



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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 3, during the year ended December 31, 2011, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which resulted in reclassifications to its governmental fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Dave Yost**  
Auditor of State

September 24, 2012

## CITY OF HUBBARD, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (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, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### **Financial Highlights**

Key financial highlights for 2011 are as follows:

- The total net assets of the City increased \$1,112,342 from 2010 net assets. Net assets of governmental activities increased \$673,369 or 28.66% from 2010 and net assets of business-type activities increased \$438,973 or 2.71% from 2010.
- General revenues accounted for \$3,235,426 or 82.63% of total governmental activities revenue. Program specific revenues accounted for \$679,924 or 17.37% of total governmental activities revenue.
- The City had \$3,043,461 in expenses related to governmental activities; \$679,924 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,363,537 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,235,426.
- The general fund had revenues of \$3,182,750 in 2011. This represents an increase of \$444,755 from 2010 revenues. The expenditures and other financing uses of the general fund, which totaled \$2,736,707 in 2011, decreased \$185,704 from 2010. The net increase in fund balance for the general fund was \$446,043 or 153.63%.
- 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 2011 by \$438,973. This increase in net assets was due primarily to capital contributions of \$243,180 made to the sewer fund from both governmental activities and outside entities.
- In the general fund, the actual revenues and other financing sources of \$2,028,208 were \$22 more than the amount in the final budget and actual expenditures and other financing uses of \$2,008,878 were \$5,159 more than the amount in the final budget. The small overall variance is the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$21,869 from the original to the final budget. Budgeted expenditures and other financing uses decreased \$6,331 from the original to the final budget.

#### **Using this Comprehensive 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, 2011 (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 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting 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, 2011 (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 is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 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 35-71 of this report.

**CITY OF HUBBARD, OHIO**

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

**Government-Wide Financial Analysis**

The statement of net assets serves as a useful indicator of a government's financial position. Certain net asset classifications have been restated in the governmental activities for 2010 to conform to 2011 presentation in accordance with GASB Statement No. 54. The table below provides a summary of the City's net assets at December 31, 2011 and December 31, 2010.

	<b>Net Assets</b>					
	Governmental	Business-type	Restated	Business-type		Restated
	Activities	Activities	Governmental	Activities	2011	2010
	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>	<u>Total</u>	<u>Total</u>
<u>Assets</u>						
Current and other assets	\$ 2,365,265	\$ 8,418,809	\$ 1,925,597	\$ 7,549,450	\$ 10,784,074	\$ 9,475,047
Capital assets	<u>4,250,440</u>	<u>14,656,225</u>	<u>4,582,697</u>	<u>14,673,874</u>	<u>18,906,665</u>	<u>19,256,571</u>
Total assets	<u>6,615,705</u>	<u>23,075,034</u>	<u>6,508,294</u>	<u>22,223,324</u>	<u>29,690,739</u>	<u>28,731,618</u>
<u>Liabilities</u>						
Current liabilities	591,938	2,751,252	655,500	2,297,643	3,343,190	2,953,143
Long-term liabilities	<u>3,001,260</u>	<u>3,665,522</u>	<u>3,503,656</u>	<u>3,706,394</u>	<u>6,666,782</u>	<u>7,210,050</u>
Total liabilities	<u>3,593,198</u>	<u>6,416,774</u>	<u>4,159,156</u>	<u>6,004,037</u>	<u>10,009,972</u>	<u>10,163,193</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	1,440,326	10,105,684	1,333,597	9,386,242	11,546,010	10,719,839
Restricted	259,030	-	254,862	-	259,030	254,862
Unrestricted	<u>1,323,151</u>	<u>6,552,576</u>	<u>760,679</u>	<u>6,833,045</u>	<u>7,875,727</u>	<u>7,593,724</u>
Total net assets	<u>\$ 3,022,507</u>	<u>\$ 16,658,260</u>	<u>\$ 2,349,138</u>	<u>\$ 16,219,287</u>	<u>\$ 19,680,767</u>	<u>\$ 18,568,425</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$19,680,767. At year-end, net assets were \$3,022,507 and \$16,658,260 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 63.68% 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, 2011, were \$1,440,326 and \$10,105,684 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, 2011, 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, \$259,030, 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 \$1,323,151 may be used to meet the government's ongoing obligations to citizens and creditors.

Total liabilities for governmental activities decreased during 2011 due to the repayment of the City's long-term obligations. Total liabilities for the business-type activities increased during 2011 due to the recording of a long-term obligation in association with stranded costs from the abandonment of the American Municipal Power Generating Station Project ("AMPGS Project").

**CITY OF HUBBARD, OHIO**

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

The following table shows the comparative analysis of changes in net assets for 2011 and 2010.

	<b>Change in Net Assets</b>					
	Governmental	Business-type	Governmental	Business-type	2011	2010
	Activities	Activities	Activities	Activities	Total	Total
	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2010</u>	<u>Total</u>	<u>Total</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 48,161	\$ 9,343,899	\$ 49,339	\$ 8,971,890	\$ 9,392,060	\$ 9,021,229
Operating grants and contributions	433,243	-	455,844	-	433,243	455,844
Capital grants and contributions	<u>198,520</u>	<u>44,660</u>	<u>33,000</u>	<u>1,782,666</u>	<u>243,180</u>	<u>1,815,666</u>
Total program revenues	<u>679,924</u>	<u>9,388,559</u>	<u>538,183</u>	<u>10,754,556</u>	<u>10,068,483</u>	<u>11,292,739</u>
General revenues:						
Property taxes	331,432	-	291,107	-	331,432	291,107
Income taxes	2,020,104	-	1,947,617	-	2,020,104	1,947,617
Other local taxes	-	30,469	-	31,264	30,469	31,264
Unrestricted grants and entitlements	682,485	-	238,046	-	682,485	238,046
Investment earnings	61,268	-	126,367	-	61,268	126,367
Miscellaneous	<u>140,137</u>	<u>47,911</u>	<u>143,600</u>	<u>51,557</u>	<u>188,048</u>	<u>195,157</u>
Total general revenues	<u>3,235,426</u>	<u>78,380</u>	<u>2,746,737</u>	<u>82,821</u>	<u>3,313,806</u>	<u>2,829,558</u>
Total revenues	<u>3,915,350</u>	<u>9,466,939</u>	<u>3,284,920</u>	<u>10,837,377</u>	<u>13,382,289</u>	<u>14,122,297</u>
Expenses:						
General government	234,670	-	409,678	-	234,670	409,678
Security of persons and property	1,714,842	-	1,920,990	-	1,714,842	1,920,990
Public health and welfare	19,729	-	30,049	-	19,729	30,049
Transportation	927,425	-	917,874	-	927,425	917,874
Community environment	660	-	516	-	660	516
Leisure time activity	22,242	-	50,463	-	22,242	50,463
Interest and fiscal charges	123,893	-	139,751	-	123,893	139,751
Sewer	-	1,209,460	-	1,254,613	1,209,460	1,254,613
Water	-	1,531,966	-	1,446,803	1,531,966	1,446,803
Electric	-	6,383,573	-	5,687,937	6,383,573	5,687,937
Guarantee trust	-	9,838	-	8,717	9,838	8,717
Stormwater	-	91,649	-	52,014	91,649	52,014
Total expenses	<u>3,043,461</u>	<u>9,226,486</u>	<u>3,469,321</u>	<u>8,450,084</u>	<u>12,269,947</u>	<u>11,919,405</u>
Transfers	<u>(198,520)</u>	<u>198,520</u>	<u>15,315</u>	<u>(15,315)</u>	<u>-</u>	<u>-</u>
Change in net assets	673,369	438,973	(169,086)	2,371,978	1,112,342	2,202,892
Net assets at beginning of year	<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>
Net assets at end of year	<u>\$ 3,022,507</u>	<u>\$ 16,658,260</u>	<u>\$ 2,349,138</u>	<u>\$ 16,219,287</u>	<u>\$ 19,680,767</u>	<u>\$ 18,568,425</u>

The capital grants and contributions of the business-type activities decreased significantly from 2010 due to the completion of traffic signal upgrades that were donated to the City by the Ohio Department of Transportation (ODOT) during 2010.

**CITY OF HUBBARD, OHIO**

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

**Governmental Activities**

Governmental activities net assets increased \$673,369 in 2011. This increase is primarily a result of a significant amount of estate tax due to the City at December 31, 2011. It is also the result of capital grants and contributions made to the City from the Ohio Public Works Commission (OPWC) for construction projects during 2011. The City was also extremely conservative in its spending practices during 2011, decreasing expenses significantly from 2010.

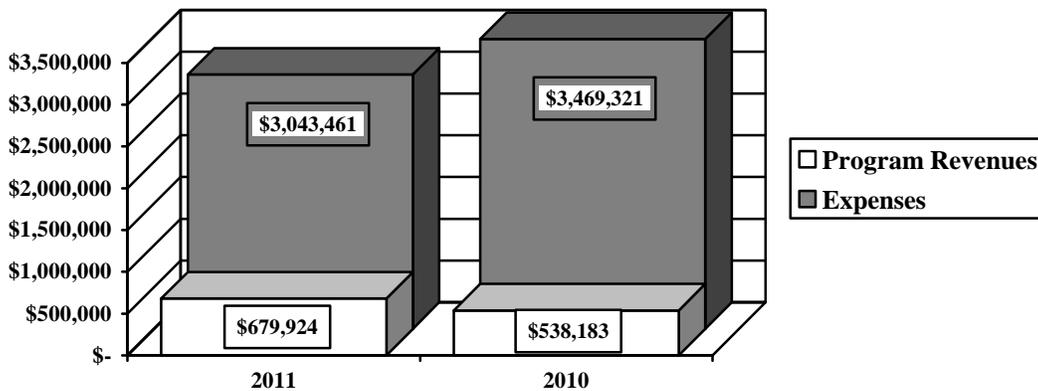
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$1,714,842 of the total expenses of the City. These expenses were partially funded by \$22,003 in direct charges to users of the services. Transportation expenses totaled \$927,425. Transportation expenses were partially funded by \$431,943 in operating grants and contributions.

