

**CITY OF WILLARD
HURON COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(AUDITED)

FOR THE YEAR ENDED
DECEMBER 31, 2012

JODY WAGONER, FINANCE DIRECTOR



Dave Yost • Auditor of State

Members of Council
City of Willard
631 S. Myrtle Avenue
P.O. Box 367
Willard, Ohio 44890

We have reviewed the *Independent Auditor's Report* of the City of Willard, Huron County, prepared by Julian & Grube, Inc., for the audit period January 1, 2012 through December 31, 2012. 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 Willard is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

August 2, 2013

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**CITY OF WILLARD
HURON COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

City of Willard
631 S. Myrtle Avenue
P.O. Box 367
Willard, Ohio 44890

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 Willard, Huron County, Ohio, as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the City of Willard'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 Willard'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 Willard'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 Willard, Huron County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund, thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2012, the City of Willard adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2013, on our consideration of the City of Willard'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 Willard's internal control over financial reporting and compliance.



Julian & Grube, Inc.
June 17, 2013

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

The management's discussion and analysis of the City of Willard's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- The total net position of the City decreased \$376,373. Net position of governmental activities decreased \$312,216 or 2.03% from 2011 net position and net position of business-type activities decreased \$64,157 or 0.47% from 2011 net position.
- General revenues accounted for \$3,500,046 or 73.06% of total governmental activities revenue. Program specific revenues accounted for \$1,290,496 or 26.94% of total governmental activities revenue.
- The City had \$5,091,158 in expenses related to governmental activities; \$1,290,496 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,800,662 were offset by general revenues (primarily income taxes, property taxes and unrestricted grants and entitlements) of \$3,500,046.
- The general fund had revenues and other financing sources of \$3,107,639 in 2012. The expenditures and other financing uses of the general fund totaled \$3,429,228 in 2012. The net decrease in fund balance for the general fund was \$321,589 or 7.58%.
- The bond retirement fund had revenues and other financing sources of \$225,100 in 2012. The expenditures of the bond retirement fund totaled \$139,165 in 2012. The net increase in fund balance for the bond retirement fund was \$85,935 or 23.24%.
- The income tax capital improvement fund had revenues and other financing sources of \$563,552 in 2012. The expenditures of the income tax capital improvement fund totaled \$730,137 in 2012. The net decrease in fund balance for the income tax capital improvement fund was \$166,585 or 19.38%.
- Net position for the business-type activities, which are made up of the sewer, water and storm water enterprise funds, decreased in 2012 by \$64,157 from 2011 net position. This decrease in net position was due to decreasing expenses exceeding decreasing revenue.
- In the general fund, the actual revenues and other financing sources came in \$114,455 more than they were in the final budget and actual expenditures and other financing uses were \$502,807 less than the amount in the final budget. The final budgeted revenues were unchanged from the original budget, and final budgeted expenditures and other financing uses were unchanged from the original budget.

Using this Annual Financial Report

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

Reporting the City as a Whole

Statement of Net 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 we do financially during 2012?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows, liabilities, deferred inflows, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

Governmental Funds

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund and bond retirement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 21-25 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and storm water management functions. The City's sewer and water enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 26-29 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's fiduciary fund type. The basic fiduciary fund financial statements can be found on page 30 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 31-67 of this report.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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 for 2012 and 2011:

	Net Position					
	Governmental Activities		Business-type Activities		2012	2011
	2012	2011	2012	2011	Total	Total
<u>Assets:</u>						
Current and other assets	\$ 7,492,492	\$ 8,061,353	\$ 5,164,516	\$ 5,149,075	\$ 12,657,008	\$ 13,210,428
Capital assets, net	<u>9,735,032</u>	<u>9,756,341</u>	<u>11,300,972</u>	<u>11,509,600</u>	<u>21,036,004</u>	<u>21,265,941</u>
Total assets	<u>17,227,524</u>	<u>17,817,694</u>	<u>16,465,488</u>	<u>16,658,675</u>	<u>33,693,012</u>	<u>34,476,369</u>
<u>Liabilities:</u>						
Long-term liabilities	1,169,032	1,361,576	1,605,383	1,687,819	2,774,415	3,049,395
Other liabilities	<u>682,661</u>	<u>716,030</u>	<u>1,391,605</u>	<u>1,438,199</u>	<u>2,074,266</u>	<u>2,154,229</u>
Total liabilities	<u>1,851,693</u>	<u>2,077,606</u>	<u>2,996,988</u>	<u>3,126,018</u>	<u>4,848,681</u>	<u>5,203,624</u>
Deferred inflows	<u>293,961</u>	<u>346,002</u>	-	-	<u>293,961</u>	<u>346,002</u>
<u>Net Position:</u>						
Net investment in capital assets	8,524,808	8,290,815	9,829,199	9,895,413	18,354,007	18,186,228
Restricted	3,957,782	4,077,500	-	-	3,957,782	4,077,500
Unrestricted	<u>2,599,280</u>	<u>3,025,771</u>	<u>3,639,301</u>	<u>3,637,244</u>	<u>6,238,581</u>	<u>6,663,015</u>
Total net position	<u>\$ 15,081,870</u>	<u>\$ 15,394,086</u>	<u>\$ 13,468,500</u>	<u>\$ 13,532,657</u>	<u>\$ 28,550,370</u>	<u>\$ 28,926,743</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's assets exceeded liabilities and deferred inflows by \$28,550,370. At year-end, net position was \$15,081,870 and \$13,468,500 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 62.43% of total assets. Capital assets include land, land improvements, buildings, equipment, vehicles, infrastructure and utility plant in service. The City's net investment in capital assets at December 31, 2012, was \$8,524,808 and \$9,829,199 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net position, \$3,957,782, 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 \$2,599,280 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

The table below shows the changes in net position for 2012 and 2011.

