

**CITY OF HUBBARD  
TRUMBULL COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS***  
**(AUDITED)**

FOR THE YEAR ENDED  
DECEMBER 31, 2013

**MICHAEL C. VILLANO, CPA, CMA, CGMA, CITY AUDITOR**





# Dave Yost • Auditor of State

City Council  
City of Hubbard  
220 W. Liberty Street  
Hubbard, Ohio 44425

We have reviewed the *Independent Auditor's Report* of the City of Hubbard, Trumbull County, prepared by Julian & Grube, Inc., for the audit period January 1, 2013 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Hubbard is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

July 2, 2014

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**CITY OF HUBBARD  
TRUMBULL COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### Independent Auditor's Report

City of Hubbard  
Trumbull County  
220 W. Liberty Street  
Hubbard, Ohio 44425

To the Members of Council and Mayor:

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hubbard, Trumbull County, Ohio, as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the City of Hubbard's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hubbard, Trumbull County, Ohio, as of December 31, 2013, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2014, on our consideration of the City of Hubbard's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Hubbard's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
June 16, 2014

## CITY OF HUBBARD, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013. 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 2013 are as follows:

- The total net position of the City increased \$1,440,021 from 2012 net position. Net position of governmental activities increased \$723,445 or 23.86% from 2012 and net position of business-type activities increased \$716,576 or 4.16% from 2012.
- General revenues accounted for \$2,828,207 or 85.59% of total governmental activities revenue. Program specific revenues accounted for \$476,172 or 14.41% of total governmental activities revenue.
- The City had \$2,580,934 in expenses related to governmental activities; \$476,172 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,104,762 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$2,828,207.
- The City's major governmental fund is the general fund. The general fund had revenues of \$2,790,100 in 2013. The expenditures and other financing uses of the general fund totaled \$2,544,574 in 2013. The net increase in fund balance for the general fund was \$245,526 or 35.25%.
- Net position for the business-type activities, which are composed of the water, sewer, electric, guarantee trust (utility connection deposits) and stormwater enterprise funds, increased in 2013 by \$716,576.
- In the general fund, actual budgetary-basis revenues and other financing sources of \$2,198,541 were \$25 more than the amount in the final budget and actual budgetary-basis expenditures and other financing uses of \$1,906,907 were \$10,893 less than the amount in the final budget. Budgeted revenues and other financing sources increased \$253,671 from the original to the final budget. Budgeted expenditures and other financing uses decreased \$133,565 from the original to the final budget.

#### **Using this Annual Financial Report**

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

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

## CITY OF HUBBARD, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013

#### **Reporting the City as a Whole**

##### *Statement of Net Position and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City perform financially during 2013?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting reflects all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

#### **Reporting the City's Most Significant Funds**

##### *Fund Financial Statements*

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

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

##### *Governmental Funds*

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

## **CITY OF HUBBARD, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013**

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 major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19-23 of this report.

#### ***Proprietary Funds***

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

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

#### ***Fiduciary Funds***

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

#### ***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 34-69 of this report.

**CITY OF HUBBARD, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Government-Wide Financial Analysis**

The statement of net position serves as a useful indicator of a government's financial position. The table below provides a summary of the City's net position at December 31, 2013 and December 31, 2012.

	<b>Net Position</b>					
	Governmental Activities 2013	Business-type Activities 2013	Governmental Activities 2012	Business-type Activities 2012	2013 Total	2012 Total
<u>Assets</u>						
Current and other assets	\$ 3,119,148	\$ 9,694,850	\$ 2,702,484	\$ 9,072,740	\$ 12,813,998	\$ 11,775,224
Capital assets	<u>3,803,959</u>	<u>13,243,163</u>	<u>3,954,195</u>	<u>13,977,221</u>	<u>17,047,122</u>	<u>17,931,416</u>
Total assets	<u>6,923,107</u>	<u>22,938,013</u>	<u>6,656,679</u>	<u>23,049,961</u>	<u>29,861,120</u>	<u>29,706,640</u>
<u>Deferred Outflows of Resources</u>						
	-	-	-	38,513	-	38,513
<u>Liabilities</u>						
Current liabilities	184,733	1,340,706	264,002	2,549,360	1,525,439	2,813,362
Long-term liabilities	<u>2,671,429</u>	<u>3,651,161</u>	<u>3,049,459</u>	<u>3,309,544</u>	<u>6,322,590</u>	<u>6,359,003</u>
Total liabilities	<u>2,856,162</u>	<u>4,991,867</u>	<u>3,313,461</u>	<u>5,858,904</u>	<u>7,848,029</u>	<u>9,172,365</u>
<u>Deferred Inflows of Resources</u>						
	<u>311,329</u>	-	<u>311,047</u>	-	<u>311,329</u>	<u>311,047</u>
<u>Net Position</u>						
Net investment in capital assets	1,343,959	9,972,980	1,164,195	9,875,702	11,316,939	11,039,897
Restricted	355,888	-	191,124	-	355,888	191,124
Unrestricted	<u>2,055,769</u>	<u>7,973,166</u>	<u>1,676,852</u>	<u>7,353,868</u>	<u>10,028,935</u>	<u>9,030,720</u>
Total net position	<u>\$ 3,755,616</u>	<u>\$ 17,946,146</u>	<u>\$ 3,032,171</u>	<u>\$ 17,229,570</u>	<u>\$ 21,701,762</u>	<u>\$ 20,261,741</u>

The variations in current liabilities and long-term liabilities within the business-type activities are primarily a result of the classification of the electric fund's bond anticipation notes as a long-term obligation in 2013, as compared to the bond anticipation notes classification as a short-term obligation in the prior year.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2013, the City's assets exceeded liabilities and deferred inflows of resources by \$21,701,762. At year-end, net position was \$3,755,616 and \$17,946,146 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 57.09% of total assets. Capital assets at December 31, 2013, include land, land improvements, buildings and improvements, furniture and equipment, vehicles, and infrastructure. The City's net investment in capital assets at December 31, 2013, was \$1,343,959 and \$9,972,980 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's net investment in capital assets is reported net of related long-term obligations, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2013, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net position, \$355,888, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$2,055,769 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF HUBBARD, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

The following table shows the comparative analysis of changes in net position for 2013 and 2012.

	<b>Change in Net Position</b>					
	Governmental	Business-type	Governmental	Business-type	2013	2012
	Activities	Activities	Activities	Activities	Total	Total
	<u>2013</u>	<u>2013</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 26,253	\$ 9,460,904	\$ 35,359	\$ 9,615,929	\$ 9,487,157	\$ 9,651,288
Operating grants and contributions	<u>449,919</u>	<u>-</u>	<u>424,354</u>	<u>-</u>	<u>449,919</u>	<u>424,354</u>
Total program revenues	<u>476,172</u>	<u>9,460,904</u>	<u>459,713</u>	<u>9,615,929</u>	<u>9,937,076</u>	<u>10,075,642</u>
General revenues:						
Property taxes	253,507	-	216,104	-	253,507	216,104
Income taxes	2,078,950	-	1,987,850	-	2,078,950	1,987,850
Other local taxes	-	30,749	-	31,664	30,749	31,664
Unrestricted grants and entitlements	241,835	-	220,994	-	241,835	220,994
Investment earnings	61,124	14,163	66,058	34,177	75,287	100,235
Miscellaneous	<u>192,791</u>	<u>132,763</u>	<u>141,904</u>	<u>73,097</u>	<u>325,554</u>	<u>215,001</u>
Total general revenues	<u>2,828,207</u>	<u>177,675</u>	<u>2,632,910</u>	<u>138,938</u>	<u>3,005,882</u>	<u>2,771,848</u>
Total revenues	<u>3,304,379</u>	<u>9,638,579</u>	<u>3,092,623</u>	<u>9,754,867</u>	<u>12,942,958</u>	<u>12,847,490</u>
<b>Expenses</b>						
General government	360,377	-	239,329	-	360,377	239,329
Security of persons and property	1,357,651	-	1,614,259	-	1,357,651	1,614,259
Public health and welfare	18,805	-	18,344	-	18,805	18,344
Transportation	753,186	-	962,701	-	753,186	962,701
Community environment	760	-	410	-	760	410
Leisure time activity	41,845	-	21,578	-	41,845	21,578
Interest and fiscal charges	48,310	-	90,055	-	48,310	90,055
Bond issuance costs	-	-	76,677	-	-	76,677
Sewer	-	1,002,519	-	1,228,019	1,002,519	1,228,019
Water	-	1,371,794	-	1,476,992	1,371,794	1,476,992
Electric	-	6,467,579	-	6,130,301	6,467,579	6,130,301
Guarantee trust	-	10,868	-	8,557	10,868	8,557
Stormwater	<u>-</u>	<u>69,243</u>	<u>-</u>	<u>52,701</u>	<u>69,243</u>	<u>52,701</u>
Total expenses	<u>2,580,934</u>	<u>8,922,003</u>	<u>3,023,353</u>	<u>8,896,570</u>	<u>11,502,937</u>	<u>11,919,923</u>
Change in net position	723,445	716,576	69,270	858,297	1,440,021	927,567
Net position at beginning of year	<u>3,032,171</u>	<u>17,229,570</u>	<u>2,962,901</u>	<u>16,371,273</u>	<u>20,261,741</u>	<u>19,334,174</u>
Net position at end of year	<u>\$ 3,755,616</u>	<u>\$ 17,946,146</u>	<u>\$ 3,032,171</u>	<u>\$ 17,229,570</u>	<u>\$ 21,701,762</u>	<u>\$ 20,261,741</u>

**CITY OF HUBBARD, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Governmental Activities**

The net position of the governmental activities increased \$723,445 or 23.86% in 2013. General government expenses increased during 2013, but this increase was offset by decreases in both security of persons and property expenses and transportation expenses. The net result of the changes in governmental activities expenses was a decrease of \$442,419 or 14.63%.