The State and federal government contributed to the City a total of \$433,243 in operating grants and contributions and \$198,520 in capital grants and contributions. These revenues are restricted to a particular program or purpose. The entire amount of capital grants and contributions subsidized general government programs.

General revenues totaled \$3,235,426, and amounted to 82.63% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,351,536. 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 \$682,485.

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**

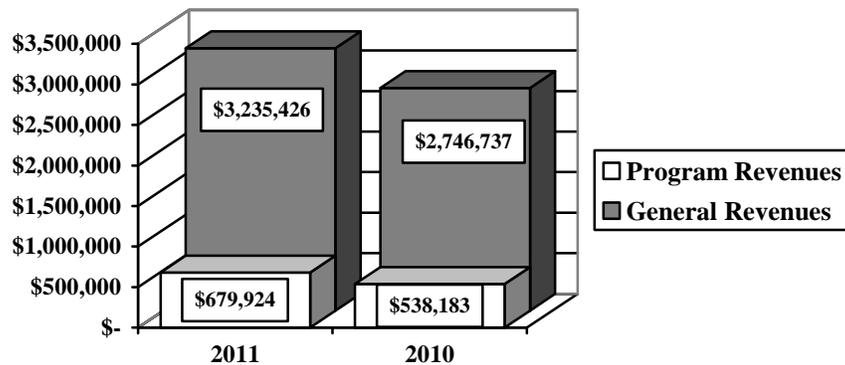
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

The following table shows, for governmental activities, the total cost of services and the net cost of services for 2011 and 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	<b>Governmental Activities</b>			
	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Program Expenses:				
General government	\$ 234,670	\$ 13,016	\$ 409,678	\$ 404,169
Security of persons and property	1,714,842	1,692,839	1,920,990	1,884,720
Public health and welfare	19,729	16,705	30,049	20,974
Transportation	927,425	495,482	917,874	431,745
Community environment	660	660	516	516
Leisure time activity	22,242	20,942	50,463	49,263
Interest and fiscal charges	<u>123,893</u>	<u>123,893</u>	<u>139,751</u>	<u>139,751</u>
<b>Total</b>	<u><b>\$ 3,043,461</b></u>	<u><b>\$ 2,363,537</b></u>	<u><b>\$ 3,469,321</b></u>	<u><b>\$ 2,931,138</b></u>

The dependence upon general revenues for governmental activities is apparent, with 77.66% of expenses supported through taxes and other general revenues.

**Governmental Activities – General and Program Revenues**



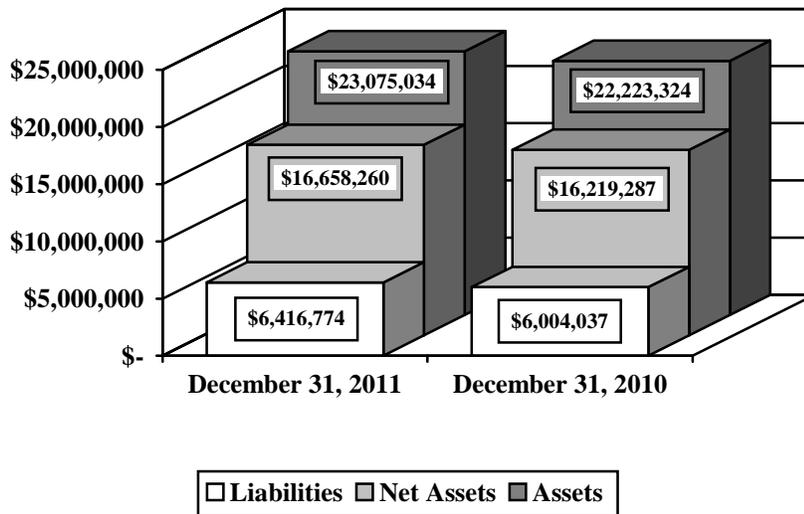
**CITY OF HUBBARD, OHIO**

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

**Business-type Activities**

Business-type activities include the water, sewer, electric, guarantee trust and stormwater enterprise funds. These programs had program revenues of \$9,388,559, general revenues of \$78,380, expenses of \$9,226,486 and transfers in of \$198,520 for 2011. The graph below shows the business-type activities assets, liabilities and net assets at December 31, 2011 and December 31, 2010.

**Net Assets in Business-type Activities**



Business-type activities net assets increased \$438,973 due to consistent revenues continuing to outpace expenses during 2011.

**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

**CITY OF HUBBARD, OHIO**

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$1,277,738, which is \$462,766 more than last year's total of \$814,972. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 and December 31, 2010 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> <u>12/31/11</u>	<u>Fund Balances</u> <u>12/31/10</u>	<u>Increase</u>
Major fund:			
General	\$ 736,381	\$ 290,338	\$ 446,043
Other nonmajor governmental funds	<u>541,357</u>	<u>524,634</u>	<u>16,723</u>
Total	<u>\$ 1,277,738</u>	<u>\$ 814,972</u>	<u>\$ 462,766</u>

***General Fund***

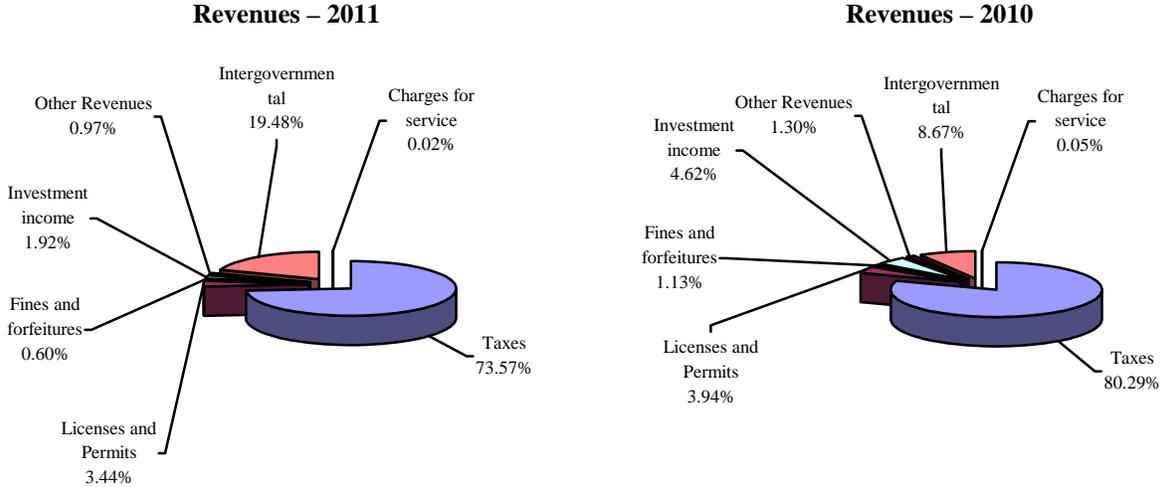
The City's general fund balance increased \$446,043. The table that follows assists in illustrating the revenues of the general fund.

	<u>2011</u> <u>Amount</u>	<u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 2,341,574	\$ 2,198,312	6.52 %
Charges for services	512	1,226	(58.24) %
Licenses and permits	109,361	107,927	1.33 %
Fines and forfeitures	19,028	31,074	(38.77) %
Intergovernmental	620,233	237,418	161.24 %
Investment income	61,266	126,365	(51.52) %
Other	<u>30,776</u>	<u>35,673</u>	<u>(13.73) %</u>
Total	<u>\$ 3,182,750</u>	<u>\$ 2,737,995</u>	<u>16.24 %</u>

Tax revenue represents 73.57% of all general fund revenue, and remained comparable to 2010. Intergovernmental revenue increased \$382,815 or 161.24% as a result of a significant amount of estate tax revenue due to the City at December 31, 2011. Investment income decreased \$65,099 or 51.52% due to declining interest rates during 2011.

**CITY OF HUBBARD, OHIO**

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



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

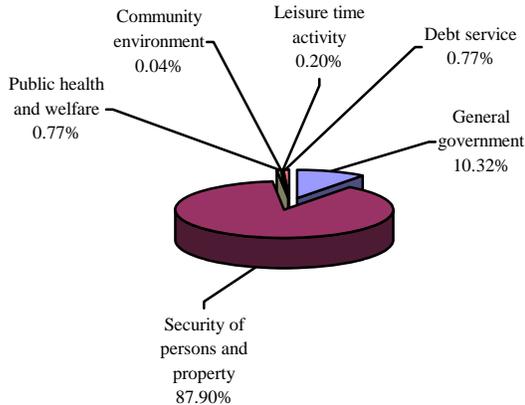
	<u>2011</u> <u>Amount</u>	<u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 193,840	\$ 379,670	(48.95) %
Security of persons and property	1,651,163	1,683,672	(1.93) %
Public health and welfare	14,490	14,974	(3.23) %
Community environment	660	516	27.91 %
Leisure time activity	3,676	3,550	3.55 %
Debt service	14,389	14,388	0.01 %
<b>Total</b>	<b><u>\$ 1,878,218</u></b>	<b><u>\$ 2,096,770</u></b>	<b><u>(10.42) %</u></b>

Overall expenditures of the general fund decreased \$218,552 or 10.42% during 2011. This decrease is primarily due to a decrease in general government expenditures of \$185,830 or 48.95%. General government expenditures decreased due to significant reductions in the cash outlays of the offices of the Mayor, Auditor, Engineer and Service Director as well as other administrative offices within the City during 2011. All other expenditure classifications remained comparable to 2010.