	Change in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	\$ 873,188	\$ 874,993	\$ 3,103,034	\$ 3,056,654	\$ 3,976,222	\$ 3,931,647
Operating grants and contributions	316,301	333,148	-	-	316,301	333,148
Capital grants and contributions	<u>101,007</u>	<u>435,906</u>	<u>-</u>	<u>-</u>	<u>101,007</u>	<u>435,906</u>
Total program revenues	<u>1,290,496</u>	<u>1,644,047</u>	<u>3,103,034</u>	<u>3,056,654</u>	<u>4,393,530</u>	<u>4,700,701</u>
General revenues:						
Property taxes	310,183	314,377	-	-	310,183	314,377
Income taxes	2,748,159	3,358,462	-	-	2,748,159	3,358,462
Payments in lieu of taxes	72,719	64,540	-	-	72,719	64,540
Unrestricted grants and entitlements	263,865	546,183	-	-	263,865	546,183
Investment earnings	94,319	27,475	6,700	5,869	101,019	33,344
Miscellaneous	<u>10,801</u>	<u>26,643</u>	<u>13,221</u>	<u>103,208</u>	<u>24,022</u>	<u>129,851</u>
Total general revenues	<u>3,500,046</u>	<u>4,337,680</u>	<u>19,921</u>	<u>109,077</u>	<u>3,519,967</u>	<u>4,446,757</u>
Total revenues	<u>4,790,542</u>	<u>5,981,727</u>	<u>3,122,955</u>	<u>3,165,731</u>	<u>7,913,497</u>	<u>9,147,458</u>
Expenses						
General government	798,385	821,915	-	-	798,385	821,915
Security of persons and property	2,677,914	2,916,487	-	-	2,677,914	2,916,487
Public health and welfare	46,048	46,648	-	-	46,048	46,648
Transportation	916,755	984,576	-	-	916,755	984,576
Community environment	282,247	280,343	-	-	282,247	280,343
Leisure time activity	337,173	326,334	-	-	337,173	326,334
Interest and fiscal charges	32,636	42,321	-	-	32,636	42,321
Sewer	-	-	1,848,751	1,875,111	1,848,751	1,875,111
Water	-	-	1,349,796	1,403,122	1,349,796	1,403,122
Storm water	<u>-</u>	<u>-</u>	<u>165</u>	<u>-</u>	<u>165</u>	<u>-</u>
Total expenses	<u>5,091,158</u>	<u>5,418,624</u>	<u>3,198,712</u>	<u>3,278,233</u>	<u>8,289,870</u>	<u>8,696,857</u>
Transfers	<u>(11,600)</u>	<u>(25,245)</u>	<u>11,600</u>	<u>25,245</u>	<u>-</u>	<u>-</u>
Change in net position	(312,216)	537,858	(64,157)	(87,257)	(376,373)	450,601
Net position at beginning of year	<u>15,394,086</u>	<u>14,856,228</u>	<u>13,532,657</u>	<u>13,619,914</u>	<u>28,926,743</u>	<u>28,476,142</u>
Net position at end of year	<u>\$ 15,081,870</u>	<u>\$ 15,394,086</u>	<u>\$ 13,468,500</u>	<u>\$ 13,532,657</u>	<u>\$ 28,550,370</u>	<u>\$ 28,926,743</u>

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

Governmental Activities

Governmental activities net position decreased \$312,216 in 2012. This decrease is primarily the result of decreased intergovernmental revenue received from the state. This decrease is also the result of decreased income tax revenues during 2012 when compared to 2011. This is due to the change in the income tax rate from 1.375% to 1.25% beginning on October 1, 2012.

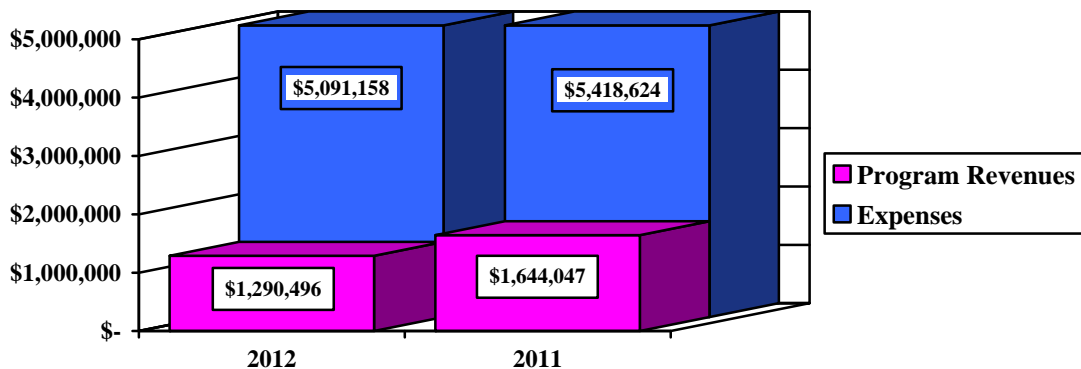
Security of persons and property which primarily supports the operations of the police and fire department accounted for \$2,677,914 or 32.30% of the total expenses of the City. Security of persons and property expenses were partially funded by \$501,303 in direct charges to users of the services. General government expenses totaled \$798,385. General government expenses were partially funded by \$109,477 in direct charges to users of the services.

The State and federal government contributed to the City a total of \$316,301 in operating grants and contributions and \$101,007 in capital grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$3,500,046 and amounted to 73.06% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$3,058,342. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue and property tax reimbursements received from the State, making up \$263,865.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities. As program revenues are not sufficient to cover total governmental expenses for 2012.

