,963	76,963
<u>-</u>	<u>2,304,472</u>	<u>2,304,472</u>
<u>(2,931,138)</u>	<u>2,304,472</u>	<u>(626,666)</u>
256,219	-	256,219
34,888	-	34,888
1,947,617	-	1,947,617
-	31,264	31,264
238,046	-	238,046
126,367	-	126,367
143,600	51,557	195,157
<u>2,746,737</u>	<u>82,821</u>	<u>2,829,558</u>
<u>15,315</u>	<u>(15,315)</u>	<u>-</u>
(169,086)	2,371,978	2,202,892
<u>2,518,224</u>	<u>13,847,309</u>	<u>16,365,533</u>
<u>\$ 2,349,138</u>	<u>\$ 16,219,287</u>	<u>\$ 18,568,425</u>

CITY OF HUBBARD, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 6,893	\$ 464,728	\$ 471,621
Cash in segregated accounts	200	350	550
Receivables (net of allowance for uncollectibles):			
Income taxes	490,488	-	490,488
Real and other taxes	351,182	40,521	391,703
Accounts	25,585	-	25,585
Special assessments	7,125	-	7,125
Due from other governments	100,839	188,986	289,825
Prepayments	5,898	100	5,998
Materials and supplies inventory	5,690	22,434	28,124
Total assets	<u>\$ 993,900</u>	<u>\$ 717,119</u>	<u>\$ 1,711,019</u>
Liabilities:			
Accounts payable	\$ 7,382	\$ 5,106	\$ 12,488
Accrued wages and benefits	17,965	6,430	24,395
Due to other governments	83,346	18,315	101,661
Deferred revenue	285,262	126,910	412,172
Unearned revenue	309,607	35,724	345,331
Total liabilities	<u>703,562</u>	<u>192,485</u>	<u>896,047</u>
Fund balances:			
Reserved for prepaids	5,898	100	5,998
Reserved for materials and supplies inventory	5,690	22,434	28,124
Reserved for unclaimed monies	2,763	-	2,763
Reserved for perpetual care	-	840	840
Unreserved, undesignated, reported in:			
General fund	275,987	-	275,987
Special revenue funds	-	194,222	194,222
Debt service fund	-	2,402	2,402
Capital projects funds	-	303,759	303,759
Permanent fund	-	877	877
Total fund balances	<u>290,338</u>	<u>524,634</u>	<u>814,972</u>
Total liabilities and fund balances	<u>\$ 993,900</u>	<u>\$ 717,119</u>	<u>\$ 1,711,019</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2010

Total governmental fund balances		\$	814,972
<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.			4,582,697
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income taxes receivable	\$	176,768	
Property taxes receivable		41,372	
Special assessments receivable		7,125	
Intergovernmental receivable		186,907	
Total		186,907	412,172
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(9,277)
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.			(54,111)
Unamortized bond issuance costs are not recognized in the funds.			69,681
An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.			36,660
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(3,200,000)	
Compensated absences		(254,556)	
Capital lease payable		(49,100)	
Total		(3,503,656)	(3,503,656)
Net assets of governmental activities		\$	2,349,138

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Income taxes	\$ 1,936,008	\$ -	\$ 1,936,008
Property and other taxes.	262,304	35,590	297,894
Charges for services.	1,226	8,800	10,026
Licenses and permits	107,927	-	107,927
Fines and forfeitures	31,074	5,064	36,138
Intergovernmental.	237,418	485,081	722,499
Investment income.	126,365	1,056	127,421
Other	35,673	5,356	41,029
Total revenues	<u>2,737,995</u>	<u>540,947</u>	<u>3,278,942</u>
Expenditures:			
Current:			
General government	379,670	1	379,671
Security of persons and property	1,683,672	58,274	1,741,946
Public health and welfare.	14,974	15,075	30,049
Transportation	-	563,955	563,955
Community environment	516	-	516
Leisure time activity	3,550	43,890	47,440
Capital outlay	-	33,000	33,000
Debt service:			
Principal retirement.	11,455	411,455	422,910
Interest and fiscal charges	2,933	125,267	128,200
Total expenditures	<u>2,096,770</u>	<u>1,250,917</u>	<u>3,347,687</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>641,225</u>	<u>(709,970)</u>	<u>(68,745)</u>
Other financing sources (uses):			
Transfers in	-	825,641	825,641
Transfers out.	<u>(825,641)</u>	<u>-</u>	<u>(825,641)</u>
Total other financing sources (uses).	<u>(825,641)</u>	<u>825,641</u>	<u>-</u>
Net change in fund balances	(184,416)	115,671	(68,745)
Fund balances at beginning of year	<u>474,754</u>	<u>408,963</u>	<u>883,717</u>
Fund balances at end of year	<u>\$ 290,338</u>	<u>\$ 524,634</u>	<u>\$ 814,972</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

Net change in fund balances - total governmental funds \$ (68,745)

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital asset additions	\$ 48,315	
Current year depreciation	(434,250)	
Total	(385,935)	(385,935)

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

Income taxes	11,609	
Property taxes	(6,787)	
Special assessments	(2,429)	
Intergovernmental revenues	1,156	
Total	3,549	3,549

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (1,477)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 422,910

Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. (10,074)

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. (26,827)

An internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. (102,487)