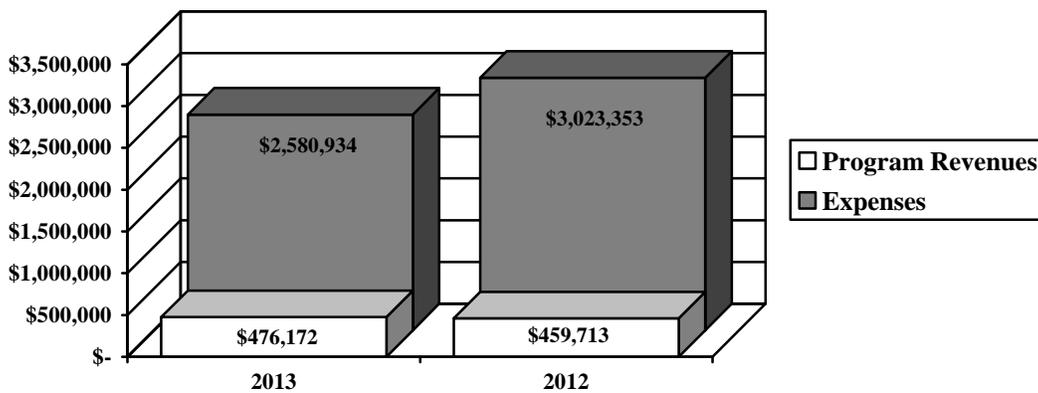
Security of persons and property expenses, which primarily support the operations of the police department, accounted for \$1,357,651 or 52.60% of the total expenses of the City. These expenses were partially funded by \$22,727 in direct charges to users of the services and \$4,570 in operating grants and contributions. Transportation expenses accounted for \$753,186 or 29.18% of the total expenses of the City. These expenses were partially funded by \$443,849 in operating grants and contributions.

The State and federal government contributed to the City a total of \$449,919 in operating grants and contributions during 2013. These revenues are restricted to a particular program or purpose.

General revenues totaled \$2,828,207, and amounted to 85.59% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,332,457. 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 \$241,835.

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 and other general revenues, 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, 2013**

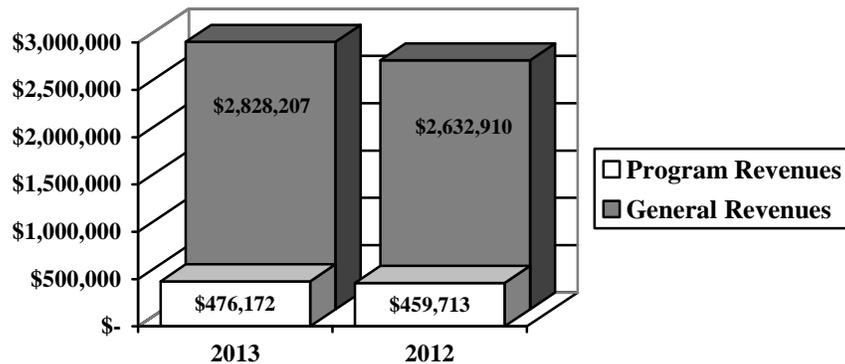
The following table shows, for governmental activities, the total cost of services and the net cost of services for 2013 and 2012. That is, it identifies the cost of these services supported by tax revenue, unrestricted State grants and entitlements, and other general revenues.

	<b>Governmental Activities</b>			
	Total Cost of Services <u>2013</u>	Net Cost of Services <u>2013</u>	Total Cost of Services <u>2012</u>	Net Cost of Services <u>2012</u>
Program Expenses:				
General government	\$ 360,377	\$ 358,562	\$ 239,329	\$ 229,702
Security of persons and property	1,357,651	1,330,354	1,614,259	1,589,822
Public health and welfare	18,805	17,094	18,344	17,049
Transportation	753,186	309,337	962,701	539,447
Community environment	760	760	410	410
Leisure time activity	41,845	40,345	21,578	20,478
Interest and fiscal charges	48,310	48,310	90,055	90,055
Bond issuance costs	-	-	76,677	76,677
<b>Total</b>	<b><u>\$ 2,580,934</u></b>	<b><u>\$ 2,104,762</u></b>	<b><u>\$ 3,023,353</u></b>	<b><u>\$ 2,563,640</u></b>

The dependence upon general revenues for governmental activities is apparent, with 81.55% of expenses supported through taxes and other general revenues.

The following graph shows a comparison of program revenues and general revenues for governmental activities for 2013 and 2012.

**Governmental Activities – Program Revenues and General Revenues**



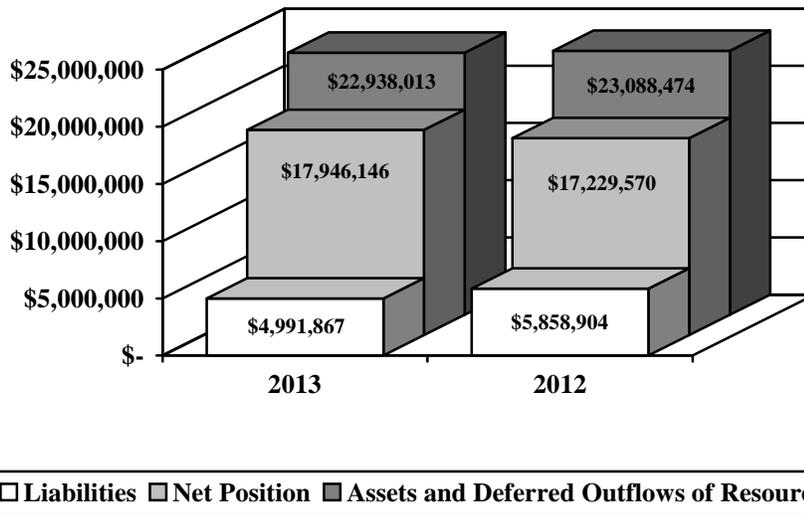
**CITY OF HUBBARD, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Business-type Activities**

Business-type activities include the water, sewer, electric, guarantee trust and stormwater enterprise funds. These programs had program revenues of \$9,460,904, general revenues of \$177,675, and expenses of \$8,922,003 during 2013. The graph below shows the business-type activities assets, deferred outflows of resources, liabilities and net position at December 31, 2013 and December 31, 2012.

**Net Position in Business-type Activities**



Business-type activities net position increased \$716,576 due to consistent revenues continuing to exceed expenses in 2013.

**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, 2013**

The City's governmental funds, as presented on the balance sheet on page 19, reported a combined fund balance of \$1,846,084, which is \$286,908 more than last year's total of \$1,559,176. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2013 and December 31, 2012 for all major and nonmajor governmental funds.

	<u>Fund Balances 12/31/13</u>	<u>Fund Balances 12/31/12</u>	<u>Increase</u>
General Fund	\$ 942,118	\$ 696,592	\$ 245,526
Nonmajor Governmental Funds	<u>903,966</u>	<u>862,584</u>	<u>41,382</u>
Total	<u>\$ 1,846,084</u>	<u>\$ 1,559,176</u>	<u>\$ 286,908</u>

***General Fund***

The City's general fund balance increased \$245,526. The table that follows assists in illustrating the revenues of the general fund.

	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 2,293,514	\$ 2,176,289	5.39 %
Charges for services	509	640	(20.47) %
Licenses and permits	143,304	122,330	17.15 %
Fines and forfeitures	19,929	14,198	40.36 %
Intergovernmental	238,700	287,738	(17.04) %
Investment income	61,124	66,058	(7.47) %
Other	<u>33,020</u>	<u>19,573</u>	<u>68.70 %</u>
Total	<u>\$ 2,790,100</u>	<u>\$ 2,686,826</u>	<u>3.84 %</u>

Overall revenues of the general fund increased \$103,274 or 3.84%. Tax revenue represents 82.20% of all general fund revenue. Taxes increased \$117,225 or 5.39% partially due to an increase in income tax revenue during 2013. Intergovernmental revenue decreased \$49,038 or 17.04% primarily due to decreases in estate tax revenue and local government funding available to the City during 2013. Other revenue increased \$13,447 or 68.70% mainly due to increases in miscellaneous receipts and reimbursements made throughout the current year. All other general fund revenues remained comparable to 2012.

**CITY OF HUBBARD, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

<u>Expenditures</u>	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Percentage Change</u>
General government	\$ 360,499	\$ 234,719	53.59 %
Security of persons and property	1,406,061	1,566,825	(10.26) %
Public health and welfare	13,368	13,494	(0.93) %
Community environment	760	410	85.37 %
Leisure time activity	6,495	3,715	74.83 %
Debt service	-	14,400	(100.00) %
<b>Total</b>	<b>\$ 1,787,183</b>	<b>\$ 1,833,563</b>	<b>(2.53) %</b>

Overall expenditures of the general fund decreased \$46,380 or 2.53%. General government expenditures increased \$125,780 or 53.59% primarily due to an increase in the cost of personal services from various departments, including the offices of the Mayor, Engineer, and City Auditor. Security of persons and property expenditures decreased \$160,764 or 10.26% mainly due to decreases in salaries and fringe benefits paid to the City's police department during 2013. All other general fund expenditures remained comparable to 2012.

***Budgeting Highlights***

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

Budgetary information is presented for the general fund. In the general fund, the actual revenues and other financing sources of \$2,198,541 were \$25 more than the amount in the final budget and actual expenditures and other financing uses of \$1,906,907 were \$10,893 less than the amount in the final budget. Budgeted revenues and other financing sources increased \$253,671 from the original to the final budget. Budgeted expenditures and other financing uses decreased \$133,565 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, 2013

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2013, the City had \$17,047,122 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Of this total, \$3,803,959 was reported in governmental activities and \$13,243,163 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, 2013 balances compared to December 31, 2012.