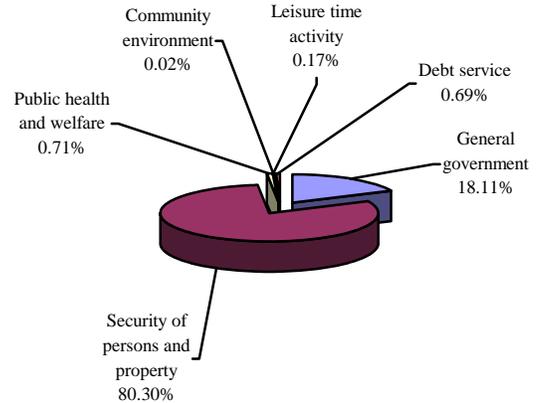
**CITY OF HUBBARD, OHIO**

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

**Expenditures – 2011**



**Expenditures – 2010**



***Budgeting Highlights***

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

Budgetary information is presented for the general fund. In the general fund, the actual revenues and other financing sources of \$2,028,208 were \$22 more than the amount in the final budget and actual expenditures and other financing uses of \$2,008,878 were \$5,159 more than the amount in the final budget. The small overall variance is the result of the City's conservative budgeting. Budgeted revenues and other financing sources increased \$21,869 from the original to the final budget. Budgeted expenditures and other financing uses decreased \$6,331 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, 2011  
(UNAUDITED)**

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of 2011, the City had \$18,906,665 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, infrastructure and construction in progress. Of this total, \$4,250,440 was reported in governmental activities and \$14,656,225 was reported in business-type activities. See Note 9 to the basic financial statements for more detail on the City's capital assets. The following table shows December 31, 2011 balances compared to December 31, 2010.

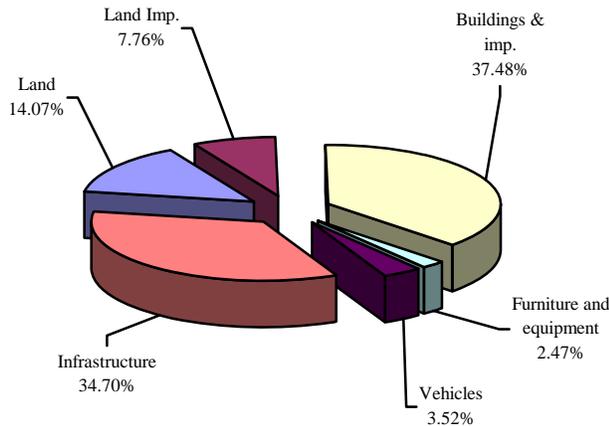
**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 597,871	\$ 597,871	\$ 180,423	\$ 180,423	\$ 778,294	\$ 778,294
Construction in progress	-	-	357,875	-	357,875	-
Land improvements	329,700	360,357	118,192	130,223	447,892	490,580
Buildings and improvements	1,593,230	1,639,910	2,248,059	2,369,496	3,841,289	4,009,406
Furniture and equipment	105,110	145,820	1,221,380	1,279,759	1,326,490	1,425,579
Vehicles	149,630	205,614	180,750	225,015	330,380	430,629
Infrastructure	<u>1,474,899</u>	<u>1,633,125</u>	<u>10,349,546</u>	<u>10,488,958</u>	<u>11,824,445</u>	<u>12,122,083</u>
<b>Totals</b>	<u>\$ 4,250,440</u>	<u>\$ 4,582,697</u>	<u>\$ 14,656,225</u>	<u>\$ 14,673,874</u>	<u>\$ 18,906,665</u>	<u>\$ 19,256,571</u>

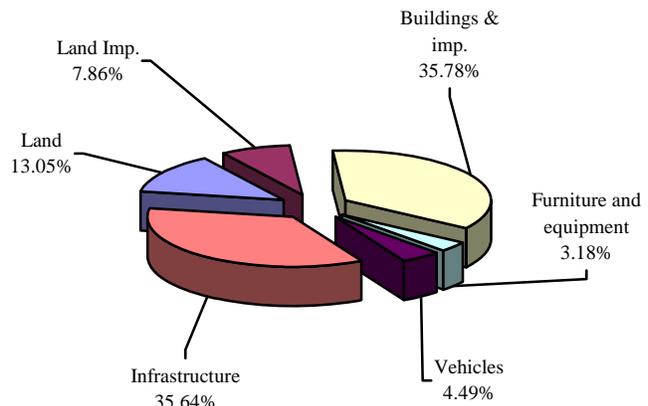
The overall decrease in governmental capital assets of \$332,257 is due to depreciation expense of \$405,050 exceeding capital outlays of \$72,793 during 2011. The overall decrease in business-type capital assets of \$17,649 is due to depreciation expense of \$763,059 exceeding capital outlays of \$745,410 during 2011.

The following graphs show the breakdown of governmental activities capital assets by category at December 31, 2011 and December 31, 2010.

**Capital Assets - Governmental Activities 2011**



**Capital Assets - Governmental Activities 2010**



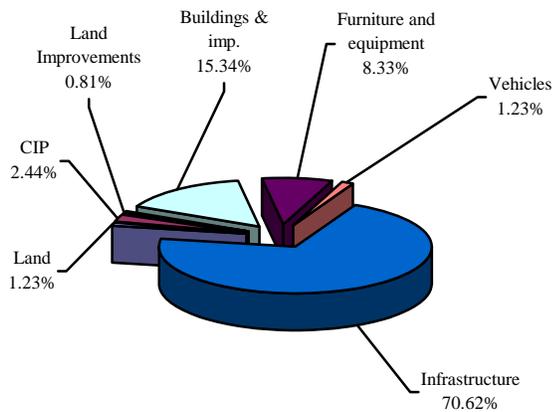
**CITY OF HUBBARD, OHIO**

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

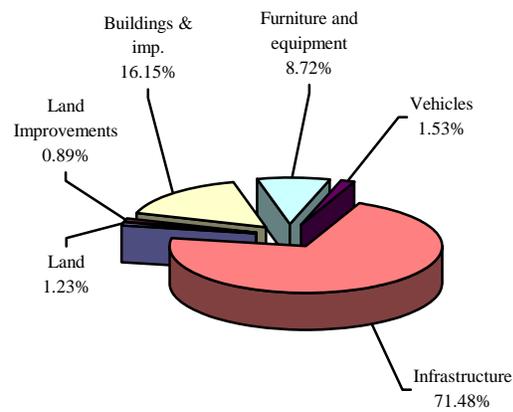
One of the City's largest capital asset categories is infrastructure, which includes roads, sidewalks, traffic lights and curbs. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents 34.70% of the City's total governmental capital assets. Buildings and improvements is also a significant capital asset category, accounting for 37.48% 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, 2011 and December 31, 2010.

**Capital Assets - Business-type Activities 2011**



**Capital Assets - Business-type Activities 2010**



The City's largest business-type capital asset category is infrastructure, which primarily includes water, sewer, and electrical lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 70.62% of the City's total business-type capital assets.

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2011 and December 31, 2010 (See Note 12 to the basic financial statements for detail).

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 2,785,000	\$ 3,200,000
Capital lease obligation	25,114	49,100
Compensated absences	191,146	254,556
<b>Total long-term obligations</b>	<b><u>\$ 3,001,260</u></b>	<b><u>\$ 3,503,656</u></b>
	<u>Business-type Activities</u>	
	<u>2011</u>	<u>2010</u>
Refunding BAN	\$ 935,000	\$ 1,370,000
OPWC loans	590,887	618,867
OWDA loan	1,382,886	1,501,791
Capital lease obligation	25,114	49,101
Potential stranded cost liability	585,567	-
Compensated absences	172,437	206,762
<b>Total long-term obligations</b>	<b><u>\$ 3,691,891</u></b>	<b><u>\$ 3,746,521</u></b>

## CITY OF HUBBARD, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (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 2011 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 2011 budget. Despite the continued downturn in the regional economy, the City's revenue and expenditure patterns have continued to gain stability. As a result, the City continues to operate its financial decision making conservatively.

The City continues to carefully monitor two primary sources of revenue – local income taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue sources, City Council continues to make efforts to maintain its employment base, maintain the community's reputation for high public safety standards, and adopt a budget designed to promote long-term fiscal stability. In order to meet the objectives of the 2011 budget, the City emphasized various efforts to continue to contain costs.

Final budgeted revenues and other financing sources in the general fund for 2011 were \$2,028,186, a decrease of \$11,362 or 0.56% from the final 2010 budgeted amount of \$2,039,548. Final budgeted expenditures and other financing uses in the general fund for 2011 were \$2,003,719, a decrease of \$233,040 or 10.42% from the final 2010 budgeted amount of \$2,236,759. For the financial reporting purposes of budgetary activity, the general fund is comprised of only the legally budgeted general fund.

The average unemployment rate for Trumbull County in 2011 was 8.7%, which represents a considerable decline from the 2010 rate of 11.78%. This is the result of a stabilizing demand for manufactured products produced in the region. The Trumbull County unemployment rate compared slightly higher than the 7.9% State of Ohio average and slightly lower than the 8.95% national average. The City Auditor anticipates the 2012 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, CGMA Auditor, City of Hubbard, Ohio, 220 West Liberty Street, Hubbard, Ohio 44425 or visit our website at [www.cityofhubbard.com](http://www.cityofhubbard.com).