Change in net assets of governmental activities **\$ (169,086)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 1,910,289	\$ 1,927,737	\$ 1,925,321	\$ (2,416)
Property and other taxes	262,326	264,910	264,552	(358)
Charges for services	1,167	1,177	1,176	(1)
Licenses and permits	107,856	108,841	108,705	(136)
Fines and forfeitures	30,831	31,113	31,074	(39)
Intergovernmental	239,740	241,742	241,465	(277)
Investment income	125,378	126,524	126,365	(159)
Other	37,575	37,919	37,871	(48)
Total revenues	<u>2,715,162</u>	<u>2,739,963</u>	<u>2,736,529</u>	<u>(3,434)</u>
Expenditures:				
Current:				
General government	379,059	393,090	391,594	1,496
Security of persons and property	1,621,518	1,681,543	1,675,141	6,402
Public health and welfare	14,495	15,031	14,974	57
Community environment	499	518	516	2
Leisure time activity	3,181	3,299	3,286	13
Debt service:				
Principal retirement	11,088	11,499	11,455	44
Interest and fiscal charges	2,839	2,944	2,933	11
Total expenditures	<u>2,032,679</u>	<u>2,107,924</u>	<u>2,099,899</u>	<u>8,025</u>
Excess of revenues over expenditures	<u>682,483</u>	<u>632,039</u>	<u>636,630</u>	<u>4,591</u>
Other financing uses:				
Transfers out	(799,212)	(828,796)	(825,641)	3,155
Total other financing uses	<u>(799,212)</u>	<u>(828,796)</u>	<u>(825,641)</u>	<u>3,155</u>
Net change in fund balance	(116,729)	(196,757)	(189,011)	7,746
Fund balance at beginning of year	<u>199,525</u>	<u>199,525</u>	<u>199,525</u>	<u>-</u>
Fund balance at end of year	<u>\$ 82,796</u>	<u>\$ 2,768</u>	<u>\$ 10,514</u>	<u>\$ 7,746</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF HUBBARD, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Electric	Nonmajor
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 548,843	\$ 1,063,132	\$ 4,047,439	\$ 335,841
Cash in segregated accounts	-	-	200	-
Receivables (net of allowance for uncollectibles):				
Real and other taxes	-	-	2,426	-
Accounts	117,680	135,090	477,572	12,873
Prepayments	8,540	6,685	905	1,740
Materials and supplies inventory	2,757	81,767	439,157	-
Total current assets	677,820	1,286,674	4,967,699	350,454
Noncurrent assets:				
Unamortized bond issue costs	50,182	-	-	-
Deferred charges	-	-	11,715	-
Investment in joint ventures	-	-	241,566	-
Capital assets:				
Land	95,078	85,345	-	-
Depreciable capital assets, net.	5,688,652	4,605,826	4,198,973	-
Total capital assets.	5,783,730	4,691,171	4,198,973	-
Total noncurrent assets	5,833,912	4,691,171	4,452,254	-
Total assets	6,511,732	5,977,845	9,419,953	350,454
Liabilities:				
Current liabilities:				
Accounts payable	15,446	43,651	357,853	1,785
Accrued wages and benefits	5,620	6,869	12,212	-
Compensated absences	20,544	15,167	35,233	-
Due to other governments	12,735	13,712	27,938	-
Capital lease obligation	23,987	-	-	-
Claims payable	-	-	-	-
Revenue anticipation note	-	-	1,788,000	-
Current portion of revenue bonds payable	435,000	-	-	-
Current portion of OWDA loans.	-	118,905	-	-
Current portion of OPWC loans.	5,873	22,108	-	-
Accrued interest payable	6,756	-	5,066	-
Total current liabilities	525,961	220,412	2,226,302	1,785
Long-term liabilities:				
Capital lease obligation	25,114	-	-	-
Revenue bonds	894,873	-	-	-
OWDA loans	-	1,382,886	-	-
OPWC loans	93,968	496,918	-	-
Compensated absences	66,021	21,302	48,495	-
Total long-term liabilities	1,079,976	1,901,106	48,495	-
Total liabilities	1,605,937	2,121,518	2,274,797	1,785
Net assets:				
Invested in capital assets, net of related debt.	4,304,915	2,670,354	2,410,973	-
Unrestricted (deficit)	600,880	1,185,973	4,734,183	348,669
Total net assets (deficit).	\$ 4,905,795	\$ 3,856,327	\$ 7,145,156	\$ 348,669

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

Net assets of business-type activities

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Total	Governmental Activities - Internal Service Fund
\$ 5,995,255	\$ 58,895
200	-
2,426	-
743,215	49,342
17,870	-
523,681	-
<u>7,282,647</u>	<u>108,237</u>
50,182	-
11,715	-
241,566	-
180,423	-
14,493,451	-
<u>14,673,874</u>	<u>-</u>
14,977,337	-
<u>22,259,984</u>	<u>108,237</u>
418,735	3,448
24,701	-
70,944	-
54,385	-
23,987	-
-	158,900
1,788,000	-
435,000	-
118,905	-
27,981	-
11,822	-
<u>2,974,460</u>	<u>162,348</u>
25,114	-
894,873	-
1,382,886	-
590,886	-
135,818	-
<u>3,029,577</u>	<u>-</u>
<u>6,004,037</u>	<u>162,348</u>
9,386,242	-
<u>6,869,705</u>	<u>(54,111)</u>
<u>16,255,947</u>	<u>\$ (54,111)</u>
(36,660)	
<u>\$ 16,219,287</u>	

CITY OF HUBBARD, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Electric	Nonmajor
Operating revenues:				
Charges for services	\$ 1,291,782	\$ 1,686,949	\$ 5,860,382	\$ 128,977
Tap-in fees.	3,800	-	-	-
Other	373	2,106	33,931	15,147
Total operating revenues.	1,295,955	1,689,055	5,894,313	144,124
Operating expenses:				
Personal services	643,613	520,619	979,816	-
Contract services.	157,963	575,393	4,097,037	52,014
Materials and supplies.	106,383	96,297	-	-
Other	-	-	-	8,717
Depreciation.	247,820	154,967	328,380	-
Total operating expenses.	1,155,779	1,347,276	5,405,233	60,731
Operating income (loss)	140,176	341,779	489,080	83,393
Nonoperating revenues (expenses):				
Interest expense and fiscal charges	(104,470)	(106,159)	(51,748)	-
Investment in joint ventures	-	-	(25,008)	-
Nonoperating expenses	-	-	(218,342)	-
Nonoperating revenues	-	-	31,264	-
Total nonoperating revenues (expenses).	(104,470)	(106,159)	(263,834)	-
Income (loss) before transfers and capital contributions	35,706	235,620	225,246	83,393
Transfers out	(1,320)	(1,455)	-	(12,540)
Capital contributions.	7,291	-	1,775,375	-
Changes in net assets	41,677	234,165	2,000,621	70,853
Net assets at beginning of year.	4,864,118	3,622,162	5,144,535	277,816
Net assets (deficit) at end of year	\$ 4,905,795	\$ 3,856,327	\$ 7,145,156	\$ 348,669