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

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 597,871	\$ 597,871	\$ 180,423	\$ 180,423	\$ 778,294	\$ 778,294
Land improvements	268,450	299,045	94,132	106,162	362,582	405,207
Buildings and improvements	1,500,694	1,546,962	1,867,350	1,979,282	3,368,044	3,526,244
Furniture and equipment	60,414	78,385	1,133,343	1,345,133	1,193,757	1,423,518
Vehicles	109,109	157,278	140,306	161,707	249,415	318,985
Infrastructure	1,267,421	1,274,654	9,827,609	10,204,514	11,095,030	11,479,168
Totals	<u>\$ 3,803,959</u>	<u>\$ 3,954,195</u>	<u>\$ 13,243,163</u>	<u>\$ 13,977,221</u>	<u>\$ 17,047,122</u>	<u>\$ 17,931,416</u>

The overall decrease in governmental capital assets of \$150,236 is due to depreciation expense of \$336,213 exceeding capital outlays of \$185,977 during 2013. The overall decrease in business-type capital assets of \$734,058 is due to depreciation expense of \$770,678 exceeding capital outlays of \$36,620 during 2013.

One of the City's largest governmental 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 33.32% of the City's total governmental capital assets. Buildings and improvements is also a significant capital asset category, accounting for 39.45% of the City's total governmental capital assets.

The City's largest business-type capital asset category is infrastructure, which primarily includes water, sewer, and electrical lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents 74.21% of the City's total business-type capital assets.

**Debt Administration**

At December 31, 2013, the City had long-term obligations totaling \$6,322,590. Of this total, \$780,249 is due within one year and \$5,542,341 is due in more than one year. See Note 11 to the basic financial statements for detail on the City's long-term obligations.

**CITY OF HUBBARD, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

The City's governmental activities had the following long-term obligations outstanding at December 31, 2013 and December 31, 2012.

	Governmental Activities	
	December 31, 2013	December 31, 2012
Refunding bonds	\$ 2,460,000	\$ 2,790,000
Compensated absences	179,024	194,648
Retirement incentives	32,405	64,811
Total long-term obligations	\$ 2,671,429	\$ 3,049,459

The City's business-type activities had the following long-term obligations outstanding at December 31, 2013 and December 31, 2012.

	Business-type Activities	
	December 31, 2013	December 31, 2012
City owned debt	\$ -	\$ 515,000
OPWC loans	697,094	766,362
OWDA loans	1,121,089	1,256,157
Electric system improvements notes	1,452,000	1,564,000
Stranded cost liability	231,588	577,203
Compensated absences	149,390	147,229
Retirement incentives	-	47,593
Total long-term obligations	\$ 3,651,161	\$ 4,873,544

**Economic Conditions and Next Year's General Fund Budget Outlook**

The City's Administration considered the impact of various economic factors when establishing the 2013 budget. The continued stabilization of both revenue and expenditure streams influenced the objectives established in the 2013 budget. 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 sustain these revenue sources, City Council continues to make efforts to maintain the community's employment base, preserve 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 2013 budget, the City emphasized various efforts to continue to contain costs and sustain revenues.

Final budgeted revenues and other financing sources in the general fund for 2013 were \$2,198,516, a decrease of \$369,522 or 14.39% from the final 2012 budgeted amount of \$2,568,038. Final budgeted expenditures and other financing uses in the general fund for 2013 were \$1,917,800, a decrease of \$245,814 or 11.36% from the final 2012 budgeted amount of \$2,163,614. For the financial reporting purposes of budgetary activity, the general fund is comprised of only the legally budgeted general fund.

## **CITY OF HUBBARD, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013**

The average unemployment rate for Trumbull County in 2013 was 8.3%, which represents a slight increase from the 2012 rate of 8.0%. This is the result of a continued slow growth in the construction and manufacturing sectors of the regional economy. The Trumbull County unemployment rate compared slightly higher than the 7.2% State of Ohio average as well as the 7.4% national average. The City Auditor anticipates the 2014 rate to stabilize due to general improvements in the regional and national economies. The combination of the City's stabilization of local income tax collections and continued conservative budgeting practices should result in a sustainable 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 POSITION  
DECEMBER 31, 2013

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 2,081,852	\$ 6,943,571	\$ 9,025,423
Cash in segregated accounts. . . . .	600	500	1,100
Receivables (net of allowance for uncollectibles):			
Income taxes. . . . .	478,378	-	478,378
Real and other taxes . . . . .	360,591	3,521	364,112
Accounts. . . . .	24,392	828,181	852,573
Special assessments . . . . .	1,455	-	1,455
Internal balance. . . . .	(119,110)	119,110	-
Due from other governments. . . . .	263,206	-	263,206
Prepayments . . . . .	3,075	16,990	20,065
Materials and supplies inventory. . . . .	24,709	571,003	595,712
Investment in joint ventures . . . . .	-	217,576	217,576
Regulatory asset. . . . .	-	994,398	994,398
Capital assets:			
Land. . . . .	597,871	180,423	778,294
Depreciable capital assets, net. . . . .	3,206,088	13,062,740	16,268,828
Total capital assets. . . . .	<u>3,803,959</u>	<u>13,243,163</u>	<u>17,047,122</u>
Total assets . . . . .	<u>6,923,107</u>	<u>22,938,013</u>	<u>29,861,120</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	18,837	487,537	506,374
Accrued wages and benefits. . . . .	38,006	39,082	77,088
Due to other governments . . . . .	59,616	49,631	109,247
Accrued interest payable . . . . .	3,774	1,646	5,420
Claims payable. . . . .	64,500	-	64,500
Regulatory liability. . . . .	-	762,810	762,810
Long-term liabilities:			
Due within one year . . . . .	445,868	334,381	780,249
Due in more than one year. . . . .	2,225,561	3,316,780	5,542,341
Total liabilities . . . . .	<u>2,856,162</u>	<u>4,991,867</u>	<u>7,848,029</u>
<b>Deferred inflows of resources:</b>			
Property and other taxes levied for the next fiscal year. . . . .	311,329	-	311,329
<b>Net position:</b>			
Net investment in capital assets. . . . .	1,343,959	9,972,980	11,316,939
Restricted for:			
Street construction and maintenance. . . . .	270,907	-	270,907
State highway . . . . .	19,952	-	19,952
Law enforcement . . . . .	19,578	-	19,578
Police pension. . . . .	37,169	-	37,169
Maple Grove cemetery. . . . .	2,719	-	2,719
Other purposes. . . . .	3,843	-	3,843
Perpetual care:			
Expendable. . . . .	880	-	880
Nonexpendable. . . . .	840	-	840
Unrestricted. . . . .	<u>2,055,769</u>	<u>7,973,166</u>	<u>10,028,935</u>
Total net position . . . . .	<u>\$ 3,755,616</u>	<u>\$ 17,946,146</u>	<u>\$ 21,701,762</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF HUBBARD, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Governmental activities:</b>			
General government . . . . .	\$ 360,377	\$ 1,815	\$ -
Security of persons and property . . . . .	1,357,651	22,727	4,570
Public health and welfare . . . . .	18,805	1,711	-
Transportation. . . . .	753,186	-	443,849
Community environment . . . . .	760	-	-
Leisure time activity. . . . .	41,845	-	1,500
Interest and fiscal charges. . . . .	48,310	-	-
<b>Total governmental activities . . . . .</b>	<b>2,580,934</b>	<b>26,253</b>	<b>449,919</b>
<b>Business-type activities:</b>			
Sewer. . . . .	1,002,519	1,505,316	-
Water. . . . .	1,371,794	1,750,625	-
Electric. . . . .	6,467,579	6,076,098	-
Other business-type activities:			
Guarantee trust. . . . .	10,868	-	-
Stormwater. . . . .	69,243	128,865	-
<b>Total business-type activities . . . . .</b>	<b>8,922,003</b>	<b>9,460,904</b>	<b>-</b>
<b>Total primary government . . . . .</b>	<b>\$ 11,502,937</b>	<b>\$ 9,487,157</b>	<b>\$ 449,919</b>

**General Revenues:**

Property taxes levied for:

- General purposes . . . . .
- Police pension. . . . .

Income taxes levied for:

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

Total general revenues . . . . .

Change in net position . . . . .

**Net position at beginning of year . . . . .**

**Net position at end of year. . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (358,562)	\$ -	\$ (358,562)
(1,330,354)	-	(1,330,354)
(17,094)	-	(17,094)
(309,337)	-	(309,337)
(760)	-	(760)
(40,345)	-	(40,345)
(48,310)	-	(48,310)
<u>(2,104,762)</u>	<u>-</u>	<u>(2,104,762)</u>
-	502,797	502,797
-	378,831	378,831
-	(391,481)	(391,481)
-	(10,868)	(10,868)
-	59,622	59,622
<u>-</u>	<u>538,901</u>	<u>538,901</u>
<u>(2,104,762)</u>	<u>538,901</u>	<u>(1,565,861)</u>
226,786	-	226,786
26,721	-	26,721
2,078,950	-	2,078,950
-	30,749	30,749
241,835	-	241,835
61,124	14,163	75,287
<u>192,791</u>	<u>132,763</u>	<u>325,554</u>
<u>2,828,207</u>	<u>177,675</u>	<u>3,005,882</u>
723,445	716,576	1,440,021
<u>3,032,171</u>	<u>17,229,570</u>	<u>20,261,741</u>
<u>\$ 3,755,616</u>	<u>\$ 17,946,146</u>	<u>\$ 21,701,762</u>