Governmental Activities – Program Revenues vs. Total Expenses



**CITY OF WILLARD
HURON COUNTY, OHIO**

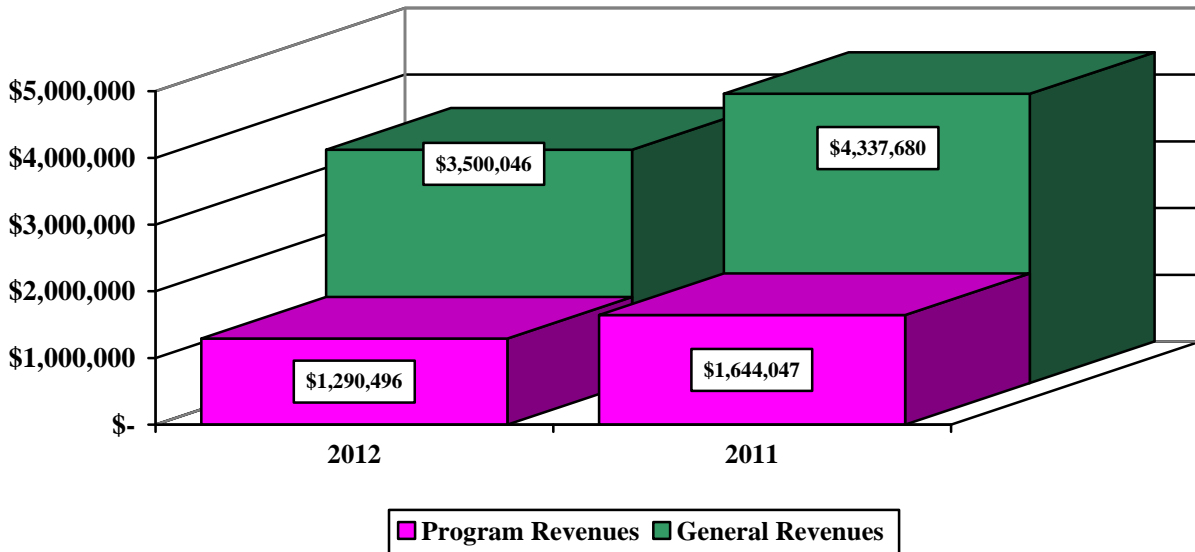
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

Governmental Activities

	Total Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2012	Net Cost of Services 2011
Program expenses:				
General government	\$ 798,385	\$ 821,915	\$ 688,908	\$ 677,757
Security of persons and property	2,677,914	2,916,487	2,159,150	2,287,341
Public health and welfare	46,048	46,648	14,913	26,888
Transportation	916,755	984,576	395,436	228,256
Community environment	282,247	280,343	261,351	262,782
Leisure time activity	337,173	326,334	248,268	249,232
Interest and fiscal charges	32,636	42,321	32,636	42,321
Total	<u>\$ 5,091,158</u>	<u>\$ 5,418,624</u>	<u>\$ 3,800,662</u>	<u>\$ 3,774,577</u>

The dependence upon general revenues for governmental activities is apparent, with 74.65% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2012 and 2011.

Governmental Activities – General and Program Revenues

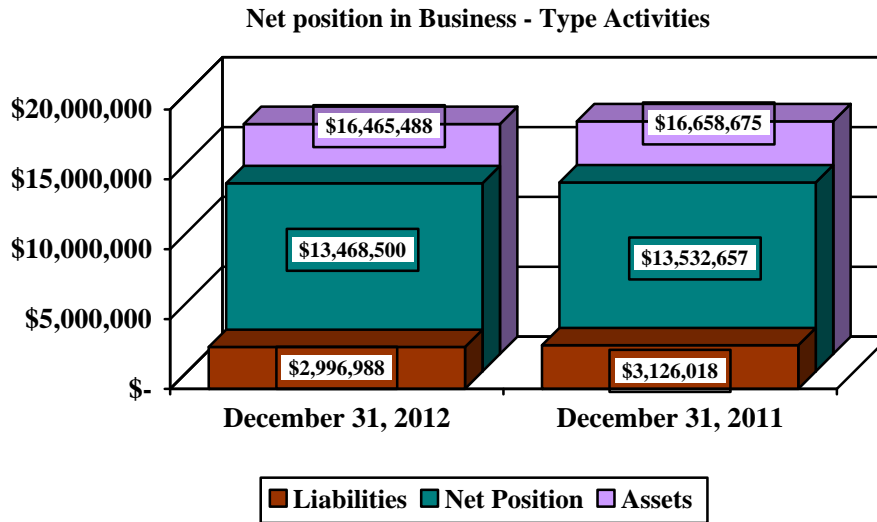


**CITY OF WILLARD
HURON COUNTY, OHIO**

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

Business-type Activities

Business-type activities include the sewer, water and storm water enterprise funds. These programs had program revenues of \$3,103,034, general revenues of \$19,921, transfers in of \$11,600, and expenses of \$3,198,712 for 2012. The graph below shows the business-type activities assets, liabilities and net position at year-end 2012 and 2011.



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of \$6,045,345, which is \$406,458 less than the previous year's fund balance of \$6,451,803. The following schedule indicates the fund balances and the total change in fund balances as of December 31, 2012 for all major and nonmajor governmental funds.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

	Fund Balances (Deficits) <u>12/31/12</u>	Fund Balances (Deficits) <u>12/31/11</u>	Increase (Decrease) <u></u>
Major funds:			
General	\$ 3,922,633	\$ 4,244,222	\$ (321,589)
Bond retirement	(283,890)	(369,825)	85,935
Income tax capital improvement	693,026	859,611	(166,585)
Other nonmajor governmental funds	<u>1,713,576</u>	<u>1,717,795</u>	<u>(4,219)</u>
Total	<u>\$ 6,045,345</u>	<u>\$ 6,451,803</u>	<u>\$ (406,458)</u>