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

Change in net assets of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 8,968,090	\$ 1,130,444
3,800	-
51,557	-
<u>9,023,447</u>	<u>1,130,444</u>
2,144,048	-
4,882,407	1,208,269
202,680	-
8,717	-
731,167	-
<u>7,969,019</u>	<u>1,208,269</u>
<u>1,054,428</u>	<u>(77,825)</u>
(262,377)	-
(25,008)	-
(218,342)	-
31,264	-
<u>(474,463)</u>	<u>-</u>
579,965	(77,825)
(15,315)	-
<u>1,782,666</u>	<u>-</u>
2,347,316	(77,825)
	<u>23,714</u>
	<u>\$ (54,111)</u>
<u>24,662</u>	
<u>\$ 2,371,978</u>	

CITY OF HUBBARD, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2010

Business-type Activities - Enterprise Funds

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Nonmajor</u>
Cash flows from operating activities:				
Cash received from customers	\$ 1,270,666	\$ 1,658,794	\$ 5,851,542	\$ 128,875
Cash received from tap in fees	3,800	-	-	-
Cash received from other operations.	373	7,367	60,709	15,147
Cash payments for personal services	(655,303)	(524,395)	(1,030,507)	-
Cash payments for contract services	(148,214)	(571,022)	(4,099,224)	(51,969)
Cash payments for materials and supplies	(113,207)	(97,758)	(129,534)	-
Cash payments for other expenses.	-	-	-	(8,717)
Net cash provided by operating activities.	<u>358,115</u>	<u>472,986</u>	<u>652,986</u>	<u>83,336</u>
Cash flows from noncapital financing activities:				
Cash received from property and other taxes	-	-	31,393	-
Cash payments for joint venture expenses	-	-	(218,342)	-
Net cash used in noncapital financing activities	<u>-</u>	<u>-</u>	<u>(186,949)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(9,820)	(4,864)	-	-
Cash received from capital contributions	7,291	-	-	-
Cash payments for capital contributions to other funds.	(1,320)	(1,455)	-	(12,540)
Principal retirement on bond anticipation notes	(420,000)	-	-	-
Principal retirement on loans	(17,619)	(177,891)	-	-
Principal retirement on notes	-	-	(1,900,000)	-
Principal retirement on capital leases	(22,910)	-	-	-
Sale of notes.	-	-	1,788,000	-
Note issuance costs.	-	-	(13,649)	-
Interest and fiscal charges.	(75,578)	(106,159)	(38,632)	-
Net cash used in capital and related financing activities	<u>(539,956)</u>	<u>(290,369)</u>	<u>(164,281)</u>	<u>(12,540)</u>
Net increase (decrease) in cash and cash equivalents	(181,841)	182,617	301,756	70,796
Cash and cash equivalents at beginning of year	730,684	880,515	3,745,883	265,045
Cash and cash equivalents at end of year	<u>\$ 548,843</u>	<u>\$ 1,063,132</u>	<u>\$ 4,047,639</u>	<u>\$ 335,841</u>

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 8,909,877	\$ 1,225,723
3,800	-
83,596	-
(2,210,205)	-
(4,870,429)	(1,192,721)
(340,499)	-
(8,717)	-
<u>1,567,423</u>	<u>33,002</u>
31,393	-
<u>(218,342)</u>	<u>-</u>
<u>(186,949)</u>	<u>-</u>
(14,684)	-
7,291	-
(15,315)	-
(420,000)	-
(195,510)	-
(1,900,000)	-
(22,910)	-
1,788,000	-
(13,649)	-
<u>(220,369)</u>	<u>-</u>
<u>(1,007,146)</u>	<u>-</u>
373,328	33,002
5,622,127	25,893
<u>\$ 5,995,455</u>	<u>\$ 58,895</u>

--Continued

CITY OF HUBBARD, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2010

Business-type Activities - Enterprise Funds

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Nonmajor</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 140,176	\$ 341,779	\$ 489,080	\$ 83,393
Adjustments:				
Depreciation	247,820	154,967	328,380	-
Changes in assets and liabilities:				
(Increase) decrease in materials and supplies inventory . . .	1,417	(1,532)	(120,299)	-
(Increase) decrease in accounts receivable.	(21,116)	(22,894)	17,938	(102)
(Increase) decrease in prepayments.	(3,843)	1,166	1,216	(1,740)
Increase (decrease) in accounts payable	5,209	3,276	(12,638)	1,785
Decrease in accrued wages and benefits.	(9,687)	(7,312)	(25,416)	-
Decrease in due to other governments.	(33)	(674)	(8,581)	-
Increase (decrease) in compensated absences payable	(1,828)	4,210	(16,694)	-
Increase in claims payable	-	-	-	-
Net cash provided by operating activities	<u>\$ 358,115</u>	<u>\$ 472,986</u>	<u>\$ 652,986</u>	<u>\$ 83,336</u>

Non-cash transactions:

During 2010, the electric fund received \$1,775,375 in capital contributions from outside entities.
 During 2010, the sewer fund and water fund purchased \$3,356 and \$3,538 in capital assets on account, respectively.
 During 2009, the sewer fund and water fund purchased \$376 and \$85 in capital assets on account, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 1,054,428	\$ (77,825)
731,167	-
(120,414)	-
(26,174)	95,279
(3,201)	-
(2,368)	3,448
(42,415)	-
(9,288)	-
(14,312)	-
-	12,100
\$ 1,567,423	\$ 33,002