**CITY OF HUBBARD, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 657,899	\$ 868,822	\$ 1,526,721
Cash in segregated accounts. . . . .	250	350	600
Receivables (net of allowance for uncollectibles):			
Income taxes. . . . .	478,378	-	478,378
Real and other taxes . . . . .	322,818	37,773	360,591
Accounts. . . . .	23,588	804	24,392
Special assessments . . . . .	1,455	-	1,455
Due from other governments. . . . .	70,337	192,869	263,206
Prepayments . . . . .	2,875	200	3,075
Materials and supplies inventory. . . . .	2,566	22,143	24,709
Total assets . . . . .	<u>\$ 1,560,166</u>	<u>\$ 1,122,961</u>	<u>\$ 2,683,127</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	\$ 11,572	\$ 7,265	\$ 18,837
Accrued wages and benefits. . . . .	27,215	10,791	38,006
Retirement incentive payable . . . . .	-	32,405	32,405
Due to other governments . . . . .	46,551	13,065	59,616
Total liabilities . . . . .	<u>85,338</u>	<u>63,526</u>	<u>148,864</u>
<b>Deferred inflows of resources:</b>			
Property and other taxes levied for the next fiscal year. . . . .	278,716	32,613	311,329
Income tax revenue not available . . . . .	166,916	-	166,916
Delinquent property tax revenue not available. . . . .	39,286	4,597	43,883
Special assessments revenue not available. . . . .	1,455	-	1,455
Intergovernmental revenue not available. . . . .	46,337	118,259	164,596
Total deferred inflows of resources . . . . .	<u>532,710</u>	<u>155,469</u>	<u>688,179</u>
<b>Fund balances:</b>			
Nonspendable . . . . .	9,068	23,183	32,251
Restricted. . . . .	-	242,800	242,800
Committed . . . . .	-	45,739	45,739
Assigned . . . . .	70,474	592,244	662,718
Unassigned. . . . .	<u>862,576</u>	<u>-</u>	<u>862,576</u>
Total fund balances. . . . .	<u>942,118</u>	<u>903,966</u>	<u>1,846,084</u>
Total liabilities, deferred inflows of resources and fund balances . . . . .	<u>\$ 1,560,166</u>	<u>\$ 1,122,961</u>	<u>\$ 2,683,127</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF HUBBARD, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2013

<b>Total governmental fund balances</b>	\$	1,846,084
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,803,959
Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds.		
Income taxes receivable	\$ 166,916	
Property taxes receivable	43,883	
Special assessments receivable	1,455	
Intergovernmental receivable	164,596	
Total		376,850
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(3,774)
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		490,631
An internal balance is recorded in governmental activities to reflect underpayments or overpayments to the internal service fund by the business-type activities.		(119,110)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds payable	(2,460,000)	
Compensated absences payable	(179,024)	
Total		(2,639,024)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>3,755,616</b>

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, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Income taxes . . . . .	\$ 2,062,669	\$ -	\$ 2,062,669
Property and other taxes. . . . .	230,845	27,202	258,047
Charges for services. . . . .	509	1,425	1,934
Licenses and permits . . . . .	143,304	-	143,304
Fines and forfeitures . . . . .	19,929	3,173	23,102
Intergovernmental. . . . .	238,700	442,353	681,053
Investment income. . . . .	61,124	1,066	62,190
Other . . . . .	33,020	31,495	64,515
Total revenues . . . . .	<u>2,790,100</u>	<u>506,714</u>	<u>3,296,814</u>
<b>Expenditures:</b>			
Current:			
General government . . . . .	360,499	-	360,499
Security of persons and property . . . . .	1,406,061	14,737	1,420,798
Public health and welfare. . . . .	13,368	5,437	18,805
Transportation . . . . .	-	577,328	577,328
Community environment . . . . .	760	-	760
Leisure time activity . . . . .	6,495	34,477	40,972
Capital outlay . . . . .	-	212,159	212,159
Debt service:			
Principal retirement. . . . .	-	330,000	330,000
Interest and fiscal charges . . . . .	-	48,585	48,585
Total expenditures . . . . .	<u>1,787,183</u>	<u>1,222,723</u>	<u>3,009,906</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>1,002,917</u>	<u>(716,009)</u>	<u>286,908</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	757,391	757,391
Transfers out. . . . .	<u>(757,391)</u>	<u>-</u>	<u>(757,391)</u>
Total other financing sources (uses) . . . . .	<u>(757,391)</u>	<u>757,391</u>	<u>-</u>
Net change in fund balances . . . . .	245,526	41,382	286,908
<b>Fund balances at beginning of year . . . . .</b>	696,592	862,584	1,559,176
<b>Fund balances at end of year . . . . .</b>	<u>\$ 942,118</u>	<u>\$ 903,966</u>	<u>\$ 1,846,084</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, 2013

**Net change in fund balances - total governmental funds** \$ 286,908

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$ 185,977	
Current year depreciation	<u>(336,213)</u>	
Total		(150,236)

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

Income taxes	16,281	
Property taxes	(4,540)	
Special assessments	(5,467)	
Intergovernmental revenues	<u>1,291</u>	
Total		7,565

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 275

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 330,000

Some expenses reported in the statement of activities, such as compensated absences and retirement incentives, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 23,648

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. The net revenue (expense) of the internal service fund, net of internal balance activity of (\$27,602), is: 225,285

**Change in net position of governmental activities** \$ 723,445

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, 2013

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues:</b>				
Property and other taxes. . . . .	\$ 204,988	\$ 234,652	\$ 234,655	\$ 3
Charges for services. . . . .	406	459	459	-
Licenses and permits . . . . .	128,071	144,775	144,777	2
Fines and forfeitures . . . . .	17,629	19,929	19,929	-
Intergovernmental. . . . .	252,529	282,540	282,543	3
Investment income. . . . .	58,836	66,510	66,511	1
Other . . . . .	25,310	28,612	28,612	-
Total revenues . . . . .	687,769	777,477	777,486	9
<b>Expenditures:</b>				
Current:				
General government . . . . .	334,135	269,645	262,872	6,773
Security of persons and property . . . . .	1,476,850	1,416,695	1,412,830	3,865
Public health and welfare. . . . .	15,000	13,500	13,368	132
Community environment . . . . .	900	1,100	1,050	50
Leisure time activity . . . . .	4,480	6,360	6,321	39
Total expenditures . . . . .	1,831,365	1,707,300	1,696,441	10,859
Excess of expenditures over revenues . . . . .	(1,143,596)	(929,823)	(918,955)	10,868
<b>Other financing sources (uses):</b>				
Sale of capital assets. . . . .	3,674	4,153	4,153	-
Transfers in . . . . .	1,253,402	1,416,886	1,416,902	16
Transfers out. . . . .	(220,000)	(210,500)	(210,466)	34
Total other financing sources (uses) . . . . .	1,037,076	1,210,539	1,210,589	50
Net change in fund balance . . . . .	(106,520)	280,716	291,634	10,918
<b>Fund balance at beginning of year. . . . .</b>	362,638	362,638	362,638	-
<b>Fund balance at end of year . . . . .</b>	\$ 256,118	\$ 643,354	\$ 654,272	\$ 10,918

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF HUBBARD, OHIO**

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2013

	<b>Business-type Activities - Enterprise Funds</b>			
	<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 . . . . .	\$ 973,379	\$ 1,370,505	\$ 4,161,516	\$ 438,171
Cash in segregated accounts. . . . .	150	150	200	-
Receivables (net of allowance for uncollectibles):				
Real and other taxes . . . . .	-	-	3,521	-
Accounts. . . . .	123,862	144,472	546,043	13,804
Prepayments . . . . .	7,450	7,139	2,401	-
Materials and supplies inventory. . . . .	8,107	102,283	460,613	-
<b>Total current assets . . . . .</b>	<b>1,112,948</b>	<b>1,624,549</b>	<b>5,174,294</b>	<b>451,975</b>
<b>Noncurrent assets:</b>				
Investment in joint ventures. . . . .	-	-	217,576	-
Regulatory asset. . . . .	-	-	994,398	-
<b>Capital assets:</b>				
Land . . . . .	95,078	85,345	-	-
Depreciable capital assets, net. . . . .	5,164,720	4,593,702	3,228,318	76,000
<b>Total capital assets. . . . .</b>	<b>5,259,798</b>	<b>4,679,047</b>	<b>3,228,318</b>	<b>76,000</b>
<b>Total noncurrent assets . . . . .</b>	<b>5,259,798</b>	<b>4,679,047</b>	<b>4,440,292</b>	<b>76,000</b>
<b>Total assets . . . . .</b>	<b>6,372,746</b>	<b>6,303,596</b>	<b>9,614,586</b>	<b>527,975</b>
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Accounts payable. . . . .	16,199	33,844	436,684	810
Accrued wages and benefits. . . . .	8,438	10,602	20,042	-
Compensated absences. . . . .	-	19,137	44,463	-
Due to other governments . . . . .	8,365	13,858	27,408	-
Claims payable . . . . .	-	-	-	-
Regulatory liability. . . . .	-	-	762,810	-
Current portion of OWDA loans. . . . .	-	143,956	-	-
Current portion of OPWC loans. . . . .	25,049	44,218	-	-
Current portion of stranded cost liability. . . . .	-	-	57,558	-
Accrued interest payable . . . . .	-	-	1,646	-
<b>Total current liabilities . . . . .</b>	<b>58,051</b>	<b>265,615</b>	<b>1,350,611</b>	<b>810</b>
<b>Long-term liabilities:</b>				
OWDA loans . . . . .	-	977,133	-	-
OPWC loans. . . . .	285,671	342,156	-	-
Bond anticipation notes. . . . .	-	-	1,452,000	-
Stranded cost liability. . . . .	-	-	174,030	-
Compensated absences. . . . .	-	30,333	55,457	-
<b>Total long-term liabilities . . . . .</b>	<b>285,671</b>	<b>1,349,622</b>	<b>1,681,487</b>	<b>-</b>
<b>Total liabilities . . . . .</b>	<b>343,722</b>	<b>1,615,237</b>	<b>3,032,098</b>	<b>810</b>
<b>Net position:</b>				
Net investment in capital assets. . . . .	4,949,078	3,171,584	1,776,318	76,000
Unrestricted . . . . .	1,079,946	1,516,775	4,806,170	451,165
<b>Total net position. . . . .</b>	<b>\$ 6,029,024</b>	<b>\$ 4,688,359</b>	<b>\$ 6,582,488</b>	<b>\$ 527,165</b>