**CITY OF HUBBARD, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 687,154	\$ 5,796,104	\$ 6,483,258
Cash in segregated accounts. . . . .	550	200	750
Receivables (net of allowance for uncollectibles):			
Income taxes. . . . .	466,166	-	466,166
Real and other taxes . . . . .	365,447	2,770	368,217
Accounts. . . . .	39,343	797,825	837,168
Special assessments . . . . .	6,892	-	6,892
Accrued interest . . . . .	5,775	-	5,775
Internal balance. . . . .	(45,960)	45,960	-
Due from other governments. . . . .	742,522	1,160	743,682
Prepayments . . . . .	6,979	8,053	15,032
Materials and supplies inventory. . . . .	30,791	438,707	469,498
Deferred charges . . . . .	-	10,830	10,830
Unamortized bond issuance costs . . . . .	59,606	32,977	92,583
Investment in joint ventures . . . . .	-	237,470	237,470
Regulatory asset. . . . .	-	1,046,753	1,046,753
Capital assets:			
Land and construction in progress. . . . .	597,871	538,298	1,136,169
Depreciable capital assets, net. . . . .	3,652,569	14,117,927	17,770,496
Total capital assets. . . . .	<u>4,250,440</u>	<u>14,656,225</u>	<u>18,906,665</u>
Total assets . . . . .	<u>6,615,705</u>	<u>23,075,034</u>	<u>29,690,739</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	35,662	440,717	476,379
Contracts payable. . . . .	-	87,576	87,576
Retainage payable . . . . .	-	2,170	2,170
Accrued wages and benefits. . . . .	24,294	24,346	48,640
Due to other governments . . . . .	85,072	50,427	135,499
Unearned revenue . . . . .	313,540	-	313,540
Accrued interest payable . . . . .	8,170	8,830	17,000
Claims payable. . . . .	125,200	-	125,200
Revenue anticipation note. . . . .	-	1,676,000	1,676,000
Regulatory liability. . . . .	-	461,186	461,186
Long-term liabilities:			
Due within one year . . . . .	535,859	813,751	1,349,610
Due in more than one year. . . . .	2,465,401	2,851,771	5,317,172
Total liabilities . . . . .	<u>3,593,198</u>	<u>6,416,774</u>	<u>10,009,972</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt. . . . .	1,440,326	10,105,684	11,546,010
Restricted for:			
Street construction and maintenance. . . . .	209,561	-	209,561
State highway . . . . .	16,841	-	16,841
Law enforcement . . . . .	19,429	-	19,429
Police pension. . . . .	10,207	-	10,207
Other purposes. . . . .	1,273	-	1,273
Perpetual care:			
Expendable. . . . .	879	-	879
Nonexpendable. . . . .	840	-	840
Unrestricted. . . . .	<u>1,323,151</u>	<u>6,552,576</u>	<u>7,875,727</u>
Total net assets . . . . .	<u>\$ 3,022,507</u>	<u>\$ 16,658,260</u>	<u>\$ 19,680,767</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF HUBBARD, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental activities:</b>				
General government. . . . .	\$ 234,670	\$ 23,134	\$ -	\$ 198,520
Security of persons and property . . . . .	1,714,842	22,003	-	-
Public health and welfare . . . . .	19,729	3,024	-	-
Transportation. . . . .	927,425	-	431,943	-
Community environment . . . . .	660	-	-	-
Leisure time activity. . . . .	22,242	-	1,300	-
Interest and fiscal charges. . . . .	123,893	-	-	-
Total governmental activities . . . . .	<u>3,043,461</u>	<u>48,161</u>	<u>433,243</u>	<u>198,520</u>
<b>Business-type activities:</b>				
Sewer. . . . .	1,209,460	1,467,790	-	44,660
Water. . . . .	1,531,966	1,699,984	-	-
Electric. . . . .	6,383,573	6,047,505	-	-
Other business-type activities:				
Guarantee Trust. . . . .	9,838	-	-	-
Stormwater. . . . .	91,649	128,620	-	-
Total business-type activities . . . . .	<u>9,226,486</u>	<u>9,343,899</u>	<u>-</u>	<u>44,660</u>
Total primary government . . . . .	<u>\$ 12,269,947</u>	<u>\$ 9,392,060</u>	<u>\$ 433,243</u>	<u>\$ 243,180</u>

**General Revenues:**

Property taxes levied for:

General purposes . . . . .

Police pension. . . . .

Income taxes levied for:

General purposes . . . . .

Other local taxes . . . . .

Grants and entitlements not restricted to specific programs. . . . .

Investment earnings . . . . .

Miscellaneous . . . . .

Total general revenues . . . . .

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**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (13,016)	\$ -	\$ (13,016)
(1,692,839)	-	(1,692,839)
(16,705)	-	(16,705)
(495,482)	-	(495,482)
(660)	-	(660)
(20,942)	-	(20,942)
(123,893)	-	(123,893)
<u>(2,363,537)</u>	<u>-</u>	<u>(2,363,537)</u>
-	302,990	302,990
-	168,018	168,018
-	(336,068)	(336,068)
-	(9,838)	(9,838)
-	36,971	36,971
<u>-</u>	<u>162,073</u>	<u>162,073</u>
<u>(2,363,537)</u>	<u>162,073</u>	<u>(2,201,464)</u>
301,232	-	301,232
30,200	-	30,200
2,020,104	-	2,020,104
-	30,469	30,469
682,485	-	682,485
61,268	-	61,268
140,137	47,911	188,048
<u>3,235,426</u>	<u>78,380</u>	<u>3,313,806</u>
<u>(198,520)</u>	<u>198,520</u>	<u>-</u>
673,369	438,973	1,112,342
2,349,138	16,219,287	18,568,425
<u>\$ 3,022,507</u>	<u>\$ 16,658,260</u>	<u>\$ 19,680,767</u>

**CITY OF HUBBARD, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 31,361	\$ 486,559	\$ 517,920
Cash in segregated accounts. . . . .	200	350	550
Receivables (net of allowance for uncollectibles):			
Income taxes. . . . .	466,166	-	466,166
Real and other taxes . . . . .	326,695	38,752	365,447
Accounts. . . . .	39,343	-	39,343
Special assessments . . . . .	6,892	-	6,892
Accrued interest . . . . .	5,743	32	5,775
Due from other governments. . . . .	557,849	184,673	742,522
Prepayments . . . . .	6,979	-	6,979
Materials and supplies inventory. . . . .	3,474	27,317	30,791
Total assets . . . . .	<u>\$ 1,444,702</u>	<u>\$ 737,683</u>	<u>\$ 2,182,385</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	\$ 14,414	\$ 20,672	\$ 35,086
Accrued wages and benefits. . . . .	18,062	6,232	24,294
Due to other governments . . . . .	73,920	11,152	85,072
Deferred revenue . . . . .	321,633	125,022	446,655
Unearned revenue . . . . .	280,292	33,248	313,540
Total liabilities . . . . .	<u>708,321</u>	<u>196,326</u>	<u>904,647</u>
<b>Fund balances:</b>			
Nonspendable . . . . .	13,755	28,157	41,912
Restricted. . . . .	-	158,298	158,298
Committed . . . . .	-	18,644	18,644
Assigned . . . . .	360,354	336,258	696,612
Unassigned. . . . .	<u>362,272</u>	<u>-</u>	<u>362,272</u>
Total fund balances. . . . .	<u>736,381</u>	<u>541,357</u>	<u>1,277,738</u>
Total liabilities and fund balances . . . . .	<u>\$ 1,444,702</u>	<u>\$ 737,683</u>	<u>\$ 2,182,385</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, 2011

<b>Total governmental fund balances</b>		\$	1,277,738
<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.			4,250,440
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Income taxes receivable	\$	151,567	
Property taxes receivable		47,043	
Special assessments receivable		6,892	
Intergovernmental receivable		241,153	
Total		446,655	446,655
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,170)
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.			43,458
Unamortized bond issuance costs are not recognized in the funds.			59,606
An internal balance is recorded in governmental activities to reflect underpayments or overpayments to the internal service fund by the business-type activities.			(45,960)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(2,785,000)	
Compensated absences		(191,146)	
Capital lease payable		(25,114)	
Total		(3,001,260)	(3,001,260)
<b>Net assets of governmental activities</b>		\$	3,022,507

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, 2011

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Income taxes . . . . .	\$ 2,045,305	\$ -	\$ 2,045,305
Property and other taxes. . . . .	296,269	29,492	325,761
Charges for services. . . . .	512	2,775	3,287
Licenses and permits . . . . .	109,361	-	109,361
Fines and forfeitures . . . . .	19,028	2,857	21,885
Intergovernmental. . . . .	620,233	630,078	1,250,311
Investment income. . . . .	61,266	786	62,052
Other . . . . .	30,776	31,896	62,672
Total revenues . . . . .	<u>3,182,750</u>	<u>697,884</u>	<u>3,880,634</u>
<b>Expenditures:</b>			
Current:			
General government . . . . .	193,840	20,382	214,222
Security of persons and property . . . . .	1,651,163	40,501	1,691,664
Public health and welfare. . . . .	14,490	5,239	19,729
Transportation . . . . .	-	631,855	631,855
Community environment . . . . .	660	-	660
Leisure time activity . . . . .	3,676	16,758	20,434
Capital outlay . . . . .	-	285,393	285,393
Debt service:			
Principal retirement. . . . .	11,993	426,993	438,986
Interest and fiscal charges . . . . .	2,396	112,529	114,925
Total expenditures . . . . .	<u>1,878,218</u>	<u>1,539,650</u>	<u>3,417,868</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>1,304,532</u>	<u>(841,766)</u>	<u>462,766</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	858,489	858,489
Transfers out. . . . .	(858,489)	-	(858,489)
Total other financing sources (uses) . . . . .	<u>(858,489)</u>	<u>858,489</u>	<u>-</u>
Net change in fund balances . . . . .	446,043	16,723	462,766
<b>Fund balances at beginning of year . . . . .</b>	<u>290,338</u>	<u>524,634</u>	<u>814,972</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 736,381</u>	<u>\$ 541,357</u>	<u>\$ 1,277,738</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, 2011

<b>Net change in fund balances - total governmental funds</b>	\$	462,766
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.		
Capital asset additions	\$ 72,793	
Current year depreciation	<u>(405,050)</u>	
Total		(332,257)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	(25,201)	
Property taxes	5,671	
Special assessments	(233)	
Intergovernmental revenues	<u>54,246</u>	
Total		34,483
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		
		1,107
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.		
		438,986
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.		
		(10,075)
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.		
		63,410
An internal service fund used by management to charge the costs of health insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated.		
		<u>14,949</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>673,369</u></b>