CITY OF HUBBARD, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2010

	Private Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 7,548	\$ 885
Receivables:		
Real and other taxes	-	27,015
Due from other governments	-	1,791
	7,548	29,691
Total assets	7,548	\$ 29,691
Liabilities:		
Due to other governments	-	\$ 28,806
Deposits held and due to others	-	885
	-	29,691
Total liabilities.	-	\$ 29,691
Net assets:		
Held in trust for other purposes	7,548	
Total net assets.	\$ 7,548	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF HUBBARD, OHIO

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Private Purpose Trust</u>
Additions:	
Interest	\$ 15
Total additions	<u>15</u>
Changes in net assets	15
Net assets at beginning of year.	<u>7,533</u>
Net assets at end of year	<u><u>\$ 7,548</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 1 - DESCRIPTION OF THE CITY

The City of Hubbard, Ohio (the “City”) was created in 1868. It is located in Trumbull County and is a politic and corporate body established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides the following services to its residents: public safety (police), Mayor’s court, highways and streets, public improvements, community development (planning and zoning), water, sewer, electric, parks and recreation and general administrative services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and 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 City’s significant 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 BFS to be misleading or incomplete. Based upon the foregoing criteria, the City has no component units.

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

JOINTLY GOVERNED ORGANIZATIONS

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

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

Hubbard Township-City of Hubbard Joint Economic Development District (District) - The City has entered into a contractual agreement with the Township to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the State, Trumbull County, the Township and the City. The District is administered by a five member Board of Directors consisting of a Trustee representative of the Township, a representative of the City, a representative of business owners within the District, a representative of persons working within the District, and an additional member selected by the previously mentioned members who shall serve as Board Chairman. The City and the Township are to make a minimum annual contribution of \$500 each to the District's operation reserve fund to provide for administrative costs and expenses of the Board. In 2010, the Board waived the \$500 annual contribution. The City has an ongoing financial responsibility to fund the District. Upon termination of the contractual agreement, any property, assets and obligations of the District shall be divided equally between the parties, except that any items of infrastructure constructed by or for anybody shall be retained by that party.

Eagle Joint Fire District (District) - The Eagle Joint Fire District is a jointly governed organization pursuant to the Ohio Revised Code 505.371. The District was formed in 2008 and consists of the City of Hubbard and Hubbard Township. The District Board consists of a Trustee from the City, a Trustee from the Township and three residents of the District. Each year a new resident is appointed by the City in odd numbered years and by the Township in even numbered years. Revenues are generated from fire district levies. During 2010, the City did not make any contributions to the District.

JOINT VENTURE WITH EQUITY INTEREST

Ohio Municipal Electric Generation Agency Joint Ventures (OMEGA JV1-OMEGA JV5) The City's Electric Enterprise Fund participates in a joint venture agreement with 20 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) for the purpose of providing electric power and energy to its participants on a cooperative basis. Title to these six diesel-powered generating units was transferred to the 21 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. Each member has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. In accordance with the joint venture agreement, the City remitted \$5,863 to the joint venture for 2010. Complete financial statements for OMEGA JV1 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

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

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

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

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2010, the City has met its debt coverage obligation.

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

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

The City’s net investment and its share of operating results of OMEGA JV5 are reported in the City’s electric enterprise fund. The City’s net investment to date in OMEGA JV5 was \$223,621 at December 31, 2010. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor’s website at www.auditor.state.oh.us.

The following is a summary of audited financial information of OMEGA JV1 and OMEGA JV5 as of the year ended December 31, 2010:

	<u>OMEGA JV1</u>	<u>OMEGA JV5</u>
Total assets	\$ 568,744	\$ 153,833,782
Total liabilities	95,260	143,030,834
Members equity	473,484	10,802,948
Total revenues	153,499	23,931,846
Total expenses	166,627	23,861,725
Change in net assets	(13,128)	70,121

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

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

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

Equity interest in OMEGA JV1	\$ 17,945
Equity interest in OMEGA JV5	<u>223,621</u>
Total investment in joint ventures	<u>\$ 241,566</u>

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

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

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.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

The statement of net 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.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund financial statements. Fiduciary funds are reported by type.

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

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

C. Fund Accounting

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

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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

General fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

Other governmental funds of the City are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; (b) grants and other resources whose use is restricted to a particular purpose; and (c) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs.

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

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

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

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

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

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

Fiduciary Funds - Fiduciary fund reporting focuses on net 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's fiduciary funds are private purpose trust funds which account for the maintenance of the Mizner and Hultz family plots and agency funds which account for the Mayor's Court and Hubbard Union Cemetery.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

D. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets 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.

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 for water, sewer, and electric. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activities and operating expenses for the internal service fund include claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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.

E. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions - Revenue 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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year end.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On 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 and local government funds), fines and forfeitures and fees.

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, 2010, but which were levied to finance year 2011 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2010, are recorded as deferred revenue on the governmental fund financial statements.

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

Tax Budget - A tax budget of estimated revenue and expenditures for all funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds, except agency funds, are legally required to be budgeted; however, only governmental funds are legally required to be reported.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances at December 31. Further amendments may be made during the year if money from a new revenue source is received or if actual receipts exceed current estimates. The amounts reported on the budgetary statements reflect the amounts in the original and final amended official certificate of estimated resources issued during 2010.

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

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

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

G. Health Care

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

H. Cash and Investments

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

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

During 2010, 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 are reported at cost.

The City has invested funds in STAR Ohio during 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During 2010, interest revenue credited to the general fund amounted to \$126,365 which includes \$124,264 assigned from other City funds.

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

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

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

I. Inventories of Materials and Supplies

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

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

Inventory consists of expendable supplies held for consumption.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net 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.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

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

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 \$5,000. The City's infrastructure consists of traffic signals, sidewalks, storm sewers, streets, and water, sewer, and electric lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

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

K. Compensated Absences

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

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

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

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

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

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

L. Prepayments

Payments made to vendors for services that will benefit periods beyond December 31, 2010 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

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

On government-wide financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Unamortized bond issuance costs are reported as a separate line item on the statement of net assets.

Bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts are presented as a reduction to the face amount of the bonds.

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

On the governmental fund financial statements, issuance costs and bond premiums and discounts are recognized in the period in which they are incurred. The reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 12.

N. 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.

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. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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

O. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” 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.

P. 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 basic financial statements.

Q. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing prepaids, materials and supplies inventory, unclaimed monies and perpetual care in the governmental fund financial statements.

R. Estimates

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

S. Contributions of Capital

Contributions of capital in governmental activities and 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, from grants or outside contributions of resources restricted to capital acquisition and construction, or from other funds within the City. Capital contributions are reported as transfers in the statement of activities and as revenue in the proprietary fund financial statements. During 2010, the City’s electric fund received \$1,775,375 in capital contributions from outside entities, the sewer fund received \$7,291 in grants restricted to capital purchases, and the governmental activities received \$15,315 in capital contributions from proprietary funds.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

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

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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted net assets consist primarily of capital projects, street construction maintenance and repair, programs to enhance the security of persons and property and the parks and recreation.

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 Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2010, the City has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. In accordance with the implementation GASB Statement No. 51, the City is required to report intangible assets on a separate line in Note 9 and should reflect intangible assets as indicated in the financial statements. At December 31, 2010, the City did not have any intangible assets.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the City.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the City.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Net Assets

The City's internal service fund reported a deficit net asset balance of \$54,111 due to the recognition of expenses on a full accrual basis of accounting that substantially exceeded the expenditures recognized on a cash basis. The general fund is liable for any deficit in the City's funds and provides transfers when cash is required, not when accruals occur.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items 1 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;
6. The State Treasurer's investment pool State Treasury Asset Reserve of Ohio (STAR Ohio);

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director 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 \$750 in undeposited cash on hand which is included on the financial statements of the City as part of "cash in segregated accounts".

B. Deposits with Financial Institutions

At December 31, 2010, the carrying amount of all City deposits was \$6,529,158. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2010, \$6,077,603 of the City's bank balance of \$6,586,867 was exposed to custodial risk as discussed below, while \$509,264 was covered by the FDIC.

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

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of December 31, 2010, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	\$ 5,046	\$ 5,046

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: STAR Ohio carries a rating of AAA by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City's investment policy does not specifically address credit risk beyond requiring the City to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the City Auditor or qualified trustee.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 5,046	100.00

D. 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, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,529,158
Investments	5,046
Cash on hand	<u>750</u>
Total	<u>\$ 6,534,954</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 531,066
Business-type activities	5,995,455
Private-purpose trust funds	7,548
Agency funds	<u>885</u>
Total	<u>\$ 6,534,954</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2010, consisted of the following, as reported in the fund financial statements:

<u>Transfers to</u>	<u>Transfers from</u>
	<u>General</u>
Nonmajor debt service	\$ 525,924
Nonmajor special revenue	208,824
Nonmajor capital projects	<u>90,893</u>
Total	<u>\$ 825,641</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

The City also reported \$15,315 in capital contributions from the proprietary funds to the governmental activities as transfers in the statement of activities.

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

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 proceeding 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. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 6 - PROPERTY TAXES - (Continued)

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2009-2010, the City was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Hubbard. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, tangible personal property taxes and outstanding delinquencies which are measurable as of December 31, 2010 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 2010 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, 2010 was \$3.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

Real property tax	\$ 112,770,000
Public utility tax	<u>593,740</u>
Total assessed valuation	<u>\$ 113,363,740</u>

NOTE 7 - LOCAL INCOME TAX

The one and a half percent City income tax, which is not subject to renewal, is levied on substantially all income earned within the City. In addition, the residents of the City are required to pay City income tax on income they earn outside the City, however, full credit is allowed for all income taxes these residents pay to other municipalities. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City at least quarterly. Major employers are required to remit withholdings to the City monthly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City. For governmental funds, income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2010. Income tax revenue for 2010 was \$1,936,008 in the general fund.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 8 - RECEIVABLES

Receivables at December 31, 2010, consisted of taxes, accounts (billings for user charged services), 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, 2010.

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

Governmental activities:

Income taxes	\$	490,488
Real and other taxes		391,703
Accounts		74,927
Special assessments		7,125
Due from other governments		289,825

Business-type activities:

Real and other taxes		2,426
Accounts		743,215

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

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CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 9 - CAPITAL ASSETS

A. Governmental activities capital asset activity for the year ended December 31, 2010 was as follows:

	Balance <u>12/31/09</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>12/31/10</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 597,871	\$ -	\$ -	\$ 597,871
Total capital assets, not being depreciated	<u>597,871</u>	<u>-</u>	<u>-</u>	<u>597,871</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	608,277	-	-	608,277
Buildings and improvements	2,297,951	-	-	2,297,951
Furniture and equipment	629,564	15,315	-	644,879
Vehicles	1,461,416	-	-	1,461,416
Infrastructure	<u>5,399,007</u>	<u>33,000</u>	<u>-</u>	<u>5,432,007</u>
Total capital assets, being depreciated	<u>10,396,215</u>	<u>48,315</u>	<u>-</u>	<u>10,444,530</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(217,033)	(30,887)	-	(247,920)
Buildings and improvements	(610,327)	(47,714)	-	(658,041)
Furniture and equipment	(451,311)	(47,748)	-	(499,059)
Vehicles	(1,198,939)	(56,863)	-	(1,255,802)
Infrastructure	<u>(3,547,844)</u>	<u>(251,038)</u>	<u>-</u>	<u>(3,798,882)</u>
Total accumulated depreciation	<u>(6,025,454)</u>	<u>(434,250)</u>	<u>-</u>	<u>(6,459,704)</u>
Total capital assets being depreciated, net	<u>4,370,761</u>	<u>(385,935)</u>	<u>-</u>	<u>3,984,826</u>
Governmental activities capital assets, net	<u>\$ 4,968,632</u>	<u>\$ (385,935)</u>	<u>\$ -</u>	<u>\$ 4,582,697</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 11,970
Security of persons and property	105,711
Transportation	313,546
Leisure time activity	<u>3,023</u>
Total depreciation expense - governmental activities	<u>\$ 434,250</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Business-type activities capital asset activity for the year ended December 31, 2010 was as follows:

<u>Business-type activities:</u>	Balance <u>12/31/09</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/10</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 180,423	\$ -	\$ -	\$ 180,423
Construction in progress	<u>442,021</u>	<u>1,775,375</u>	<u>(2,217,396)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>622,444</u>	<u>1,775,375</u>	<u>(2,217,396)</u>	<u>180,423</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	320,582	-	-	320,582
Buildings and improvements	4,860,728	-	-	4,860,728
Furniture and equipment	5,885,369	21,117	-	5,906,486
Vehicles	992,089	-	-	992,089
Infrastructure	<u>13,990,682</u>	<u>2,217,396</u>	<u>-</u>	<u>16,208,078</u>
Total capital assets, being depreciated	<u>26,049,450</u>	<u>2,238,513</u>	<u>-</u>	<u>28,287,963</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(178,328)	(12,031)	-	(190,359)
Buildings and improvements	(2,369,062)	(122,170)	-	(2,491,232)
Furniture and equipment	(4,413,478)	(213,249)	-	(4,626,727)
Vehicles	(718,131)	(48,943)	-	(767,074)
Infrastructure	<u>(5,384,346)</u>	<u>(334,774)</u>	<u>-</u>	<u>(5,719,120)</u>
Total accumulated depreciation	<u>(13,063,345)</u>	<u>(731,167)</u>	<u>-</u>	<u>(13,794,512)</u>
Total capital assets, being depreciated, net	<u>12,986,105</u>	<u>1,507,346</u>	<u>-</u>	<u>14,493,451</u>
Business-type activities capital assets, net	<u>\$ 13,608,549</u>	<u>\$ 3,282,721</u>	<u>\$ (2,217,396)</u>	<u>\$ 14,673,874</u>

Depreciation expense was charged to the enterprise funds as follows:

Business-type activities:

Water	\$ 154,967
Sewer	247,820
Electric	<u>328,380</u>
Total depreciation expense - business-type activities	<u>\$ 731,167</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 10 - VACATION AND SICK LEAVE LIABILITY

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

Upon termination of City service, a fully vested employee is entitled to a percentage of accumulated sick leave based on years of service. At December 31, 2010, vested benefits for vacation leave for governmental fund type employees, totaled \$106,108 and vested benefits for sick leave, totaled \$148,448. For proprietary fund types, vested benefits for vacation leave totaled \$70,944 and vested benefits for sick leave totaled \$135,818 at December 31, 2010. Included in the vested benefits for sick leave figures is an additional liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

NOTE 11 - CAPITAL LEASES

In a prior fiscal year, the City entered into a capital lease agreement for a sewer cleaner. The sewer cleaner has been capitalized on a basis of one-half in the governmental activities and one-half in the sewer fund, because the asset will be used by all of the funds. This lease agreement meets the criteria of a capital lease as defined by FASB Statement No. 13 "Accounting for Leases", which defines a capital lease as one which transfers benefits and risks of ownership to the lessee.

The amount in governmental activities of \$120,186 represents the present value of the minimum lease payments at the time of acquisition and the amount of \$120,186 represents the present value of the minimum lease payments at the time of acquisition for the sewer fund. As of December 31, 2010, accumulated depreciation was \$37,558 in governmental activities, resulting in a carrying value of \$82,628. A corresponding liability was recorded in the governmental activities long-term obligations. As of December 31, 2010, accumulated depreciation was \$37,558 in the sewer fund, resulting in a carrying value of \$82,628. A corresponding liability was recorded in the sewer fund. Principal payments in 2010 totaled \$22,910 in governmental activities and \$22,910 in the sewer enterprise fund.

The following is a schedule of the future long-term minimum lease payments by fund required under the capital lease agreements and the present value of the minimum lease payments as of December 31, 2010:

Year Ending <u>December 31,</u>	Governmental Funds		Enterprise
	General	Street Construction and Maintenance	Sewer
2011	\$ 13,147	\$ 13,147	\$ 26,295
2012	13,147	13,147	26,295
Total	26,294	26,294	52,590
Less: amount representing interest	(1,744)	(1,744)	(3,489)
Present value of net minimum lease payments	\$ 24,550	\$ 24,550	\$ 49,101