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

Net position of business-type activities

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 6,943,571	\$ 555,131
500	-
3,521	-
828,181	-
16,990	-
571,003	-
<u>8,363,766</u>	<u>555,131</u>
217,576	-
994,398	-
180,423	-
13,062,740	-
<u>13,243,163</u>	<u>-</u>
<u>14,455,137</u>	<u>-</u>
<u>22,818,903</u>	<u>555,131</u>
487,537	-
39,082	-
63,600	-
49,631	-
-	64,500
762,810	-
143,956	-
69,267	-
57,558	-
1,646	-
<u>1,675,087</u>	<u>64,500</u>
977,133	-
627,827	-
1,452,000	-
174,030	-
85,790	-
<u>3,316,780</u>	<u>-</u>
<u>4,991,867</u>	<u>64,500</u>
9,972,980	-
<u>7,854,056</u>	<u>490,631</u>
17,827,036	<u>\$ 490,631</u>
119,110	
<u>\$ 17,946,146</u>	

**CITY OF HUBBARD, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<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 . . . . .	\$ 1,505,316	\$ 1,750,625	\$ 6,076,098	\$ 128,865
Other . . . . .	76,790	20,184	22,351	13,438
Total operating revenues. . . . .	<u>1,582,106</u>	<u>1,770,809</u>	<u>6,098,449</u>	<u>142,303</u>
<b>Operating expenses:</b>				
Personal services . . . . .	467,320	579,851	1,034,700	-
Contract services. . . . .	139,749	478,809	4,657,381	67,643
Materials and supplies. . . . .	104,161	79,885	178,526	-
Other . . . . .	-	-	10	10,868
Depreciation. . . . .	248,072	158,018	362,988	1,600
Total operating expenses. . . . .	<u>959,302</u>	<u>1,296,563</u>	<u>6,233,605</u>	<u>80,111</u>
Operating income (loss). . . . .	<u>622,804</u>	<u>474,246</u>	<u>(135,156)</u>	<u>62,192</u>
<b>Nonoperating revenues (expenses):</b>				
Interest expense and fiscal charges. . . . .	(49,523)	(82,656)	(19,955)	-
Investment income. . . . .	-	-	14,163	-
Investment in joint ventures. . . . .	-	-	(752)	-
Other nonoperating expenses . . . . .	-	-	(227,138)	-
Other nonoperating revenues. . . . .	-	-	30,749	-
Total nonoperating revenues (expenses). . . . .	<u>(49,523)</u>	<u>(82,656)</u>	<u>(202,933)</u>	<u>-</u>
Change in net position . . . . .	573,281	391,590	(338,089)	62,192
<b>Net position at beginning of year. . . . .</b>	<u>5,455,743</u>	<u>4,296,769</u>	<u>6,920,577</u>	<u>464,973</u>
<b>Net position at end of year . . . . .</b>	<u>\$ 6,029,024</u>	<u>\$ 4,688,359</u>	<u>\$ 6,582,488</u>	<u>\$ 527,165</u>

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

Change in net position of business-type activities.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 9,460,904	\$ 892,545
132,763	-
9,593,667	892,545
2,081,871	-
5,343,582	639,658
362,572	-
10,878	-
770,678	-
8,569,581	639,658
1,024,086	252,887
(152,134)	-
14,163	-
(752)	-
(227,138)	-
30,749	-
(335,112)	-
688,974	252,887
	237,744
	\$ 490,631
27,602	
\$ 716,576	

**CITY OF HUBBARD, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<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 . . . . .	\$ 1,504,662	\$ 1,749,898	\$ 6,035,596	\$ 128,813
Cash received from other operations. . . . .	76,790	20,184	18,663	13,438
Cash payments for personal services . . . . .	(522,279)	(562,462)	(1,017,680)	-
Cash payments for contract services . . . . .	(131,743)	(484,140)	(4,524,439)	(65,989)
Cash payments for materials and supplies . . . . .	(110,969)	(79,917)	(207,170)	-
Cash payments for other expenses. . . . .	-	-	-	(10,868)
Net cash provided by operating activities. . . . .	<u>816,461</u>	<u>643,563</u>	<u>304,970</u>	<u>65,394</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash received from property and other taxes . . . . .	-	-	30,599	-
Cash payments for joint venture expenses . . . . .	-	-	(227,138)	-
Net cash used in noncapital financing activities . . . . .	<u>-</u>	<u>-</u>	<u>(196,539)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets . . . . .	(7,778)	(95,500)	(30,408)	-
Principal retirement on City owned debt . . . . .	(515,000)	-	-	-
Principal retirement on loans . . . . .	(25,051)	(179,285)	-	-
Principal retirement on notes . . . . .	-	-	(112,000)	-
Interest and fiscal charges. . . . .	(14,162)	(82,656)	(21,344)	-
Net cash used in capital and related financing activities . . . . .	<u>(561,991)</u>	<u>(357,441)</u>	<u>(163,752)</u>	<u>-</u>
<b>Cash flows from investing activities:</b>				
Interest received. . . . .	-	-	17,315	-
Net cash provided by investing activities. . . . .	<u>-</u>	<u>-</u>	<u>17,315</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents . . . . .	254,470	286,122	(38,006)	65,394
<b>Cash and cash equivalents at beginning of year . . . . .</b>	719,059	1,084,533	4,199,722	372,777
<b>Cash and cash equivalents at end of year . . . . .</b>	<u>\$ 973,529</u>	<u>\$ 1,370,655</u>	<u>\$ 4,161,716</u>	<u>\$ 438,171</u>

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 9,418,969	\$ 934,067
129,075	-
(2,102,421)	-
(5,206,311)	(677,958)
(398,056)	-
(10,868)	-
<u>1,830,388</u>	<u>256,109</u>
30,599	-
(227,138)	-
<u>(196,539)</u>	<u>-</u>
(133,686)	-
(515,000)	-
(204,336)	-
(112,000)	-
(118,162)	-
<u>(1,083,184)</u>	<u>-</u>
<u>17,315</u>	<u>-</u>
<u>17,315</u>	<u>-</u>
567,980	256,109
6,376,091	299,022
<u>\$ 6,944,071</u>	<u>\$ 555,131</u>

--Continued

**CITY OF HUBBARD, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Business-type Activities - Enterprise Funds</u>			
	<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) . . . . .	\$ 622,804	\$ 474,246	\$ (135,156)	\$ 62,192
Adjustments:				
Depreciation . . . . .	248,072	158,018	362,988	1,600
Changes in assets and liabilities:				
(Increase) in materials and supplies inventory . . . . .	(5,759)	(263)	(16,217)	-
(Increase) decrease in accounts receivable. . . . .	(654)	(727)	(44,190)	(52)
(Increase) decrease in prepayments. . . . .	(1,303)	(1,303)	(1,684)	1,654
Increase (decrease) in accounts payable . . . . .	10,268	(3,797)	123,784	-
Increase in accrued wages and benefits. . . . .	2,921	3,062	5,931	-
Increase in due to other governments. . . . .	2,651	3,770	2,964	-
Increase (decrease) in compensated absences payable . .	(14,946)	10,557	6,550	-
(Decrease) in retirement incentive payable . . . . .	(47,593)	-	-	-
(Decrease) in claims payable . . . . .	-	-	-	-
Net cash provided by operating activities . . . . .	<u>\$ 816,461</u>	<u>\$ 643,563</u>	<u>\$ 304,970</u>	<u>\$ 65,394</u>

**Non-cash transactions:**

During 2012, the sewer fund purchased \$783 in capital assets on account.  
 During 2012, the water fund purchased \$95,500 in capital assets on account.  
 During 2012, the electric fund purchased \$783 in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Total</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 1,024,086	\$ 252,887
770,678	-
(22,239)	-
(45,623)	41,522
(2,636)	-
130,255	-
11,914	-
9,385	-
2,161	-
(47,593)	-
-	(38,300)
<u>\$ 1,830,388</u>	<u>\$ 256,109</u>

**CITY OF HUBBARD, OHIO**

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 DECEMBER 31, 2013

	<b>Private-Purpose Trust</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 7,564	\$ 820
Receivables:		
Real and other taxes. . . . .	-	24,810
Due from other governments. . . . .	-	1,745
Total assets . . . . .	7,564	\$ 27,375
<b>Liabilities:</b>		
Due to other governments. . . . .	-	\$ 26,555
Deposits held and due to others . . . . .	-	820
Total liabilities. . . . .	-	\$ 27,375
<b>Net position:</b>		
Held in trust for other purposes. . . . .	7,564	
Total net position . . . . .	\$ 7,564	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF HUBBARD, OHIO**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Private-Purpose Trust</u>
<b>Additions:</b>	
Interest . . . . .	\$ 2
Total additions . . . . .	<u>2</u>
Change in net position . . . . .	2
<b>Net position at beginning of year. . . . .</b>	<u>7,562</u>
<b>Net position at end of year . . . . .</b>	<u>\$ 7,564</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, 2013

#### NOTE 1 - DESCRIPTION OF THE CITY

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

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City's significant accounting policies are described below.

##### A. Reporting Entity

The City's 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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". 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 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 significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; 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 that are fiscally dependent on the City in that 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. The basic financial statements of the reporting entity include only those of the City (the primary government).