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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property and other taxes . . . . .	\$ 293,204	\$ 296,400	\$ 296,404	\$ 4
Charges for services . . . . .	506	512	512	-
Licenses and permits . . . . .	107,543	108,715	108,716	1
Fines and forfeitures . . . . .	18,823	19,028	19,028	-
Intergovernmental . . . . .	215,514	217,863	217,865	2
Investment income . . . . .	54,924	55,522	55,523	1
Other . . . . .	19,065	19,273	19,273	-
<b>Total revenues . . . . .</b>	<b>709,579</b>	<b>717,313</b>	<b>717,321</b>	<b>8</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government . . . . .	112,400	95,290	100,598	(5,308)
Security of persons and property . . . . .	1,644,850	1,656,189	1,656,115	74
Public health and welfare . . . . .	15,000	14,495	14,490	5
Community environment . . . . .	500	500	500	-
Leisure time activity . . . . .	2,900	3,945	3,940	5
<b>Debt service:</b>				
Principal retirement . . . . .	7,200	7,200	11,993	(4,793)
Interest and fiscal charges . . . . .	7,200	7,200	2,396	4,804
<b>Total expenditures . . . . .</b>	<b>1,790,050</b>	<b>1,784,819</b>	<b>1,790,032</b>	<b>(5,213)</b>
Excess of expenditures over revenues . . . . .	(1,080,471)	(1,067,506)	(1,072,711)	(5,205)
<b>Other financing sources (uses):</b>				
Transfers in . . . . .	1,296,738	1,310,873	1,310,887	14
Transfers out . . . . .	(220,000)	(218,900)	(218,846)	54
<b>Total other financing sources (uses) . . . . .</b>	<b>1,076,738</b>	<b>1,091,973</b>	<b>1,092,041</b>	<b>68</b>
Net change in fund balance . . . . .	(3,733)	24,467	19,330	(5,137)
<b>Fund balance at beginning of year (restated) . . .</b>	<b>7,751</b>	<b>7,751</b>	<b>7,751</b>	<b>-</b>
<b>Fund balance at end of year . . . . .</b>	<b>\$ 4,018</b>	<b>\$ 32,218</b>	<b>\$ 27,081</b>	<b>\$ (5,137)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF HUBBARD, OHIO**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2011**

**Business-type Activities - Enterprise Funds**

	<b>Sewer</b>	<b>Water</b>	<b>Electric</b>	<b>Nonmajor</b>
<b>Assets:</b>				
<b>Current assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 521,583	\$ 978,985	\$ 3,995,906	\$ 299,630
Cash in segregated accounts. . . . .	-	-	200	-
Receivables (net of allowance for uncollectibles):				
Real and other taxes . . . . .	-	-	2,770	-
Accounts. . . . .	118,964	139,621	525,864	13,376
Due from other governments. . . . .	-	-	1,160	-
Prepayments . . . . .	849	6,743	461	-
Materials and supplies inventory. . . . .	16,246	95,382	327,079	-
<b>Total current assets . . . . .</b>	<b>657,642</b>	<b>1,220,731</b>	<b>4,853,440</b>	<b>313,006</b>
<b>Noncurrent assets:</b>				
Unamortized bond issuance costs . . . . .	32,977	-	-	-
Deferred charges . . . . .	-	-	10,830	-
Investment in joint ventures. . . . .	-	-	237,470	-
Regulatory asset. . . . .	-	-	1,046,753	-
<b>Capital assets:</b>				
Land and construction in progress. . . . .	338,258	200,040	-	-
Depreciable capital assets, net. . . . .	5,471,409	4,652,352	3,914,966	79,200
<b>Total capital assets. . . . .</b>	<b>5,809,667</b>	<b>4,852,392</b>	<b>3,914,966</b>	<b>79,200</b>
<b>Total noncurrent assets . . . . .</b>	<b>5,842,644</b>	<b>4,852,392</b>	<b>5,210,019</b>	<b>79,200</b>
<b>Total assets . . . . .</b>	<b>6,500,286</b>	<b>6,073,123</b>	<b>10,063,459</b>	<b>392,206</b>
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Accounts payable. . . . .	5,032	40,807	394,878	-
Contracts payable. . . . .	-	87,576	-	-
Retainage payable . . . . .	-	2,170	-	-
Accrued wages and benefits. . . . .	4,478	6,955	12,913	-
Compensated absences. . . . .	31,985	14,824	46,374	-
Due to other governments . . . . .	11,467	11,558	27,402	-
Capital lease obligation . . . . .	25,114	-	-	-
Claims payable . . . . .	-	-	-	-
Revenue anticipation note. . . . .	-	-	1,676,000	-
Regulatory liability. . . . .	-	-	461,186	-
Current portion of revenue bonds payable . . . . .	460,000	-	-	-
Current portion of OWDA loans. . . . .	-	126,729	-	-
Current portion of OPWC loans. . . . .	11,746	44,217	-	-
Current portion of potential stranded cost liability.	-	-	52,762	-
Accrued interest payable . . . . .	4,675	-	4,155	-
<b>Total current liabilities . . . . .</b>	<b>554,497</b>	<b>334,836</b>	<b>2,675,670</b>	<b>-</b>
<b>Long-term liabilities:</b>				
Revenue bonds . . . . .	448,631	-	-	-
OWDA loans . . . . .	-	1,256,157	-	-
OPWC loans. . . . .	82,223	452,701	-	-
Potential stranded cost liability. . . . .	-	-	532,805	-
Compensated absences. . . . .	10,623	21,302	47,329	-
<b>Total long-term liabilities . . . . .</b>	<b>541,477</b>	<b>1,730,160</b>	<b>580,134</b>	<b>-</b>
<b>Total liabilities . . . . .</b>	<b>1,095,974</b>	<b>2,064,996</b>	<b>3,255,804</b>	<b>-</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt. . . . .	4,814,930	2,972,588	2,238,966	79,200
Unrestricted . . . . .	589,382	1,035,539	4,568,689	313,006
<b>Total net assets . . . . .</b>	<b>\$ 5,404,312</b>	<b>\$ 4,008,127</b>	<b>\$ 6,807,655</b>	<b>\$ 392,206</b>

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

Net assets of business-type activities

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 5,796,104	\$ 169,234
200	-
2,770	-
797,825	-
1,160	-
8,053	-
438,707	-
<u>7,044,819</u>	<u>169,234</u>
32,977	-
10,830	-
237,470	-
1,046,753	-
538,298	-
14,117,927	-
<u>14,656,225</u>	<u>-</u>
<u>15,984,255</u>	<u>-</u>
<u>23,029,074</u>	<u>169,234</u>
440,717	576
87,576	-
2,170	-
24,346	-
93,183	-
50,427	-
25,114	-
-	125,200
1,676,000	-
461,186	-
460,000	-
126,729	-
55,963	-
52,762	-
8,830	-
<u>3,565,003</u>	<u>125,776</u>
448,631	-
1,256,157	-
534,924	-
532,805	-
79,254	-
<u>2,851,771</u>	<u>-</u>
<u>6,416,774</u>	<u>125,776</u>
10,105,684	-
<u>6,506,616</u>	<u>43,458</u>
<u>16,612,300</u>	<u>\$ 43,458</u>
45,960	-
<u>\$ 16,658,260</u>	

**CITY OF HUBBARD, OHIO**

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

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Sewer</b>	<b>Water</b>	<b>Electric</b>	<b>Nonmajor</b>
<b>Operating revenues:</b>				
Charges for services . . . . .	\$ 1,467,790	\$ 1,699,984	\$ 6,047,505	\$ 128,620
Other . . . . .	15,888	5,999	9,620	16,404
Total operating revenues. . . . .	<u>1,483,678</u>	<u>1,705,983</u>	<u>6,057,125</u>	<u>145,024</u>
<b>Operating expenses:</b>				
Personal services . . . . .	649,469	592,050	1,221,676	-
Contract services. . . . .	136,114	665,034	4,266,632	90,849
Materials and supplies. . . . .	105,956	46,813	313,849	-
Other . . . . .	-	-	1	9,838
Depreciation. . . . .	250,218	151,468	360,573	800
Total operating expenses. . . . .	<u>1,141,757</u>	<u>1,455,365</u>	<u>6,162,731</u>	<u>101,487</u>
Operating income (loss) . . . . .	<u>341,921</u>	<u>250,618</u>	<u>(105,606)</u>	<u>43,537</u>
<b>Nonoperating revenues (expenses):</b>				
Interest expense and fiscal charges. . . . .	(86,584)	(98,818)	(39,926)	-
Investment in joint ventures. . . . .	-	-	(4,096)	-
Nonoperating expenses . . . . .	-	-	(218,342)	-
Nonoperating revenues. . . . .	-	-	30,469	-
Total nonoperating revenues (expenses). . . . .	<u>(86,584)</u>	<u>(98,818)</u>	<u>(231,895)</u>	<u>-</u>
Income (loss) before capital contributions. . . . .	255,337	151,800	(337,501)	43,537
Capital contributions. . . . .	<u>243,180</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets . . . . .	498,517	151,800	(337,501)	43,537
<b>Net assets (deficit) at beginning of year. . . . .</b>	<u>4,905,795</u>	<u>3,856,327</u>	<u>7,145,156</u>	<u>348,669</u>
<b>Net assets at end of year . . . . .</b>	<u>\$ 5,404,312</u>	<u>\$ 4,008,127</u>	<u>\$ 6,807,655</u>	<u>\$ 392,206</u>

Adjustment to reflect the consolidation of internal service fund 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>
\$ 9,343,899	\$ 994,142
47,911	-
9,391,810	994,142
2,463,195	-
5,158,629	896,573
466,618	-
9,839	-
763,059	-
8,861,340	896,573
530,470	97,569
(225,328)	-
(4,096)	-
(218,342)	-
30,469	-
(417,297)	-
113,173	97,569
243,180	-
356,353	97,569
	(54,111)
	\$ 43,458
82,620	
\$ 438,973	