General Fund

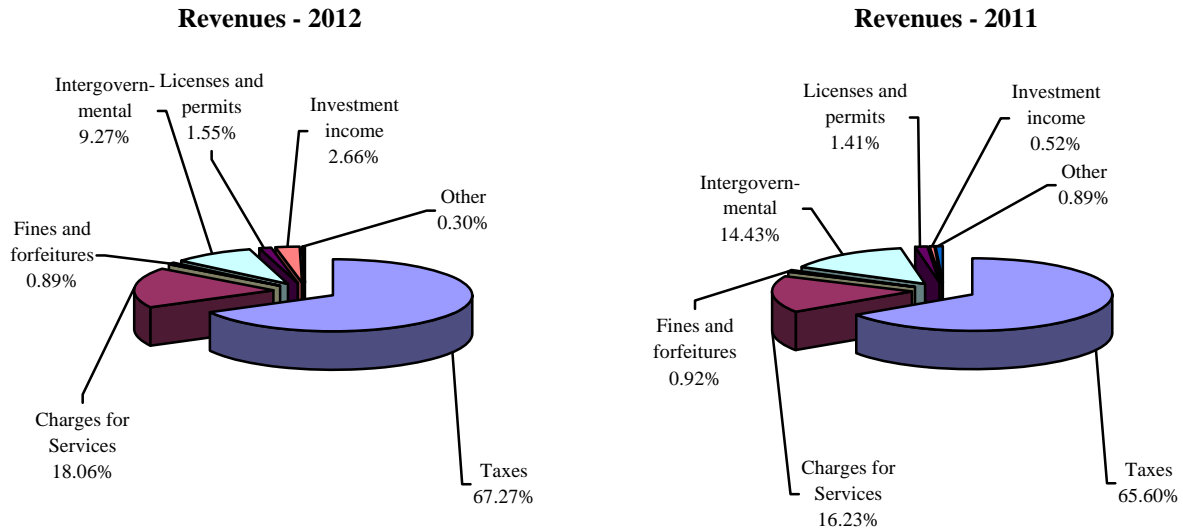
The City's general fund balance decreased \$321,589. The table that follows assists in illustrating the revenues of the general fund.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 2,088,509	\$ 2,239,108	(6.73) %
Charges for services	560,666	553,778	1.24 %
Fines and forfeitures	27,503	31,520	(12.74) %
Intergovernmental	287,931	492,510	(41.54) %
Licenses and permits	48,269	48,028	0.50 %
Investment income	82,537	17,858	362.19 %
Other	<u>9,269</u>	<u>30,491</u>	(69.60) %
Total	<u>\$ 3,104,684</u>	<u>\$ 3,413,293</u>	(9.04) %

Tax revenue represents 67.27% of all general fund revenue. Tax revenue decreased in 2012 due to a decrease in the income tax rate. The decrease in intergovernmental revenue is due to a decrease in the amount of local government revenue received from the State. The increase in investment income is due to the City's investments in negotiable certificates of deposit during 2012. All other amounts remained comparable to 2011.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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



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

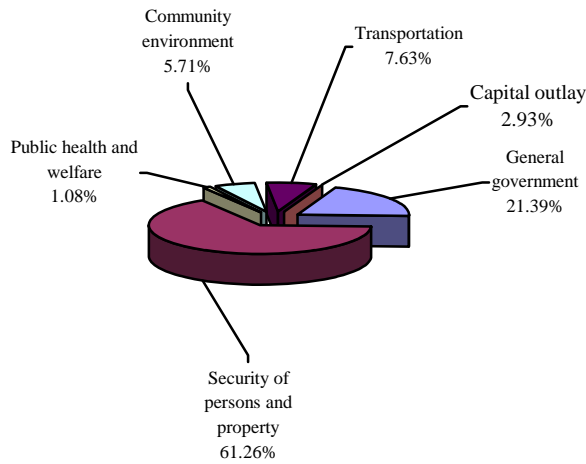
	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 731,113	\$ 717,166	1.94 %
Security of persons and property	2,093,354	2,294,470	(8.77) %
Public health and welfare	36,929	41,745	(11.54) %
Transportation	260,779	254,822	2.34 %
Community environment	195,053	206,114	(5.37) %
Capital outlay	<u>100,000</u>	<u>-</u>	100.00 %
Total	<u>\$ 3,417,228</u>	<u>\$ 3,514,317</u>	(2.76) %

The City decreased total general fund expenditures by 2.76%. The decrease in expenditures can be attributed to the City's reductions to the police and fire departments during 2012.

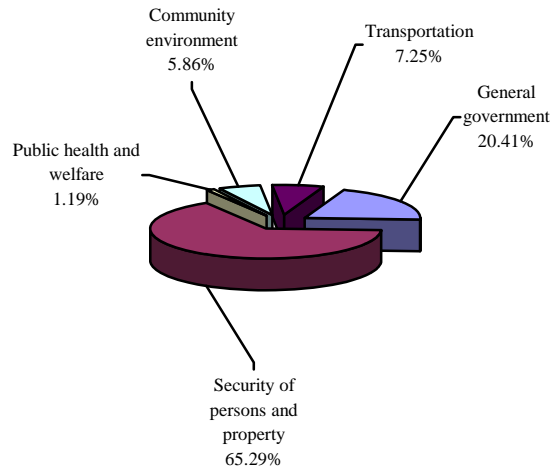
**CITY OF WILLARD
HURON COUNTY, OHIO**

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

Expenditures - 2012



Expenditures - 2011



Budgeting Highlights

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

Budgetary information is presented for the general fund. In the general fund, the actual revenues and other financing sources came in \$114,455 more than they were in the final budget and actual expenditures and other financing uses were \$502,807 less than the amount in the final budget. The final budgeted revenues and final budgeted expenditures were unchanged from the original 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.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the City had \$21,036,004 (net of accumulated depreciation) invested in land, land improvements, buildings, equipment, vehicles, infrastructure and utility plant in service. Of this total, \$9,735,032 was reported in governmental activities and \$11,300,972 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows 2012 balances compared to 2011:

**CITY OF WILLARD
HURON COUNTY, OHIO**

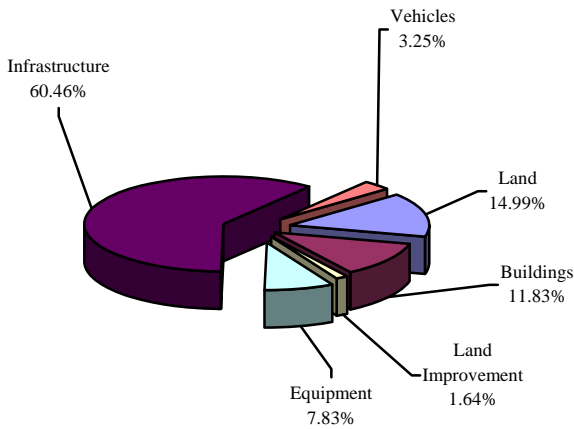
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012

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

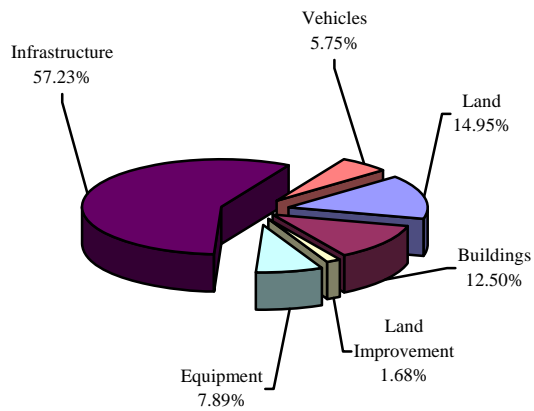
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 1,458,892	\$ 1,458,892	\$ 1,068,291	\$ 1,068,291	\$ 2,527,183	\$ 2,527,183
Buildings	1,151,668	1,219,776	1,410,642	1,505,056	2,562,310	2,724,832
Land improvements	159,483	163,661	32,335	40,180	191,818	203,841
Equipment	762,372	770,059	516,958	548,244	1,279,330	1,318,303
Vehicles	316,559	560,488	59,230	86,619	375,789	647,107
Utility plant in service	-	-	8,213,516	8,261,210	8,213,516	8,261,210
Infrastructure	<u>5,886,058</u>	<u>5,583,465</u>	<u>-</u>	<u>-</u>	<u>5,886,058</u>	<u>5,583,465</u>
Totals	<u>\$ 9,735,032</u>	<u>\$ 9,756,341</u>	<u>\$ 11,300,972</u>	<u>\$ 11,509,600</u>	<u>\$ 21,036,004</u>	<u>\$ 21,265,941</u>

The following graphs show the breakdown of governmental capital assets by category for 2012 and 2011.

Capital Assets - Governmental Activities 2012



Capital Assets - Governmental Activities 2011

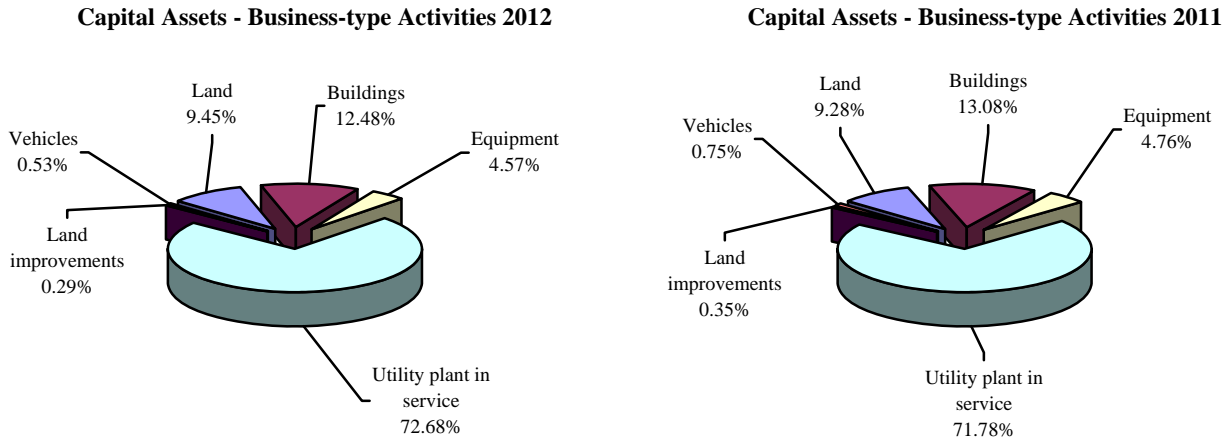


The City's infrastructure is the largest capital asset category. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 60.46% of the City's total governmental capital assets.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

The following graphs show the breakdown of business-type capital assets by category for 2012 and 2011.



The City's largest business-type capital asset category is utility plant in service, which includes water and sewer lines and the water plant. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's utility plant in service (cost less accumulated depreciation) represents approximately 72.68% of the City's total business-type capital assets.

Debt Administration

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

Governmental Activities

	2012	2011
General obligation bonds	\$ 595,000	\$ 770,000
Issue II loans	279,224	302,526
Total long-term obligations	\$ 874,224	\$ 1,072,526