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

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

Hubbard Township-City of Hubbard Joint Economic Development District (JED District) - The City has entered into a contractual agreement with Hubbard 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, Hubbard Township and the City. The JED District is administered by a five member Board of Directors consisting of a Trustee representative of Hubbard Township, a representative of the City, a representative of business owners within the JED District, a representative of persons working within the JED District, and an additional member selected by the previously mentioned members who shall serve as Board Chairman. The City and Hubbard Township are to make a minimum annual contribution of \$500 each to the JED District's operation reserve fund to provide for administrative costs and expenses of the Board of Directors. In 2013, the Board of Directors waived the \$500 annual contribution. The City has an ongoing financial responsibility to fund the JED District. Upon termination of the contractual agreement, any property, assets and obligations of the JED 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 (Fire District) - The Eagle Joint Fire District is a jointly governed organization pursuant to the Ohio Revised Code 505.371. The Fire District was formed in 2008 and consists of the City and Hubbard Township. The Fire District Board consists of a Trustee from the City, a Trustee from Hubbard Township and three residents of the Fire District. A new resident is appointed by the City in odd numbered years and by Hubbard Township in even numbered years. Revenues are generated from Fire District levies. During 2013, the City did not make any contributions to the Fire 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 twenty 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 twenty-one 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 eighty-five 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 OMEGA JV1 contract. In accordance with the OMEGA JV1 agreement, the City remitted \$5,886 to the OMEGA JV1 for 2013. Complete financial statements for the 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, 2013

#### 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 the OMEGA JV5, including such portions of the OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio.

The 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 the 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 the OMEGA JV5, the net position will be shared by the Financing Participants on a percentage of ownership basis.

Under the terms of the Agreement, each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of the OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2013, the City has met its debt coverage obligation.

The Agreement provides that the failure of any OMEGA JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, the 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.

The OMEGA JV5 is managed by AMP-Ohio, which acts as the OMEGA JV5's agent. During 1993 and 2001, AMP-Ohio issued \$153,415,000 and \$13,899,981, respectively, of thirty year fixed rate Beneficial Interest Certificates on behalf of the Financing Participants of the 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 the OMEGA JV5 are reported in the City's electric enterprise fund. The City's net investment in the OMEGA JV5 was \$202,280 at December 31, 2013. Complete financial statements for the 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, 2013

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

The following is a summary of audited financial information for the OMEGA JV1 and the OMEGA JV5 as of the year ended December 31, 2013:

	<u>OMEGA JV1</u>	<u>OMEGA JV5</u>
Total assets and deferred outflows of resources	\$ 504,068	\$ 141,547,070
Total liabilities and deferred inflows of resources	100,481	131,775,107
Net position	403,587	9,771,963
Total revenues	383,157	23,000,861
Total expenses	402,996	23,000,861
Change in net position	(19,839)	-

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

The City reports equity interest equal to their undivided ownership percentage of the joint ventures members' equity. The 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 statement of net position as follows:

Equity interest in OMEGA JV1	\$ 15,296
Equity interest in OMEGA JV5	<u>202,280</u>
Total investment in joint ventures	<u>\$ 217,576</u>

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

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

## CITY OF HUBBARD, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

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

**Government-wide Financial Statements** - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service fund are eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. On the statement of activities, interfund services provided and used are not eliminated in the process of consolidation.

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

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

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

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

##### **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, 2013

**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 plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following is the City's major governmental fund:

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

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

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

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

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

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

Other enterprise funds of the City are used to account for guarantee trust and stormwater operations.

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

***Fiduciary Funds*** - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The 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, 2013

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

**D. Measurement Focus and Basis of Accounting**

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

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

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

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.

**E. Basis of Accounting**

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

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

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On the accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance 2014 operations, have been recorded as deferred inflows of resources on both the government-wide and fund financial statements. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2013, are recorded as deferred inflows of resources on the governmental fund financial statements.

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

***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 basic financial statements:

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

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

*Estimated Resources* - The County Budget Commission (the “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 budgetary statements reflect the amounts in the original and final amended official certificate of estimated resources issued during the year.

*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 City Council. The amounts reported on budgetary statements reflect the original and final appropriation amounts, including all amendments and modifications legally enacted by City 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 City Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by City Council. For all funds, City Council appropriations are made by fund, function (e.g. security of persons and property), department (e.g. police), and line item (e.g. salaries). This is known as the legal level of budgetary control. Any changes in appropriations outside of the legal level of budgetary control require the approval of City 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 healthcare 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 insurance 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 basic financial statements.

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

During 2013, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices.

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, 2013.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During 2013, interest revenue credited to the general fund amounted to \$61,124, which includes \$57,249 assigned from other City funds.

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

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

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

**I. Materials and Supplies Inventory**

On the 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/expended when used. Inventories are accounted for using the consumption method.

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

Inventory consists of expendable supplies held for consumption.

**J. Capital Assets**

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

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

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

**K. Compensated Absences**

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

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

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

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

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**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. Any applicable 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, 2013 are recorded as prepayments using the consumption method by recording a current asset for the prepaid amount at the time of the purchase and the expense/expenditure in the year in which services are consumed.

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

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

On both the government-wide financial statements and the fund financial statements, bond issuance costs are recognized in the period in which these items are incurred.

On the government-wide financial statements, bond premiums and discounts are 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 and bond discounts are presented as a reduction to the face amount of the bonds. On the governmental fund financial statements, bond premiums and discounts are recognized in the period in which these items are incurred.

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

**N. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported on the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims payable, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds 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, 2013**

**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 balances. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as “internal balances”.

**P. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenses/expenditures 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 expenses/expenditures to the funds that initially paid for them are not presented on the basic financial statements.

**Q. Fund Balance**

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

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

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

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

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

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

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

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

**R. Estimates**

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

**S. Net Position**

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

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

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2013.

## CITY OF HUBBARD, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

#### NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

##### Change in Accounting Principles

For 2013, the City has implemented GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34" and GASB Statement No. 66, "Technical Corrections-2012 - an Amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the City.

GASB Statement No. 66 improves accounting and financial reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements; GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" and GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements". The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the City.

#### 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;

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**A. Cash on Hand**

At year end, the City had \$1,100 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, 2013, the carrying amount of all City deposits, including \$6,177,731 in nonnegotiable certificates of deposit, was \$9,028,753. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2013, \$8,341,139 of the City's bank balance of \$9,066,203 was exposed to custodial credit risk as discussed below, while \$725,064 was covered by the FDIC.

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

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

**C. Investments**

As of December 31, 2013, 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	\$ 5,054	\$ 5,054

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

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

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

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

*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, 2013:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	\$ 5,054	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 9,028,753
Investments	5,054
Cash on hand	<u>1,100</u>
Total	<u>\$ 9,034,907</u>

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 2,082,452
Business-type activities	6,944,071
Private-purpose trust funds	7,564
Agency funds	<u>820</u>
Total	<u>\$ 9,034,907</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended December 31, 2013, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	<u>\$ 757,391</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. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**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. 2013 public utility property taxes became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Hubbard. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2013 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2013 operations and the collection of delinquent taxes has been offset by a deferred inflow of resources since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is considered a deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2013 was \$3.10 per \$1,000 of assessed value. The assessed values of real and public utility tangible personal property upon which 2013 property tax receipts were based are as follows:

Real property tax	\$ 105,894,310
Public utility tangible personal property	<u>1,211,460</u>
Total assessed valuation	<u>\$ 107,105,770</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, 2013. Income tax revenue for 2013 was \$2,062,669 in the general fund.

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2013, consisted of taxes, accounts (billings for user charged services), special assessments and intergovernmental receivables arising from grants, entitlements and shared revenues. All intergovernmental receivables have been classified as “due from other governments” on the basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2013.

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

**Governmental activities:**

Income taxes	\$ 478,378
Real and other taxes	360,591
Accounts	24,392
Special assessments	1,455
Due from other governments	263,206

**Business-type activities:**

Real and other taxes	3,521
Accounts	828,181

Receivables have been disaggregated on the face of the basic financial statements. 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, 2013

**NOTE 9 - CAPITAL ASSETS**

A. Governmental activities capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/13</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	1,412,608	-	(44,875)	1,367,733
Infrastructure	<u>5,510,175</u>	<u>185,977</u>	<u>-</u>	<u>5,696,152</u>
Total capital assets, being depreciated	<u>10,473,890</u>	<u>185,977</u>	<u>(44,875)</u>	<u>10,614,992</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(309,232)	(30,595)	-	(339,827)
Buildings and improvements	(750,989)	(46,268)	-	(797,257)
Furniture and equipment	(566,494)	(17,971)	-	(584,465)
Vehicles	(1,255,330)	(48,169)	44,875	(1,258,624)
Infrastructure	<u>(4,235,521)</u>	<u>(193,210)</u>	<u>-</u>	<u>(4,428,731)</u>
Total accumulated depreciation	<u>(7,117,566)</u>	<u>(336,213)</u>	<u>44,875</u>	<u>(7,408,904)</u>
Total capital assets, being depreciated, net	<u>3,356,324</u>	<u>(150,236)</u>	<u>-</u>	<u>3,206,088</u>
Governmental activities capital assets, net	<u>\$ 3,954,195</u>	<u>\$ (150,236)</u>	<u>\$ -</u>	<u>\$ 3,803,959</u>

Depreciation expense was charged to governmental activities as follows:

**Governmental activities:**

General government	\$ 19,004
Security of persons and property	73,018
Transportation	243,381
Leisure time activity	<u>810</u>
Total depreciation expense - governmental activities	<u>\$ 336,213</u>

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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

**B.** Business-type activities capital asset activity for the year ended December 31, 2013 was as follows:

	<u>Balance</u> <u>12/31/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/13</u>
<b>Business-type activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 180,423	\$ -	\$ -	\$ 180,423
Total capital assets, not being depreciated	<u>180,423</u>	<u>-</u>	<u>-</u>	<u>180,423</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	320,582	-	-	320,582
Buildings and improvements	4,480,493	-	-	4,480,493
Furniture and equipment	6,409,024	12,720	-	6,421,744
Vehicles	921,582	23,900	(36,032)	909,450
Infrastructure	<u>16,668,087</u>	<u>-</u>	<u>-</u>	<u>16,668,087</u>
Total capital assets, being depreciated	<u>28,799,768</u>	<u>36,620</u>	<u>(36,032)</u>	<u>28,800,356</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(214,420)	(12,030)	-	(226,450)
Buildings and improvements	(2,501,211)	(111,932)	-	(2,613,143)
Furniture and equipment	(5,063,891)	(224,510)	-	(5,288,401)
Vehicles	(759,875)	(45,301)	36,032	(769,144)
Infrastructure	<u>(6,463,573)</u>	<u>(376,905)</u>	<u>-</u>	<u>(6,840,478)</u>
Total accumulated depreciation	<u>(15,002,970)</u>	<u>(770,678)</u>	<u>36,032</u>	<u>(15,737,616)</u>
Total capital assets, being depreciated, net	<u>13,796,798</u>	<u>(734,058)</u>	<u>-</u>	<u>13,062,740</u>
Business-type activities capital assets, net	<u>\$ 13,977,221</u>	<u>\$ (734,058)</u>	<u>\$ -</u>	<u>\$ 13,243,163</u>