**CITY OF HUBBARD, OHIO**

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

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Sewer</b>	<b>Water</b>	<b>Electric</b>	<b>Nonmajor</b>
<b>Cash flows from operating activities:</b>				
Cash received from customers . . . . .	\$ 1,466,506	\$ 1,695,329	\$ 5,999,213	\$ 128,117
Cash received from other operations. . . . .	15,888	6,123	8,460	16,404
Cash payments for personal services . . . . .	(696,428)	(594,461)	(1,211,738)	-
Cash payments for contract services . . . . .	(139,522)	(659,191)	(4,239,766)	(90,894)
Cash payments for materials and supplies . . . . .	(115,345)	(66,392)	(191,474)	-
Cash payments for other expenses. . . . .	-	-	-	(9,838)
Net cash provided by operating activities. . . . .	<u>531,099</u>	<u>381,408</u>	<u>364,695</u>	<u>43,789</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash received from property and other taxes . . . . .	-	-	30,327	-
Cash payments for joint venture expenses . . . . .	-	-	(218,342)	-
Net cash used in noncapital financing activities . . . . .	<u>-</u>	<u>-</u>	<u>(188,015)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets . . . . .	(80,458)	(225,724)	(76,261)	(80,000)
Cash received from capital contributions . . . . .	44,660	-	-	-
Principal retirement on bond anticipation notes . . . . .	(435,000)	-	-	-
Principal retirement on loans . . . . .	(5,872)	(141,013)	-	-
Principal retirement on notes . . . . .	-	-	(1,788,000)	-
Principal retirement on capital leases . . . . .	(23,987)	-	-	-
Sale of notes. . . . .	-	-	1,676,000	-
Note issuance costs. . . . .	-	-	(12,617)	-
Interest and fiscal charges. . . . .	(57,702)	(98,818)	(27,335)	-
Net cash used in capital and related financing activities . . . . .	<u>(558,359)</u>	<u>(465,555)</u>	<u>(228,213)</u>	<u>(80,000)</u>
Net increase (decrease) in cash and cash equivalents . . . . .	(27,260)	(84,147)	(51,533)	(36,211)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>548,843</b>	<b>1,063,132</b>	<b>4,047,639</b>	<b>335,841</b>
<b>Cash and cash equivalents at end of year . . . . .</b>	<b><u>\$ 521,583</u></b>	<b><u>\$ 978,985</u></b>	<b><u>\$ 3,996,106</u></b>	<b><u>\$ 299,630</u></b>

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 9,289,165	\$ 1,043,484
46,875	-
(2,502,627)	-
(5,129,373)	(933,145)
(373,211)	-
(9,838)	-
<u>1,320,991</u>	<u>110,339</u>
30,327	-
(218,342)	-
<u>(188,015)</u>	<u>-</u>
(462,443)	-
44,660	-
(435,000)	-
(146,885)	-
(1,788,000)	-
(23,987)	-
1,676,000	-
(12,617)	-
(183,855)	-
<u>(1,332,127)</u>	<u>-</u>
(199,151)	110,339
5,995,455	58,895
<u>\$ 5,796,304</u>	<u>\$ 169,234</u>

--Continued

**CITY OF HUBBARD, OHIO**

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

**Business-type Activities - Enterprise Funds**

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Nonmajor</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss) . . . . .	\$ 341,921	\$ 250,618	\$ (105,606)	\$ 43,537
Adjustments:				
Depreciation . . . . .	250,218	151,468	360,573	800
Changes in assets and liabilities:				
(Increase) decrease in materials and supplies inventory . .	(13,489)	(13,615)	112,078	-
(Increase) decrease in accounts receivable. . . . .	(1,284)	(4,531)	(48,292)	(503)
(Increase) in due from other governments . . . . .	-	-	(1,160)	-
(Increase) decrease in prepayments. . . . .	7,691	(58)	444	1,740
Increase (decrease) in accounts payable . . . . .	(7,591)	(63)	36,720	(1,785)
Increase (decrease) in accrued wages and benefits. . . . .	(1,142)	86	701	-
(Decrease) in due to other governments. . . . .	(1,268)	(2,154)	(738)	-
Increase (decrease) in compensated absences payable . .	(43,957)	(343)	9,975	-
(Decrease) in claims payable . . . . .	-	-	-	-
Net cash provided by operating activities . . . . .	<u>\$ 531,099</u>	<u>\$ 381,408</u>	<u>\$ 364,695</u>	<u>\$ 43,789</u>

**Non-cash transactions:**

During 2011, the sewer fund received \$198,520 in capital contributions from governmental activities.  
 During 2011 and 2010, the sewer fund purchased \$533 and \$3,356 in capital assets on account, respectively.  
 During 2011 and 2010, the water fund purchased \$90,503 and \$3,538 in capital assets on account, respectively.  
 During 2011 and 2010, the electric fund purchased \$533 and \$228 in capital assets on account, respectively.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 530,470	\$ 97,569
763,059	-
84,974	-
(54,610)	49,342
(1,160)	-
9,817	-
27,281	(2,872)
(355)	-
(4,160)	-
(34,325)	-
-	(33,700)
\$ 1,320,991	\$ 110,339

**CITY OF HUBBARD, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 DECEMBER 31, 2011

	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 7,559	\$ 810
Receivables:		
Real and other taxes. . . . .	-	25,087
Due from other governments. . . . .	-	1,717
Total assets . . . . .	7,559	\$ 27,614
<b>Liabilities:</b>		
Due to other governments. . . . .	-	\$ 26,804
Deposits held and due to others . . . . .	-	810
Total liabilities. . . . .	-	\$ 27,614
<b>Net assets:</b>		
Held in trust for other purposes. . . . .	7,559	
Total net assets. . . . .	\$ 7,559	

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, 2011**

	<b>Private Purpose Trust</b>
<b>Additions:</b>	
Interest . . . . .	<u>\$ 11</u>
Total additions . . . . .	<u>11</u>
Change in net assets . . . . .	11
<b>Net assets at beginning of year. . . . .</b>	<u>7,548</u>
<b>Net assets at end of year . . . . .</b>	<u><u>\$ 7,559</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, 2011

#### 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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's Governing Board and (1) the City is able to influence significantly the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the City has no component units for 2011.

**CITY OF HUBBARD, OHIO**

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

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

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

Hubbard Township-City of Hubbard Joint Economic Development District (District) - The City has entered into a contractual agreement with the Township to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the State, Trumbull County, the Township and the City. The District is administered by a five member Board of Directors consisting of a Trustee representative of the Township, a representative of the City, a representative of business owners within the District, a representative of persons working within the District, and an additional member selected by the previously mentioned members who shall serve as Board Chairman. The City and the Township are to make a minimum annual contribution of \$500 each to the District's operation reserve fund to provide for administrative costs and expenses of the Board. In 2011, 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 2011, 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 \$6,922 to the joint venture for 2011. 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](http://www.auditor.state.oh.us).

## CITY OF HUBBARD, OHIO

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

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

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

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net 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, 2011, the City has met its debt coverage obligation.

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

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

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric enterprise fund. The City's net investment to date in OMEGA JV5 was \$219,857 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**CITY OF HUBBARD, OHIO**

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

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

The following is a summary of audited financial information of OMEGA JV1 and OMEGA JV5 as of the year ended December 31, 2011:

	<u>OMEGA JV1</u>	<u>OMEGA JV5</u>
Total assets	\$ 558,154	\$ 149,555,715
Total liabilities	93,425	138,934,600
Members equity	464,729	10,621,115
Total revenues	198,278	25,086,904
Total expenses	207,033	25,268,737
Change in net assets	(8,755)	(181,833)

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-Ohio.

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

Equity interest in OMEGA JV1	\$ 17,613
Equity interest in OMEGA JV5	<u>219,857</u>
Total investment in joint ventures	<u><u>\$ 237,470</u></u>

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

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

## CITY OF HUBBARD, OHIO

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

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

##### **B. Basis of Presentation - Fund Accounting**

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

**Government-wide Financial Statements** - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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, 2011

**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 and reports all financial resources except those accounted for in another fund.

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

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

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

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

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

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

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

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

***Fiduciary Funds*** - Fiduciary fund reporting focuses on net 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, 2011**

**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. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

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

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

**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, 2011**

**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, 2011, but which were levied to finance year 2012 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 and estate taxes due at December 31, 2011, 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, 2011

**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 2011.

***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, 2011**

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

During 2011, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts are reported at cost.

The City has invested funds in STAR Ohio during 2011. 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, 2011.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During 2011, interest revenue credited to the general fund amounted to \$61,266 which includes \$61,088 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. The 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 materials and supplies inventory is equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of 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, 2011

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

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

All reported capital assets are depreciated except for land 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 payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In conformity with GASB Statement No. 16, “Accounting for Compensated Absences”, vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. For purposes of establishing a liability for severance on 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, 2011**

**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, 2011 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expenditure/expense in the year in which services are consumed.

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

**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, 2011**

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

**O. Interfund Balances**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the year is referred to as “interfund receivable/interfund payable” for the current portion of interfund loans. 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**

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

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

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

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

**CITY OF HUBBARD, OHIO**

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

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

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

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

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

**R. Estimates**

The preparation of the 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 between governmental activities and business-type activities are reported as transfers in the statement of activities and as revenue in the proprietary fund financial statements. During 2011, the City's sewer fund received \$44,660 in capital contributions from outside entities and \$198,520 in capital contributions from governmental activities.

**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 amounts restricted for street construction and maintenance and programs to enhance the security of persons and property.

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

**CITY OF HUBBARD, OHIO**

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

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

**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 2011.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", GASB Statement No. 59, "Financial Instruments Omnibus", and GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements."

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

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

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for state and local governments so that they derive from a single source.

**B. Budgetary Prior Period Adjustment**

In prior years certain funds that are legally budgeted in separate City funds were considered part of the general fund on a budgetary basis. The City has elected to report only the legally budgeted general fund in the budgetary statement; therefore, a restatement to the beginning budgetary balance is required. The restatement of the general fund's budgetary-basis fund balance at January 1, 2011 is as follows:

	<u>Budgetary Basis</u>
	<u>General Fund</u>
Balance at December 31, 2010	\$ 10,514
Funds budgeted elsewhere	<u>(2,763)</u>
Restated balance at January 1, 2011	<u>\$ 7,751</u>

**C. Compliance**

The City did not encumber all commitments as required by Ohio Revised Code Section 5705.41(D).