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 12 - LONG-TERM OBLIGATIONS

A. The City's long term obligations at December 31, 2010 were as follows:

<u>Governmental activities:</u>	<u>Interest Rate</u>	<u>Balance 12/31/09</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/10</u>	<u>Amounts Due in One Year</u>
Compensated absences		\$ 227,729	\$ 126,452	\$ (99,625)	\$ 254,556	\$ 106,108
Capital lease obligation		72,010	-	(22,910)	49,100	23,986
General obligation bonds	2.6-3.7%	<u>3,600,000</u>	-	<u>(400,000)</u>	<u>3,200,000</u>	<u>415,000</u>
Total long-term obligations, governmental activities		<u>\$ 3,899,739</u>	<u>\$ 126,452</u>	<u>\$ (522,535)</u>	<u>\$ 3,503,656</u>	<u>\$ 545,094</u>
<u>Business-type activities:</u>						
<u>Refunding BAN:</u>						
Sewer System - 2007	4.00-4.13%	<u>\$ 1,790,000</u>	<u>\$ -</u>	<u>\$ (420,000)</u>	<u>\$ 1,370,000</u>	<u>\$ 435,000</u>
<u>OPWC Loans:</u>						
Sewer Issue II Lift Station	0.00%	117,460	-	(17,619)	99,841	5,873
Waterline Looping	0.00%	64,904	-	(9,736)	55,168	3,245
Waterline Replacement	0.00%	100,522	-	(11,599)	88,923	3,866
N. Main Waterline	0.00%	<u>419,927</u>	-	<u>(44,992)</u>	<u>374,935</u>	<u>14,997</u>
Total OPWC Loans		<u>702,813</u>	<u>-</u>	<u>(83,946)</u>	<u>618,867</u>	<u>27,981</u>
<u>OWDA Loan:</u>						
Transmission Waterlines	6.58%	<u>1,613,355</u>	<u>-</u>	<u>(111,564)</u>	<u>1,501,791</u>	<u>118,905</u>
<u>Other Long-Term Obligations</u>						
Compensated absences		221,074	56,811	(71,123)	206,762	70,944
Capital lease obligation		<u>72,011</u>	<u>-</u>	<u>(22,910)</u>	<u>49,101</u>	<u>23,987</u>
Total other long-term obligations		<u>293,085</u>	<u>56,811</u>	<u>(94,033)</u>	<u>255,863</u>	<u>94,931</u>
Total long-term obligations, business-type activities		<u>\$ 4,399,253</u>	<u>\$ 56,811</u>	<u>\$ (709,543)</u>	<u>3,746,521</u>	<u>\$ 676,817</u>
					Add: Unamortized premium on bond issuance 15,420	
					Less: Unamortized deferred charges on refundings <u>(55,547)</u>	
					<u>Total reported on the statement of net assets</u>	<u>\$ 3,706,394</u>

Capital lease obligations are described in Note 11.

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

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

- B.** On February 15, 2007, the City issued \$2,980,000 in bond anticipation notes (BANs) to refund outstanding sewer system revenue bonds. This refunded debt is considered defeased (in-substance) and, accordingly, has been removed from the statement of net assets. The balance of the refunded BAN at December 31, 2010 is \$1,370,000. The BANs have an interest rate of 4.00 - 4.13% and will mature in the year 2013.

The reacquisition price exceeded the net carrying amount of the old debt by \$128,552. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This refunding was undertaken to reduce total debt service payments over the next 6 years by 3.68% and resulted in an economic gain of \$778,872.

The City has pledged future sewer customer revenues, net of specified operating expenses, to repay \$2,980,000 in Series 2007 sewer refunding BANs. Proceeds of the sewer refunding BANs were used to refund the outstanding balance of previously issued Series 1997 sewer revenue bonds. The Series 2007 sewer refunding BANs are payable solely from sewer customer net revenues and are payable through 2013. Annual principal and interest payments on the bonds are expected to require less than 99.99 percent of net revenues and 37.98 percent of total revenues. The total principal and interest remaining to be paid on the Series 2007 sewer refunding BANs is \$1,482,982. Principal and interest paid for the current year was \$492,194, total net revenues were \$387,996 and total revenues were \$1,295,955.

The City has entered into four debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund a lift station replacement, waterline looping project and waterline replacements. The amounts due to the OPWC are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2010, the City has outstanding borrowings of \$99,841, \$55,168, \$88,923 and \$374,935 in the water and sewer funds. The loan agreements require semi-annual payments based on the actual amount loaned. The OPWC loans are interest free.

The City has pledged future water revenues to repay an Ohio Water Development Authority (OWDA) loan related to construction projects. The loan is payable solely from water fund revenues and is payable through 2020. Annual principal and interest payments on the loan are expected to require 43.83 percent of net revenues and 12.89 percent of total revenues. The total principal and interest remaining to be paid on the loan is \$2,068,370. Principal and interest paid for the current year was \$217,723, total net revenues were \$496,746 and total revenues were \$1,689,055.

On July 7, 2005 the City issued \$5,100,000 in general obligation capital improvement bonds for various construction projects and improvements. The issue is comprised of general obligation bonds with an annual interest rate ranging from 2.60% - 3.70% and mature in 2017. The general obligation bonds are secured by the full faith and credit of the City. The general obligation bonds will be paid from the general obligation bond retirement fund (a nonmajor governmental fund). The principal balance of the general obligation capital improvement bonds at December 31, 2010 was \$3,200,000.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

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

Year Ending December 31,	General Obligation Capital Acquisition Bonds			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 415,000	\$ 111,323	\$ 526,323	\$ 27,981	\$ -	\$ 27,981
2012	425,000	98,043	523,043	55,964	-	55,964
2013	440,000	84,018	524,018	55,963	-	55,963
2014	455,000	69,058	524,058	55,963	-	55,963
2015	470,000	53,133	523,133	55,963	-	55,963
2016 - 2020	995,000	55,133	1,050,133	261,583	-	261,583
2021 - 2023	-	-	-	105,450	-	105,450
	<u>\$ 3,200,000</u>	<u>\$ 470,708</u>	<u>\$ 3,670,708</u>	<u>\$ 618,867</u>	<u>\$ -</u>	<u>\$ 618,867</u>

Year Ending December 31,	Sewer System Refunding BAN			OWDA Loan		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 435,000	\$ 55,394	\$ 490,394	\$ 118,905	\$ 98,818	\$ 217,723
2012	460,000	37,994	497,994	126,729	90,994	217,723
2013	475,000	19,594	494,594	135,068	82,655	217,723
2014	-	-	-	143,956	73,767	217,723
2015	-	-	-	153,428	64,295	217,723
2016 - 2020	-	-	-	721,531	149,362	870,893
2021	-	-	-	102,174	6,688	108,862
Total	<u>\$ 1,370,000</u>	<u>\$ 112,982</u>	<u>\$ 1,482,982</u>	<u>\$ 1,501,791</u>	<u>\$ 566,579</u>	<u>\$ 2,068,370</u>

NOTE 13 - SHORT-TERM OBLIGATIONS

During 2009, the City issued a \$1,900,000 electric system improvements note through American Municipal Power of Ohio. The note was retired on November 10, 2010.