Depreciation expense was charged to business-type activities as follows:

**Business-type activities:**

Water	\$ 158,018
Sewer	248,072
Electric	362,988
Stormwater (a nonmajor enterprise fund)	<u>1,600</u>
Total depreciation expense - business-type activities	<u>\$ 770,678</u>

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 10 - EMPLOYEE BENEFITS**

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

Upon termination of City service, a fully vested employee is entitled to a percentage of accumulated sick leave based on years of service. At December 31, 2013, vested benefits for vacation leave for governmental fund type employees totaled \$78,463 and vested benefits for sick leave totaled \$100,561. For proprietary fund type employees, vested benefits for vacation leave totaled \$63,600 and vested benefits for sick leave totaled \$85,790 at December 31, 2013. Included in the vested benefits for sick leave figures is a liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

The City is also responsible for payments on a retirement incentive provided through the Ohio Public Employees Retirement System (OPERS). The retirement incentive is applicable to two former City employees that are scheduled to receive payments over a three year period based on a calculation of service credit cost. As of December 31, 2013, the City had an outstanding liability related to retirement incentives in the amount of \$32,405 in the governmental activities (street construction, maintenance, and repair fund). During 2013, the City retired its retirement incentive liability in the business-type activities (sewer enterprise fund).

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**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 11 - LONG-TERM OBLIGATIONS**

A. The long-term obligations balances at December 31, 2012 for the business-type activities have been adjusted to include the electric system improvements notes as a long-term obligation (See Note 20). The City's long-term obligations at December 31, 2013 were as follows:

	Interest	Balance			Balance	Amounts
	Rate	12/31/12	Additions	Reductions	12/31/13	Due in
<b><u>Governmental activities:</u></b>						One Year
Refunding bonds	0.60-2.40%	\$ 2,790,000	\$ -	\$ (330,000)	\$ 2,460,000	\$ 335,000
Compensated absences		194,648	84,043	(99,667)	179,024	78,463
Retirement incentive		64,811	-	(32,406)	32,405	32,405
Total long-term obligations, governmental activities		<u>\$ 3,049,459</u>	<u>\$ 84,043</u>	<u>\$ (462,073)</u>	<u>\$ 2,671,429</u>	<u>\$ 445,868</u>
<b><u>Business-type activities:</u></b>						
<b><u>City Owned Debt:</u></b>						
Sewer System - 2012	2.70-2.75%	515,000	-	(515,000)	-	-
<b><u>OPWC Loans:</u></b>						
Sewer Issue II Lift Station	0.00%	76,350	-	(11,747)	64,603	11,746
Bar Screen Replacement	0.00%	259,421	-	(13,304)	246,117	13,303
Waterline Looping	0.00%	42,188	-	(6,491)	35,697	6,490
Waterline Replacement	0.00%	73,458	-	(7,732)	65,726	7,733
N. Main Waterline	0.00%	314,945	-	(29,994)	284,951	29,995
Total OPWC loans		<u>766,362</u>	<u>-</u>	<u>(69,268)</u>	<u>697,094</u>	<u>69,267</u>
<b><u>OWDA Loan:</u></b>						
Transmission Waterlines	6.58%	1,256,157	-	(135,068)	1,121,089	143,956
<b><u>Bond Anticipation Notes:</u></b>						
Electric System Improvements	1.00-1.37%	1,564,000	-	(112,000)	1,452,000	-
<b><u>Other Long-Term Obligations:</u></b>						
Compensated absences		147,229	76,368	(74,207)	149,390	63,600
Retirement incentive		47,593	-	(47,593)	-	-
Stranded cost liability		577,203	1,382	(346,997)	231,588	57,558
Total other long-term obligations		<u>772,025</u>	<u>77,750</u>	<u>(468,797)</u>	<u>380,978</u>	<u>121,158</u>
Total long-term obligations, business-type activities		<u>\$ 4,873,544</u>	<u>\$ 77,750</u>	<u>\$ (1,300,133)</u>	<u>\$ 3,651,161</u>	<u>\$ 334,381</u>

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

## CITY OF HUBBARD, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2013

#### NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- B. On August 15, 2012, the City issued \$1,000,000 in sewer system mortgage revenue refunding bonds to refund outstanding sewer system refunding bond anticipation notes. The refunded debt is considered defeased (in-substance) and, accordingly, has been removed from the statement of net position. The issuance of the refunding bonds was completed through the City's electric fund, resulting in a manuscript debt transaction in which the sewer fund made debt service payments on the refunding bonds to the electric fund. Therefore, this long-term obligation was classified as "City Owned Debt" with a corresponding investment reported in an amount equivalent to the outstanding liability at year end. The refunding bonds bore annual interest rates ranging from 2.70% - 2.75% and were retired during 2013.

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

The City pledged sewer customer revenues, net of specified operating expenses, to repay the \$1,000,000 in Series 2012 sewer system mortgage revenue refunding bonds. Proceeds of the refunding bonds were used to refund the outstanding balance of previously issued Series 2007 sewer system refunding bond anticipation notes. The Series 2012 refunding bonds were payable solely from sewer customer net revenues and were retired during 2013. Principal and interest payments on the refunding bonds during the current year required 60.76 percent of net revenues and 33.45 percent of total revenues. Principal and interest paid for the current year was \$529,163, total net revenues were \$870,876 and total revenues were \$1,582,106.

The City has entered into five debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund a lift station replacement, wastewater bar screen replacement, waterline looping project and two waterline replacements. The amounts due to the OPWC are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2013, the City has outstanding borrowings of \$64,603, \$246,117, \$35,697, \$65,726 and \$284,951 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 34.44 percent of net revenues and 12.30 percent of total revenues. The total principal and interest remaining to be paid on the loan is \$1,415,201. Principal and interest paid for the current year was \$217,723, total net revenues were \$632,264 and total revenues were \$1,770,809.

On November 10, 2012, the City issued \$1,564,000 in electric system improvements bond anticipation notes (BANs) at an annual interest rate of 1.37% through American Municipal Power of Ohio (AMP-Ohio). The BANs are a liability of the electric fund. During 2013, the City made principal payments in the amount of \$112,000, thus reducing the outstanding balance of the BANs to \$1,452,000. Upon maturity of the BANs, the City obtained financing through AMP-Ohio's commercial line of credit for the period of November 2013 through January 2014. On February 4, 2014, the City issued \$1,452,000 in electric system improvements BANs through AMP-Ohio (See Note 20) and removed its borrowing from AMP-Ohio's commercial line of credit. Due to the interim financing through AMP-Ohio's commercial line of credit, the balance of the electric system improvements BANs at December 31, 2013 is not reported as due within one year as they were refinanced on a long-term basis prior to the issuance of the financial statements and the maturity date has effectively been extended to February 3, 2015.

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

On August 16, 2012, the City issued \$2,890,000 in general obligation capital improvement refunding bonds to refund outstanding general obligation capital improvement bonds. The refunded debt was retired during 2012 and, accordingly, has been removed from the statement of net position. The refunding bonds bear an annual interest rate ranging from 0.60% - 2.40% and mature in 2020. The general obligation refunding bonds are secured by the full faith and credit of the City. The general obligation refunding bonds are repaid from the 2005 general obligation bond retirement fund (a nonmajor governmental fund). The principal balance of the general obligation capital improvement refunding bonds at December 31, 2013 is \$2,460,000.

In 2011, the City was notified it would be held liable for stranded costs associated with the abandonment of the American Municipal Power Generating Station Project (“AMPGS Project”). The City has recorded a long-term obligation for the stranded cost liability in the electric fund. A schedule of future payments for the duration of the liability is provided in Note 12 (See Note 12 for more detail on the AMPGS Project).

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

Year Ending December 31,	General Obligation Capital Improvement Refunding Bonds			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
	2014	\$ 335,000	\$ 45,285	\$ 380,285	\$ 69,267	\$ -
2015	340,000	40,930	380,930	69,268	-	69,268
2016	345,000	35,830	380,830	69,267	-	69,267
2017	350,000	30,310	380,310	69,268	-	69,268
2018	355,000	24,010	379,010	69,267	-	69,267
2019 - 2023	735,000	25,790	760,790	237,676	-	237,676
2024 - 2028	-	-	-	66,518	-	66,518
2029 - 2032	-	-	-	46,563	-	46,563
	<u>\$ 2,460,000</u>	<u>\$ 202,155</u>	<u>\$ 2,662,155</u>	<u>\$ 697,094</u>	<u>\$ -</u>	<u>\$ 697,094</u>

Year Ending December 31,	Electric System Improvements Notes			OWDA Loan		
	Principal	Interest	Total	Principal	Interest	Total
2014	\$ -	\$ -	\$ -	\$ 143,956	\$ 73,767	\$ 217,723
2015	1,452,000	14,520	1,466,520	153,428	64,295	217,723
2016	-	-	-	163,523	54,200	217,723
2017	-	-	-	174,283	43,440	217,723
2018	-	-	-	185,751	31,972	217,723
2019 - 2020	-	-	-	300,148	26,438	326,586
Total	<u>\$ 1,452,000</u>	<u>\$ 14,520</u>	<u>\$ 1,466,520</u>	<u>\$ 1,121,089</u>	<u>\$ 294,112</u>	<u>\$ 1,415,201</u>

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

- C. The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of the property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2013, the City's total debt margin was \$9,087,923 and the unvoted debt margin was \$5,890,817.