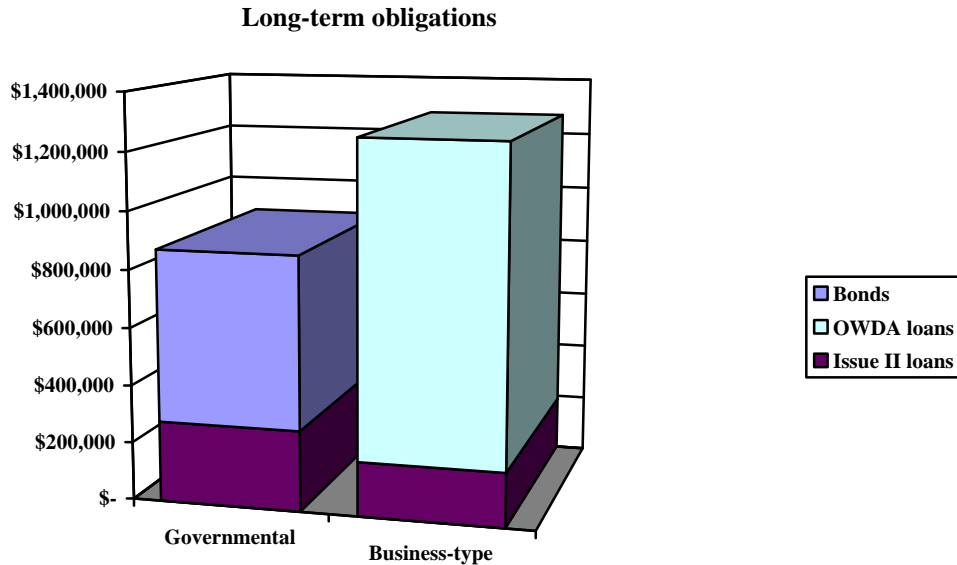
Business-type Activities

	2012	2011
OWDA loans	\$ 1,079,834	\$ 1,196,905
Issue II loans	187,939	201,282
Total long-term obligations	\$ 1,267,773	\$ 1,398,187

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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



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

Economic Conditions and Outlook

The City of Willard currently is home to about 6,200 residents and serves an additional 5,000 area residents through our fire and rescue services as well as our water department. Willard is a well established manufacturing community with businesses such as RR Donnelley, MTD Midwest, Pepperidge Farms and Guardian Manufacturing. Willard has an active city government committed to encouraging new business to locate here. Our industrial park has about 77 acres of land dedicated to business development and expansion with full utility services, paved roads and a contractor willing to build to suit. Willard also has nationwide rail services provided by CSX east/west hub. Our low crime rate, dedicated work force and cooperative spirit make Willard a great place to live, work and raise a family.

In 2012, Willard's economic performance provided cautious hopes for stronger growth and more jobs. There is some hope that Willard will see improvement in economic growth in 2013. Mercy Hospital constructed a new state of the art facility near the industrial park. Trilogy Health Services constructed a new assisted living facility on the Mercy Hospital campus. These facilities show the community is committed to providing excellent health care services to its citizens and surrounding community members. Willard City School District recently passed a levy to construct a new K-12 facility, which is scheduled to break ground in spring 2013. Sharpnack Chevy has submitted plans to construct a large auto body repair shop on their property. Pepperidge Farm has submitted a request for tax abatements to encourage the corporate office to consider Willard as a possible site for an additional Goldfish line.

The City currently has a 1.25% income tax rate, a portion of which is earmarked for capital improvements, maintenance and repair; an equal portion is used to provide funds for payment of service debt on bonds, notes, loans and other obligations issued prior to January 1, 2005, and the remainder is allocated to various other funds of the City for operational expenses. Income tax collections for 2012 were approximately \$3.01 million (on a cash-basis). Local taxes account for about 27% of the City of Willard's revenue sources.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

The City is pursuing every opportunity to secure grants and funding from State and Federal programs to repair streets throughout the City. Due to the increase in road construction projects the City continues to struggle to properly maintain the roadways. The City was able to resurface a portion of Neal Zick Road, Woodbine Street and Keefer Street in 2012.

The maintenance department assisted contractors on waterline replacements on Woodbine Street and Keefer Street. The City crews also assisted local jurisdictions to complete a waterline service to 4230 US Route 224 in annexing into the City limits and a culvert replacement on Bullhead Road. The old city hall building located at the corner of Myrtle and Woodland was demolished due to the age and condition of the building.

The Willard Police Department continues to be proactive in the fight against drugs and crime utilizing education and enforcement as a means of reaching this goal. Their mission is to keep Willard a safe place to live, work and raise a family. Crime investigations are a primary focus for the police department. The Willard Police Department received the AAA Bronze Traffic Safety Award. Willard is one of only 46 agencies in the northwest region and the one agency in Huron County to receive this award.

The Fire/EMS department services the City of Willard and the majority of the four surrounding townships. The department has 5 full-time personnel and about 40 part-time employees. The staff includes 15 certified paramedics as well as various levels of fire and EMT trained professionals. The department has an average experience of about 14 years. The City's EMS service strives to have at least one paramedic on staff per shift. In 2012, the Willard Fire/EMS Department was able to provide an advanced EMT or a paramedic on 93% of the calls handled. The department's average response time to residential and business emergencies within the City limits was about 4 minutes. The departments average response time to locations outside of the City limits was about 9 minutes.

The year 2013 will prove to be another tightly budgeted year due to the full implementation of State budget cuts. Huron County's unemployment rate is still over 10% and several houses are vacant throughout our community. The City has placed a police levy on the ballot to secure funding for three positions within the department. Without these funds the City will be forced to eliminate the School Resource Officer, Juvenile Officer, and Detective positions. Additional funding is also needed to repair our roadways. The City will continue to look for innovative ways to cut costs and operate as efficiently as possible. All of our tax dollars are put to work within our community to make Willard a great place to live, work and raise a family.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact: Ms. Jody Wagoner, Director of Finance, at 631 S. Myrtle Ave. P.O. Box 367, Willard, Ohio 44890.