On November 10, 2010, the City issued an additional \$1,788,000 electric system improvements note through American Municipal Power of Ohio. The note, which is a liability of the electric fund, is due within one year. The following is a summary of the note activity for 2010:

	Interest Rate	Balance 12/31/09	Additions	Reductions	Balance 12/31/10
<u>Revenue Anticipation Notes</u>					
Electric System Improvements	2.25%	\$ 1,900,000	\$ -	\$ (1,900,000)	\$ -
Electric System Improvements	2.00%	-	1,788,000	-	1,788,000
Total		<u>\$ 1,900,000</u>	<u>\$ 1,788,000</u>	<u>\$ (1,900,000)</u>	<u>\$ 1,788,000</u>

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 14 - RISK MANAGEMENT

A. Comprehensive

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2010, the City was insured through the Argonaut Insurance Group for all property and equipment, general liability, wrongful acts, law enforcement, public official, employment practices, automobile, employee dishonesty, money and securities, inland marine, EDP and umbrella liability. The insurance plan was purchased through Victor Buck Insurance Agency. The City has transferred risk of loss to the insurance carrier to the extent of the limits below.

<u>Type of Coverage</u>	<u>Limits of Coverage</u>	<u>Deductible</u>
Property and Equipment Breakdown	\$31,059,000	\$1,000
General liability:		
Per occurrence	1,000,000	0
Aggregate	3,000,000	0
Law enforcement liability/wrongful acts:		
Per occurrence	1,000,000	10,000
Aggregate	2,000,000	0
Public official liability/wrongful acts:		
Per occurrence	1,000,000	10,000
Aggregate	2,000,000	0
Employment Practices Liability	1,000,000	10,000
Automobile:		
Liability	1,000,000	0
Comprehensive	0	500
Collision	0	500
Employee Dishonesty	250,000	500
Money and Securities	5,000	500
Inland Marine - scheduled	1,007,000	500
EDP	399,000	500
Umbrella Liability	7,000,000	10,000
Inland Marine - hired/leased	200,000	2,500
Cyber Liability	1,000,000	25,000

B. Employee Health Insurance

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

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 14 - RISK MANAGEMENT - (Continued)

The City had one occurrence in which settled claims exceeded the self-insurance amount. The liability for unpaid claims of \$158,900 reported in the Internal Service Fund at December 31, 2010, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by FASB Statement No. 30 "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. The entire claims liability is expected to be paid within the current year.

Changes in the fund's liability during 2010 are as follows:

<u>Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>End of Year Liability</u>
2010	\$ 146,800	\$ 1,204,821	\$ (1,192,721)	\$ 158,900
2009	124,146	1,086,480	(1,063,826)	146,800

C. Workers' Compensation

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

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

NOTE 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. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 15 - PENSION PLANS - (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by 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 2010, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2010 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.5% and 11.1%, respectively. The City's contribution rate for 2010 was 14.00%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.87% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2010 was 8.50% from January 1 through February 28, 2010 and 9.00% from March 1 through December 31, 2010. The City's contribution rate for pension benefits for members in the Combined Plan for 2010 was 9.27% from January 1 through February 28, 2010 and 9.77% from March 1 through December 31, 2010. For those plan members in law enforcement and public safety pension contributions were 12.37% from January 1 through February 28, 2010 and 12.87% from March 1 through December 31, 2010. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009, and 2008 were \$168,543, \$154,324, and \$143,530, respectively; 91.15% has been contributed for 2010 and 100% has been contributed for 2009 and 2008. Contributions to the member-directed plan for 2010 were \$3,696 made by the City and \$2,640 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.

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 2010, 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 were \$101,517 for the year ended December 31, 2010, \$98,712 for the year ended December 31, 2009 and \$98,907 for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 71.71% has been contributed for police for 2010.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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 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 administrated in accordance with, Internal Revenue Code 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 2010, local government employers contributed 14.00% of covered payroll (17.87% for public safety and law enforcement). 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 2010 was 5.50% from January 1 through February 28, 2010 and 5.00% from March 1 through December 31, 2010. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2010 was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010.

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, 2010, 2009, and 2008 were \$94,928, \$111,164 and \$143,530, respectively; 91.15% has been contributed for 2010 and 100% has been contributed for 2009 and 2008.

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.

CITY OF HUBBARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person.

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

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

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

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated 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, 2010, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers were \$53,744 for the year ended December 31, 2010, \$52,260 for the year ended December 31, 2009 and \$52,363 for the year ended December 31, 2008. The full amount has been contributed for 2009 and 2008. 71.71% has been contributed for police for 2010.

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balances - 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 GAAP basis are as follows:

1. Revenues and other financing sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);
2. Expenditures/expenses and other financing uses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP);
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP);
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement; and,
5. Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance

	<u>General</u>
Budget basis	\$ (189,011)
Net adjustment for revenue accruals	1,466
Net adjustment for expenditure accruals	<u>3,129</u>
GAAP basis	<u>\$ (184,416)</u>

CITY OF HUBBARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

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, 2010.

B. Litigation

The City is not currently a party to any legal proceedings that would have a materially adverse effect on the financial statements at December 31, 2010.

NOTE 19 - OPERATING LEASE

The City passed Ordinance No. 15-08 on September 2, 2008, to enter into a 60-month lease and maintenance agreement with IKON Office Solutions (IOS), Inc., for the lease of five (5) photocopy machines, at a monthly rate of \$515 for 13,500 black and white copies, commencing on September 11, 2008 and concluding on September 10, 2013.

The following is a schedule of future minimum lease payments:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2011	\$ 6,180
2012	6,180
2013	<u>4,292</u>
Total - Present value of minimum lease payments	<u>\$ 16,652</u>

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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 Hubbard
Trumbull County
220 West Liberty Street
Hubbard, Ohio 44425

To the 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 Hubbard, Trumbull County, Ohio (the "City") as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 5, 2011.

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 "D" and "Y".

Dave Yost
Auditor of State

August 5, 2011



Dave Yost • Auditor of State

CITY OF HUBBARD

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 6, 2011