**NOTE 12 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT**

The City is a member of American Municipal Power (AMP) and was 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, which was intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share of the AMPGS Project was 6,400 kilowatts out of a total 771,281 kilowatts, giving the City a 0.83 percent share. The take-or-pay contracts signed by the City and other AMPGS Project participants obligated these entities to pay any costs incurred for the AMPGS Project.

In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and the participants of the AMPGS Project were obligated to pay the costs already incurred. In prior years, the eventual payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. However, as a result of a March 31, 2014 legal ruling (See Note 20), in April 2014 the AMP Board of Trustees and the AMPGS Project participants approved the collection of the impaired costs. AMP then provided each AMPGS Project participant with an estimate of its individual liability.

Consistent with prior years, the City continues to record its obligation for the stranded costs related to the AMPGS Project in accordance with accounting policies established by GASB Statement No. 62. The City's estimated share of the impaired costs at March 31, 2014 was determined to be \$1,104,718 (\$994,398 of which is reported as a regulatory asset in the electric fund). The City received a credit of \$473,371 related to its participation in the AMP Fremont Energy Center Project (the "AFEC Project"), and another credit of \$289,439 related to AMPGS Project costs deemed to have a future benefit for the City (both credits are reported as a regulatory liability in the electric fund). As of December 31, 2013, the City has made total payments of \$110,320 on the AMPGS Project liability, \$57,558 of which occurred during 2013. The net effect of these transactions is a year-end impaired cost estimate of \$231,588, which is reported as a long-term liability in the City's electric fund.

Now that payments on the outstanding stranded costs associated with the AMPGS Project are probable and reasonably estimable for each AMPGS Project participant, each entity is required to report a liability moving forward. AMP has financed these costs on its revolving line-of-credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the AMPGS Project could potentially impact each participant's liability. These amounts will be recorded as they become estimable.

The City intends to recover the costs associated with the AMPGS Project liability and repay AMP over the next eight years through a power cost adjustment. Thus, this incurred cost has been capitalized and reported as a regulatory asset, as allowed by GASB Codification Re10.

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 12 - AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT - (Continued)**

The following is a summary of the City’s future payment requirements for the AMPGS Project liability (stranded cost liability as reported in Note 11):

<u>Year Ending</u> <u>December 31,</u>	<u>AMPGS Project Liability</u> <u>Payment</u>
2014	\$ 57,558
2015	57,558
2016	57,558
2017	57,558
2018	1,356
Total	<u>\$ 231,588</u>

**NOTE 13 - 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 2013, the City was insured through the Argonaut Insurance Group for all property and equipment, general liability, wrongful acts, law enforcement, public official, employment practices, automobile, employee dishonesty, money and securities, inland marine, EDP and umbrella liability. The insurance plan was purchased through Guy G. Latessa Insurance Agency. The City has transferred risk of loss to the insurance carrier to the extent of the limits below.

<u>Type of</u> <u>Coverage</u>	<u>Limits of</u> <u>Coverage</u>	<u>Deductible</u>
Property and Equipment Breakdown	\$33,607,000	\$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	1,000,000	500
Collision	1,000,000	500
Employee Dishonesty	250,000	500
Money and Securities	5,000	0
Inland Marine - scheduled	1,758,500	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

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 13 - RISK MANAGEMENT - (Continued)**

**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 basic financial statements. 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 amounts are paid for by specific stop-loss insurance that the City maintains.

The City had one occurrence in a prior year in which settled claims exceeded the self-insurance amount. The liability for unpaid claims of \$64,500 reported in the internal service fund at December 31, 2013, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30 "Risk Financing Omnibus", which requires that a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The entire claims liability is expected to be paid within one year.

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

	Balance at Beginning <u>of Year</u>	Current <u>Claims</u>	Claims <u>Payment</u>	Balance at <u>End of Year</u>
2013	\$ 102,800	\$ 639,658	\$ (677,958)	\$ 64,500
2012	125,200	889,749	(912,149)	102,800

**C. Workers' Compensation**

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

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

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 14 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, 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 2013, member and contribution rates were consistent across all three plans. The 2013 member contribution rates were 10.00% for members. The City's contribution rate for 2013 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2013 was 13.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2013 was 13.00%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012, and 2011 were \$217,952, \$179,912, and \$194,007, respectively; 100% has been contributed for 2013, 2012, and 2011. Contributions to the member-directed plan for 2013 were \$1,344 made by the City and \$960 made by the plan members.

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

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at [www.op-f.org](http://www.op-f.org).

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 14 - PENSION PLANS - (Continued)**

Funding Policy - From January 1, 2013 through July 1, 2013, plan members were required to contribute 10.00% of their annual covered salary. From July 2, 2013 through December 31, 2013, plan members were required to contribute 10.75% of their annual covered salary. Throughout 2013, the City was required to contribute 19.50% for police officers. Contribution rates are established by State statute.

For 2013, the portion of the City's contributions to fund pension obligations was 14.81% for January 1, 2013 through May 31, 2013 and 16.65% for June 1, 2013 through December 31, 2013 for police officers. The City's required contributions for pension obligations to OP&F for police officers were \$109,296 for the year ended December 31, 2013, \$88,047 for the year ended December 31, 2012, and \$101,196 for the year ended December 31, 2011. The full amount has been contributed for 2013, 2012, and 2011.

**NOTE 15 - 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, 277 East Town Street, 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 2013, 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 2013 was 1.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2013 was 1.00%.

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012, and 2011 were \$16,758, \$74,398, and \$80,229, respectively; 100% has been contributed for 2013, 2012, and 2011.

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

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

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

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

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

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164 or by visiting the website at [www.op-f.org](http://www.op-f.org).

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

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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. The portion of employer contributions allocated to health care was 4.69% of covered payroll from January 1, 2013 through May 31, 2013 and 2.85% of covered payroll from June 1, 2013 through December 31, 2013. 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 \$24,557 for the year ended December 31, 2013, \$46,613 for the year ended December 31, 2012, and \$53,574 for the year ended December 31, 2011. The full amount has been contributed for 2013, 2012, and 2011.

**NOTE 16 - 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).

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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:

	<u>General fund</u>
Budget basis	\$ 291,634
Net adjustment for revenue accruals	(45,151)
Net adjustment for expenditure accruals	1,209,917
Net adjustment for other sources/uses	(1,210,589)
Funds budgeted elsewhere	<u>(285)</u>
GAAP basis	<u>\$ 245,526</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.

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The City received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2013.

**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, 2013.

**NOTE 18 - OPERATING LEASE**

The City passed Ordinance No. 15-08 on September 2, 2008, to enter into a 60-month lease and maintenance agreement with IKON Office Solutions (IOS), Inc., for the lease of five photocopier machines, at a monthly rate of \$515 for 13,500 black and white copies, commencing on September 11, 2008 and concluding on September 10, 2013 with the final lease payment of \$4,292.

**CITY OF HUBBARD, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013

**NOTE 19 - FUND BALANCE**

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

Fund balance	General	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepayments	\$ 2,875	\$ 200	\$ 3,075
Materials and supplies inventory	2,566	22,143	24,709
Unclaimed monies	3,627	-	3,627
Perpetual care	-	840	840
Total nonspendable	9,068	23,183	32,251
Restricted:			
Street construction and maintenance	-	174,546	174,546
State highway	-	11,279	11,279
Law enforcement	-	19,578	19,578
Maple Grove cemetery	-	2,719	2,719
Police pension	-	29,955	29,955
Perpetual care	-	880	880
Other purposes	-	3,843	3,843
Total restricted	-	242,800	242,800
Committed:			
Law enforcement	-	14,728	14,728
Recreation	-	23,616	23,616
Other purposes	-	7,395	7,395
Total committed	-	45,739	45,739
Assigned:			
Debt service	-	301,817	301,817
Capital projects	-	290,427	290,427
Subsequent year's appropriations	70,474	-	70,474
Total assigned	70,474	592,244	662,718
Unassigned	862,576	-	862,576
Total fund balances	\$ 942,118	\$ 903,966	\$ 1,846,084

**CITY OF HUBBARD, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 20 - SIGNIFICANT SUBSEQUENT EVENTS**

On February 4, 2014, the City issued \$1,452,000 in electric system improvements bond anticipation notes through American Municipal Power of Ohio (AMP-Ohio). These notes are scheduled to mature on February 3, 2015 at an annual interest rate of 1.00%.

In February 2011, American Municipal Power (AMP) filed a lawsuit against Bechtel Power seeking damages of approximately \$100,000,000 in response to Bechtel Power's inaccurate cost estimates that allegedly resulted in the abandonment of AMP's AMPGS Project. AMP argued that Bechtel Power acted recklessly in its production of the cost estimates and that AMP was therefore entitled to the aforementioned damages. On March 31, 2014, the federal court system responded that Bechtel Power had not acted recklessly by definition and that it would be enforcing a clause in AMP's contract with Bechtel Power that limits damage recovery to \$500,000. This ruling ultimately resulted in the solidification of the stranded construction costs attributable to each entity involved with the AMPGS Project (including the City of Hubbard) as of December 31, 2013.



## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards***

City of Hubbard  
Trumbull County  
220 W. Liberty Street  
Hubbard, Ohio 44425

To the Members of Council and Mayor:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hubbard, Trumbull County, Ohio as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Hubbard's basic financial statements and have issued our report thereon dated June 16, 2014.

#### ***Internal Control Over Financial Reporting***

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

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

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

Members of Council and Mayor  
City of Hubbard

***Compliance and Other Matters***

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

***Purpose of this Report***

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



Julian & Grube, Inc.  
June 16, 2014



# 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  
JULY 15, 2014**