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**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents . . .	\$ 5,831,909	\$ 4,121,619	\$ 9,953,528
Cash in segregated accounts.	249,256	-	249,256
Receivables:			
Income taxes.	517,107	-	517,107
Real and other taxes	330,835	-	330,835
Payments in lieu of taxes.	68,000	-	68,000
Accounts.	128,507	732,109	860,616
Special assessments	23,403	-	23,403
Due from other governments.	230,083	-	230,083
Accrued interest	29,340	-	29,340
Materials and supplies inventory.	28,128	227,439	255,567
Prepayments	55,924	23,353	79,277
Restricted assets:			
Equity in pooled cash and cash equivalents. . .	-	59,996	59,996
Capital assets:			
Land.	1,458,892	1,068,291	2,527,183
Depreciable capital assets, net.	8,276,140	10,232,681	18,508,821
Total capital assets, net.	<u>9,735,032</u>	<u>11,300,972</u>	<u>21,036,004</u>
Total assets	<u>17,227,524</u>	<u>16,465,488</u>	<u>33,693,012</u>
Liabilities:			
Accounts payable.	127,927	22,720	150,647
Accrued wages.	79,583	56,952	136,535
Due to other governments	136,060	44,205	180,265
Accrued interest payable	3,091	3,732	6,823
Notes payable.	336,000	1,204,000	1,540,000
Payable from restricted assets:			
Refundable deposits payable.	-	59,996	59,996
Long-term liabilities:			
Due within one year	390,122	273,777	663,899
Due in more than one year.	778,910	1,331,606	2,110,516
Total liabilities	<u>1,851,693</u>	<u>2,996,988</u>	<u>4,848,681</u>
Deferred inflows of resources:			
Property taxes levied for the next year.	293,961	-	293,961
Total liabilities and deferred inflows of resources.	<u>2,145,654</u>	<u>2,996,988</u>	<u>5,142,642</u>
Net position:			
Net investment in capital assets.	8,524,808	9,829,199	18,354,007
Restricted for:			
Capital projects	1,190,824	-	1,190,824
Transportation projects	601,119	-	601,119
Recreation	3,457	-	3,457
Electric system sale	1,575,000	-	1,575,000
Police and fire purposes.	499,553	-	499,553
Perpetual care.	18,382	-	18,382
Other purposes.	69,447	-	69,447
Unrestricted	<u>2,599,280</u>	<u>3,639,301</u>	<u>6,238,581</u>
Total net position	<u>\$ 15,081,870</u>	<u>\$ 13,468,500</u>	<u>\$ 28,550,370</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government.	\$ 798,385	\$ 109,477	\$ -	\$ -
Security of persons and property . . .	2,677,914	501,303	17,361	100
Public health and welfare	46,048	31,135	-	-
Transportation.	916,755	134,430	285,982	100,907
Community environment	282,247	20,896	-	-
Leisure time activity.	337,173	75,947	12,958	-
Interest and fiscal charges.	32,636	-	-	-
Total governmental activities	<u>5,091,158</u>	<u>873,188</u>	<u>316,301</u>	<u>101,007</u>
Business-type activities:				
Sewer.	1,848,751	1,594,370	-	-
Water.	1,349,796	1,508,664	-	-
Other business-type activities:				
Storm water.	165	-	-	-
Total business-type activities	<u>3,198,712</u>	<u>3,103,034</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 8,289,870</u>	<u>\$ 3,976,222</u>	<u>\$ 316,301</u>	<u>\$ 101,007</u>

General revenues:

- Property taxes levied for:
 - General purposes
 - Recreation.
 - Police pension.
- Income taxes levied for:
 - General purposes
 - Police.
 - Capital projects.
- Payments in lieu of taxes
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Miscellaneous

Total general revenues

Transfers

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**

Governmental Activities	Business-type Activities	Total
\$ (688,908)	\$ -	\$ (688,908)
(2,159,150)	-	(2,159,150)
(14,913)	-	(14,913)
(395,436)	-	(395,436)
(261,351)	-	(261,351)
(248,268)	-	(248,268)
(32,636)	-	(32,636)
<u>(3,800,662)</u>	<u>-</u>	<u>(3,800,662)</u>
-	(254,381)	(254,381)
-	158,868	158,868
-	(165)	(165)
<u>-</u>	<u>(95,678)</u>	<u>(95,678)</u>
<u>(3,800,662)</u>	<u>(95,678)</u>	<u>(3,896,340)</u>
242,927	-	242,927
43,422	-	43,422
23,834	-	23,834
1,975,892	-	1,975,892
212,620	-	212,620
559,647	-	559,647
72,719	-	72,719
263,865	-	263,865
94,319	6,700	101,019
10,801	13,221	24,022
<u>3,500,046</u>	<u>19,921</u>	<u>3,519,967</u>
<u>(11,600)</u>	<u>11,600</u>	<u>-</u>
(312,216)	(64,157)	(376,373)
<u>15,394,086</u>	<u>13,532,657</u>	<u>28,926,743</u>
<u>\$ 15,081,870</u>	<u>\$ 13,468,500</u>	<u>\$ 28,550,370</u>