## CITY OF HUBBARD, OHIO

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

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

**CITY OF HUBBARD, OHIO**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Auditor or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year end, the City had \$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, 2011, the carrying amount of all City deposits was \$6,486,578. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, \$5,867,420 of the City's bank balance of \$6,603,743 was exposed to custodial risk as discussed below, while \$736,323 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, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of December 31, 2011, the City had the following investment and maturity:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 5,049	\$ 5,049

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

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

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 5,049	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, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,486,578
Investments	5,049
Cash on hand	<u>750</u>
Total	<u>\$ 6,492,377</u>

**CITY OF HUBBARD, OHIO**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 687,704
Business-type activities	5,796,304
Private-purpose trust funds	7,559
Agency funds	<u>810</u>
Total	<u>\$ 6,492,377</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2011, 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	\$ 546,148
Nonmajor special revenue	214,815
Nonmajor capital projects	<u>97,526</u>
Total	<u>\$ 858,489</u>

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

Transfers between governmental funds are eliminated for reporting on the statement of activities. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities. During 2011, the governmental activities made capital contributions of \$198,520 to the sewer fund, which is reported as transfers in the statement of activities. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

**CITY OF HUBBARD, OHIO**

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

**NOTE 6 - PROPERTY TAXES - (Continued)**

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Hubbard. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2011 was \$3.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

Real property tax	\$	106,581,120
Public utility tax		<u>1,038,470</u>
Total assessed valuation	\$	<u>107,619,590</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, 2011. Income tax revenue for 2011 was \$2,045,305 in the general fund.

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**CITY OF HUBBARD, OHIO**

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

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest and intergovernmental receivables arising from grants, entitlements, estate taxes and shared revenue. All intergovernmental receivables have been classified as “due from other governments” on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2011.

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

**Governmental activities:**

Income taxes	\$ 466,166
Real and other taxes	365,447
Accounts	39,343
Special assessments	6,892
Accrued interest	5,775
Due from other governments	742,522

**Business-type activities:**

Real and other taxes	2,770
Accounts	797,825
Due from other governments	1,160

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, 2011

**NOTE 9 - CAPITAL ASSETS**

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

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/11</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 597,871	\$ -	\$ -	\$ 597,871
Total capital assets, not being depreciated	<u>597,871</u>	<u>-</u>	<u>-</u>	<u>597,871</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	608,277	-	-	608,277
Buildings and improvements	2,297,951	-	-	2,297,951
Furniture and equipment	644,879	-	-	644,879
Vehicles	1,461,416	-	(69,429)	1,391,987
Infrastructure	<u>5,432,007</u>	<u>72,793</u>	<u>-</u>	<u>5,504,800</u>
Total capital assets, being depreciated	<u>10,444,530</u>	<u>72,793</u>	<u>(69,429)</u>	<u>10,447,894</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(247,920)	(30,657)	-	(278,577)
Buildings and improvements	(658,041)	(46,680)	-	(704,721)
Furniture and equipment	(499,059)	(40,710)	-	(539,769)
Vehicles	(1,255,802)	(55,984)	69,429	(1,242,357)
Infrastructure	<u>(3,798,882)</u>	<u>(231,019)</u>	<u>-</u>	<u>(4,029,901)</u>
Total accumulated depreciation	<u>(6,459,704)</u>	<u>(405,050)</u>	<u>69,429</u>	<u>(6,795,325)</u>
Total capital assets being depreciated, net	<u>3,984,826</u>	<u>(332,257)</u>	<u>-</u>	<u>3,652,569</u>
Governmental activities capital assets, net	<u>\$ 4,582,697</u>	<u>\$ (332,257)</u>	<u>\$ -</u>	<u>\$ 4,250,440</u>

Depreciation expense was charged to governmental activities as follows:

**Governmental activities:**

General government	\$ 12,794
Security of persons and property	99,078
Transportation	291,431
Leisure time activity	<u>1,747</u>
Total depreciation expense - governmental activities	<u>\$ 405,050</u>

**CITY OF HUBBARD, OHIO**

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

**NOTE 9 - CAPITAL ASSETS - (Continued)**

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

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/11</u>
<b>Business-type activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 180,423	\$ -	\$ -	\$ 180,423
Construction in progress	<u>-</u>	<u>357,875</u>	<u>-</u>	<u>357,875</u>
Total capital assets, not being depreciated	<u>180,423</u>	<u>357,875</u>	<u>-</u>	<u>538,298</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	5,906,486	157,103	-	6,063,589
Vehicles	992,089	-	(95,500)	896,589
Infrastructure	<u>16,208,078</u>	<u>230,432</u>	<u>-</u>	<u>16,438,510</u>
Total capital assets, being depreciated	<u>28,287,963</u>	<u>387,535</u>	<u>(95,500)</u>	<u>28,579,998</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(190,359)	(12,031)	-	(202,390)
Buildings and improvements	(2,491,232)	(121,437)	-	(2,612,669)
Furniture and equipment	(4,626,727)	(215,482)	-	(4,842,209)
Vehicles	(767,074)	(44,265)	95,500	(715,839)
Infrastructure	<u>(5,719,120)</u>	<u>(369,844)</u>	<u>-</u>	<u>(6,088,964)</u>
Total accumulated depreciation	<u>(13,794,512)</u>	<u>(763,059)</u>	<u>95,500</u>	<u>(14,462,071)</u>
Total capital assets being depreciated, net	<u>14,493,451</u>	<u>(375,524)</u>	<u>-</u>	<u>14,117,927</u>
Business-type activities capital assets, net	<u>\$ 14,673,874</u>	<u>\$ (17,649)</u>	<u>\$ -</u>	<u>\$ 14,656,225</u>

Depreciation expense was charged to the enterprise funds as follows:

**Business-type activities:**

Water	\$ 151,468
Sewer	250,218
Electric	360,573
Stormwater (nonmajor enterprise fund)	<u>800</u>
Total depreciation expense - business-type activities	<u>\$ 763,059</u>

**CITY OF HUBBARD, OHIO**

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

**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, 2011, vested benefits for vacation leave for governmental fund type employees, totaled \$85,745 and vested benefits for sick leave, totaled \$105,401. For proprietary fund types, vested benefits for vacation leave totaled \$64,871 and vested benefits for sick leave totaled \$79,254 at December 31, 2011. The proprietary funds are also responsible for severance payments in the amount of \$28,312, which is recorded as a current liability in the sewer fund. 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, 2011, accumulated depreciation was \$52,581 in governmental activities, resulting in a carrying value of \$67,605. A corresponding liability was recorded in the governmental activities long-term obligations. As of December 31, 2011, accumulated depreciation was \$52,581 in the sewer fund, resulting in a carrying value of \$67,605. A corresponding liability was recorded in the sewer fund. Principal payments in 2011 totaled \$23,986 in governmental activities and \$23,987 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 agreement and the present value of the minimum lease payments as of December 31, 2011:

Year Ending <u>December 31,</u> 2012	Governmental Funds		Enterprise
	General	Street Construction and Maintenance	Sewer
	\$ 13,147	\$ 13,147	\$ 26,295
Total	13,147	13,147	26,295
Less: amount representing interest	(590)	(590)	(1,181)
Present value of net minimum lease payments	\$ 12,557	\$ 12,557	\$ 25,114

**CITY OF HUBBARD, OHIO**

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

**NOTE 12 - LONG-TERM OBLIGATIONS**

A. The City's long term obligations at December 31, 2011 were as follows:

	Interest	Balance			Balance	Amounts
<b><u>Governmental activities:</u></b>	<u>Rate</u>	<u>12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/11</u>	<u>Due in</u>
						<u>One Year</u>
Compensated absences		\$ 254,556	\$ 42,698	\$ (106,108)	\$ 191,146	\$ 85,745
Capital lease obligation		49,100	-	(23,986)	25,114	25,114
General obligation bonds	2.6-3.7%	3,200,000	-	(415,000)	2,785,000	425,000
Total long-term obligations, governmental activities		<u>\$ 3,503,656</u>	<u>\$ 42,698</u>	<u>\$ (545,094)</u>	<u>\$ 3,001,260</u>	<u>\$ 535,859</u>
<b><u>Business-type activities:</u></b>						
<b><u>Refunding BAN:</u></b>						
Sewer System - 2007	4.00-4.13%	\$ 1,370,000	\$ -	\$ (435,000)	\$ 935,000	\$ 460,000
<b><u>OPWC Loans:</u></b>						
Sewer Issue II Lift Station	0.00%	99,841	-	(5,872)	93,969	11,746
Waterline Looping	0.00%	55,168	-	(3,245)	51,923	6,490
Waterline Replacement	0.00%	88,923	-	(3,866)	85,057	7,732
N. Main Waterline	0.00%	374,935	-	(14,997)	359,938	29,995
Total OPWC Loans		<u>618,867</u>	<u>-</u>	<u>(27,980)</u>	<u>590,887</u>	<u>55,963</u>
<b><u>OWDA Loan:</u></b>						
Transmission Waterlines	6.58%	1,501,791	-	(118,905)	1,382,886	126,729
<b><u>Other Long-Term Obligations</u></b>						
Compensated absences		206,762	36,619	(70,944)	172,437	93,183
Potential stranded cost liability		-	585,567	-	585,567	52,762
Capital lease obligation		49,101	-	(23,987)	25,114	25,114
Total other long-term obligations		<u>255,863</u>	<u>622,186</u>	<u>(94,931)</u>	<u>783,118</u>	<u>171,059</u>
Total long-term obligations, business-type activities		<u>\$ 3,746,521</u>	<u>\$ 622,186</u>	<u>\$ (676,816)</u>	3,691,891	<u>\$ 813,751</u>
					Add: Unamortized premium on bond issuance	10,133
					Less: Unamortized deferred charges on refundings	<u>(36,502)</u>
					Total reported on the statement of net assets	<u>\$ 3,665,522</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, 2011

**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, 2011 is \$935,000. 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 82.82 percent of net revenues and 33.05 percent of total revenues. The total principal and interest remaining to be paid on the Series 2007 sewer refunding BANs is \$992,588. Principal and interest paid for the current year was \$490,394, total net revenues were \$592,139 and total revenues were \$1,483,678.

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, 2011, the City has outstanding borrowings of \$93,969, \$51,923, \$85,057 and \$359,938 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 54.15 percent of net revenues and 12.76 percent of total revenues. The total principal and interest remaining to be paid on the loan is \$1,850,647. Principal and interest paid for the current year was \$217,723, total net revenues were \$402,086 and total revenues were \$1,705,983.

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, 2011 was \$2,785,000.

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

**CITY OF HUBBARD, OHIO**

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

**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
2012	\$ 425,000	\$ 98,043	\$ 523,043	\$ 55,963	\$ -	\$ 55,963
2013	440,000	84,018	524,018	55,964	-	55,964
2014	455,000	69,058	524,058	55,963	-	55,963
2015	470,000	53,133	523,133	55,963	-	55,963
2016	490,000	36,448	526,448	55,963	-	55,963
2017 - 2021	505,000	18,685	523,685	243,349	-	243,349
2022 - 2023	-	-	-	67,722	-	67,722
	<u>\$ 2,785,000</u>	<u>\$ 359,385</u>	<u>\$ 3,144,385</u>	<u>\$ 590,887</u>	<u>\$ -</u>	<u>\$ 590,887</u>

Year Ending December 31,	Sewer System Refunding BAN			OWDA Loan		
	Principal	Interest	Total	Principal	Interest	Total
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	-	-	-	163,523	54,200	217,723
2017 - 2020	-	-	-	660,182	101,850	762,032
Total	<u>\$ 935,000</u>	<u>\$ 57,588</u>	<u>\$ 992,588</u>	<u>\$ 1,382,886</u>	<u>\$ 467,761</u>	<u>\$ 1,850,647</u>

**NOTE 13 - SHORT-TERM OBLIGATIONS**

During 2010, the City issued a \$1,788,000 electric system improvements note through American Municipal Power of Ohio. The note was retired on November 10, 2011.

On November 10, 2011, the City issued an additional \$1,676,000 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 2011:

	Interest Rate	Balance 12/31/10	Additions	Reductions	Balance 12/31/11
<u>Revenue Anticipation Notes</u>					
Electric System Improvements	2.00%	\$ 1,788,000	\$ -	\$ (1,788,000)	\$ -
Electric System Improvements	1.75%	-	1,676,000	-	1,676,000
Total		<u>\$ 1,788,000</u>	<u>\$ 1,676,000</u>	<u>\$ (1,788,000)</u>	<u>\$ 1,676,000</u>

## CITY OF HUBBARD, OHIO

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

#### NOTE 14 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

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

##### **History of the AMPGS Project**

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

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

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

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the take-or-pay contract. At December 31, 2011, AMP has a regulatory asset of \$86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS Project participants to establish a formal plan for the recovery on a participant by participant basis.

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

**CITY OF HUBBARD, OHIO**

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

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

Based on an allocation to the City of 6,400 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the City has a potential stranded cost obligation of \$1,046,753 for the AMPGS Project. The City does not have any payments on deposit with AMP at December 31, 2011.

**AFEC Development Fee**

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

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the City receives a credit of \$461,186 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 4,405 and the total kW share of those participating in both projects. The City has recorded this credit in its financial statements as of December 31, 2011.

**Recording of Stranded Costs**

The City has chosen not to record the total potential stranded costs identified as a current expense. The City has chosen to adopt GASB Statement No. 62, paragraphs 476-500 (a.k.a. FASB Statement No. 71) and has recorded a regulatory asset on the statement of net assets for the dollar amount identified in AMP’s memos mentioned above anticipating recovery in future rates. The City formally adopted GASB Statement No. 62 on February 8, 2012, at which time the City specified the dollar amount booked and expected recovery period through its power cost adjustment. This dollar amount is subject to revision, pending the results of AMP’s litigation with the EPC contractor. Further, as part of the GASB Statement No. 62 implementation, the City has also recorded a regulatory liability for the AFEC Development Fee, which will be offset against the revenues recovered in future rates. The City has requested of AMP to incorporate the potential stranded cost liability of \$585,567 into its monthly power cost invoices and will be recovering it directly from its customers through the City’s power costs adjustment over the next ten years (See Note 12 for the reporting of the potential stranded cost liability).

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

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

**CITY OF HUBBARD, OHIO**

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

**NOTE 15 - RISK MANAGEMENT**

**A. Comprehensive**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2011, 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	\$31,681,000	\$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	1,678,500	500
EDP	399,000	500
Umbrella Liability	7,000,000	10,000
Inland Marine - hired/leased	200,000	2,500
Cyber Liability	1,000,000	25,000

**B. Employee Health Insurance**

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

**CITY OF HUBBARD, OHIO**

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

**NOTE 15 - RISK MANAGEMENT - (Continued)**

The City had one occurrence in a prior year in which settled claims exceeded the self-insurance amount. The liability for unpaid claims of \$125,200 reported in the Internal Service Fund at December 31, 2011, 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 2011 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>
2011	\$ 158,900	\$ 899,445	\$ (933,145)	\$ 125,200
2010	146,800	1,204,821	(1,192,721)	158,900

**C. Workers' Compensation**

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

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

**NOTE 16 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

**CITY OF HUBBARD, OHIO**

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

**NOTE 16 - PENSION PLANS - (Continued)**

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$194,007, \$168,543, and \$154,324, respectively; 92.19% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 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 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers were \$101,196 for the year ended December 31, 2011, \$101,517 for the year ended December 31, 2010, and \$98,712 for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 75.22% has been contributed for police for 2011.

**CITY OF HUBBARD, OHIO**

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

**NOTE 17 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

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

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$80,229, \$94,928, and \$111,164, respectively; 92.19% has been contributed for 2011 and 100% has been contributed for 2010 and 2009.

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

**CITY OF HUBBARD, OHIO**

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

**NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

**B. Ohio Police and Fire Pension Fund**

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

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

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

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

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

OP&F maintains funds for health care in two separate accounts. One account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers were \$53,574 for the year ended December 31, 2011, \$53,744 for the year ended December 31, 2010, and \$52,260 for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 75.22% has been contributed for police for 2011.

**CITY OF HUBBARD, OHIO**

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

**NOTE 18 - BUDGETARY BASIS OF ACCOUNTING**

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

The statement of revenues, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 19,330
Net adjustment for revenue accruals	412,502
Net adjustment for expenditure accruals	9,836
Funds budgeted elsewhere	<u>4,375</u>
GAAP basis	<u>\$ 446,043</u>

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

**CITY OF HUBBARD, OHIO**

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

**NOTE 19 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2011.

**B. Litigation**

The City is not currently a party to any legal proceedings that would have a materially adverse effect on the financial statements at December 31, 2011.

**NOTE 20 - OPERATING LEASE**

The City passed Ordinance No. 15-08 on September 2, 2008, to enter into a 60-month lease and maintenance agreement with IKON Office Solutions (IOS), Inc., for the lease of five (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>
2012	\$ 6,180
2013	4,292
Total - Present value of minimum lease payments	<u>\$ 10,472</u>

**CITY OF HUBBARD, OHIO**

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

**NOTE 21 - FUND BALANCE**

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

Fund balance	General	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepayments	\$ 6,979	\$ -	\$ 6,979
Materials and supplies inventory	3,474	27,317	30,791
Unclaimed monies	3,302	-	3,302
Perpetual care	-	840	840
Total nonspendable	13,755	28,157	41,912
Restricted:			
Street construction and maintenance	-	126,043	126,043
State highway	-	8,031	8,031
Law enforcement	-	19,429	19,429
Police pension	-	2,643	2,643
Perpetual care	-	879	879
Other purposes	-	1,273	1,273
Total restricted	-	158,298	158,298
Committed:			
Law enforcement	-	9,972	9,972
Recreation	-	8,277	8,277
Other purposes	-	395	395
Total committed	-	18,644	18,644
Assigned:			
Debt service	-	22,228	22,228
Capital projects	-	314,030	314,030
Subsequent year's appropriations	360,354	-	360,354
Total assigned	360,354	336,258	696,612
Unassigned	362,272	-	362,272
Total fund balances	\$ 736,381	\$ 541,357	\$ 1,277,738

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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, (the "City") as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 24, 2012 wherein we noted the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 opinion 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 24, 2012.

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

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



**Dave Yost**  
Auditor of State

September 24, 2012

CITY OF HUBBARD  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2011

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2011-01

**NONCOMPLIANCE**

**Ohio Revised Code § 5705.41(D)** prohibits a subdivision or taxing unit from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**A. "Then and Now" Certificate** - If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certificate ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrances, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

**B. Blanket Certificate** - Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority against any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any particular line item appropriation.

**C. Super Blanket Certificate** - The City may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonable predictable operating expense. This certificate is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

18 out of 38 expenditures tested for 2011 were not certified by the fiscal officer at the time the commitment was incurred, and there was no evidence the City followed the aforementioned exceptions. Failure to properly certify the availability of the funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2011-01  
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, we recommend the City Auditor certify that funds are or will be available prior to the obligation of the City. When prior certification is not possible, "then and now" certification should be used.

We recommend the City certify expenditures to which § 5705.41(D) applies. The most convenient certification method to authorize disbursements is to use purchase orders that include certification language required by § 5705.41(D). The fiscal officer should sign the certification at the time the City incurs a commitment, and only when the requirements of § 5705.41(D) are satisfied. The fiscal officer should also post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Official's Response:**

Moving forward we will comply. I have reminded all departments of the purchasing procedure in effect and have requested their compliance. We are working very hard with our supervisors to ensure compliance.



# 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  
OCTOBER 23, 2012