**CITY OF WILLARD
HURON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	Bond Retirement	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents . . .	\$ 3,445,251	\$ 53,152	\$ 742,963	\$ 1,590,543	\$ 5,831,909
Cash in segregated accounts.	-	-	-	249,256	249,256
Receivables:					
Income taxes.	517,107	-	-	-	517,107
Real and other taxes	261,185	-	-	69,650	330,835
Payments in lieu of taxes.	-	-	-	68,000	68,000
Accounts.	127,724	-	-	783	128,507
Special assessments	23,403	-	-	-	23,403
Interfund loans.	84,000	-	-	-	84,000
Due from other governments.	108,221	-	-	121,862	230,083
Accrued interest	29,340	-	-	-	29,340
Materials and supplies inventory.	9,064	-	-	19,064	28,128
Prepayments	40,737	-	-	15,187	55,924
Total assets	<u>\$ 4,646,032</u>	<u>\$ 53,152</u>	<u>\$ 742,963</u>	<u>\$ 2,134,345</u>	<u>\$ 7,576,492</u>
Liabilities:					
Accounts payable.	\$ 46,435	\$ -	\$ 49,937	\$ 31,555	\$ 127,927
Accrued wages.	66,382	-	-	13,201	79,583
Compensated absences payable	17,478	-	-	46,732	64,210
Due to other governments	111,767	-	-	24,293	136,060
Interfund loans payable.	-	-	-	84,000	84,000
Accrued interest payable	-	1,042	-	-	1,042
Notes payable	-	336,000	-	-	336,000
Total liabilities	<u>242,062</u>	<u>337,042</u>	<u>49,937</u>	<u>199,781</u>	<u>828,822</u>
Deferred inflows of resources:					
Property taxes levied for the next year.	232,074	-	-	61,887	293,961
Delinquent property tax revenue not available. . .	29,111	-	-	7,763	36,874
Accrued interest not available	21,013	-	-	-	21,013
Special assessments revenue not available. . . .	23,403	-	-	-	23,403
Intergovernmental revenue not available. . . .	75,746	-	-	83,338	159,084
Income tax revenue not available	99,990	-	-	-	99,990
Payments in lieu of taxes revenue not available .	-	-	-	68,000	68,000
Total deferred inflows of resources	<u>481,337</u>	<u>-</u>	<u>-</u>	<u>220,988</u>	<u>702,325</u>
Total liabilities and deferred inflows of resources.	<u>723,399</u>	<u>337,042</u>	<u>49,937</u>	<u>420,769</u>	<u>1,531,147</u>
Fund balances:					
Nonspendable	1,626,017	-	-	52,633	1,678,650
Restricted.	-	-	693,026	1,597,432	2,290,458
Committed	-	-	-	98,133	98,133
Assigned	735,606	-	-	47,451	783,057
Unassigned (deficit)	1,561,010	(283,890)	-	(82,073)	1,195,047
Total fund balances.	<u>3,922,633</u>	<u>(283,890)</u>	<u>693,026</u>	<u>1,713,576</u>	<u>6,045,345</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,646,032</u>	<u>\$ 53,152</u>	<u>\$ 742,963</u>	<u>\$ 2,134,345</u>	<u>\$ 7,576,492</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

Total governmental fund balances		\$	6,045,345
<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.			9,735,032
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Income taxes receivable	\$	99,990	
Real and other taxes receivable		36,874	
Payments in lieu of taxes receivable		68,000	
Intergovernmental receivable		159,084	
Special assessments receivable		23,403	
Accrued interest receivable		21,013	
Total		408,364	408,364
Accrued interest payable is not due and payable in the current period and therefore is not reported in the governmental funds.			(2,049)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		230,598	
Bonds payable		595,000	
Issue II loans payable		279,224	
Total		(1,104,822)	(1,104,822)
Net position of governmental activities		\$	15,081,870

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

	<u>General</u>	<u>Bond Retirement</u>	<u>Income Tax Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 1,848,046	\$ -	\$ 559,647	\$ 467,328	\$ 2,875,021
Real and other taxes.	240,463	-	-	66,594	307,057
Charges for services.	560,666	-	-	175,429	736,095
Licenses and permits	48,269	-	-	-	48,269
Fines and forfeitures	27,503	-	-	3,344	30,847
Intergovernmental.	287,931	-	-	411,515	699,446
Investment income.	82,537	100	-	2,153	84,790
Rental income	-	-	-	44,998	44,998
Contributions and donations.	500	-	-	19,652	20,152
Payments in lieu of taxes.	-	-	-	68,719	68,719
Other	8,769	-	2,355	304	11,428
Total revenues	<u>3,104,684</u>	<u>100</u>	<u>562,002</u>	<u>1,260,036</u>	<u>4,926,822</u>
Expenditures:					
Current:					
General government	731,113	-	-	-	731,113
Security of persons and property	2,093,354	-	-	233,670	2,327,024
Public health and welfare.	36,929	-	-	-	36,929
Transportation	260,779	-	-	476,820	737,599
Community environment	195,053	-	-	15,815	210,868
Leisure time activity	-	-	-	294,073	294,073
Capital outlay	100,000	-	474,137	195,522	769,659
Debt service:					
Principal retirement.	-	128,302	-	70,000	198,302
Interest and fiscal charges	-	10,863	-	22,225	33,088
Total expenditures	<u>3,417,228</u>	<u>139,165</u>	<u>474,137</u>	<u>1,308,125</u>	<u>5,338,655</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(312,544)</u>	<u>(139,065)</u>	<u>87,865</u>	<u>(48,089)</u>	<u>(411,833)</u>
Other financing sources (uses):					
Sale of capital assets.	2,955	-	1,550	870	5,375
Transfers in	-	225,000	-	43,000	268,000
Transfers (out).	(12,000)	-	(256,000)	-	(268,000)
Total other financing sources (uses)	<u>(9,045)</u>	<u>225,000</u>	<u>(254,450)</u>	<u>43,870</u>	<u>5,375</u>
Net change in fund balances	(321,589)	85,935	(166,585)	(4,219)	(406,458)
Fund balances (deficit) at beginning of year.					
	<u>4,244,222</u>	<u>(369,825)</u>	<u>859,611</u>	<u>1,717,795</u>	<u>6,451,803</u>
Fund balances (deficit) at end of year	<u>\$ 3,922,633</u>	<u>\$ (283,890)</u>	<u>\$ 693,026</u>	<u>\$ 1,713,576</u>	<u>\$ 6,045,345</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

Net change in fund balances - total governmental funds \$ (406,458)

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 cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.

Capital asset additions	\$ 686,115	
Current year depreciation	(706,716)	
Total		(20,601)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.

(708)

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

Income taxes	(126,862)	
Real and other taxes	3,126	
Intergovernmental revenues	(39,978)	
Special assessments	6,477	
Investment income	11,582	
Payments in lieu of taxes	4,000	
Total		(141,655)

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

198,302

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

452

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

58,452

Change in net position of governmental activities \$ (312,216)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 1,990,200	\$ 1,990,200	\$ 1,986,367	\$ (3,833)
Real and other taxes.	244,900	244,900	240,463	(4,437)
Charges for services.	506,300	506,300	561,581	55,281
Licenses and permits	46,600	46,600	48,269	1,669
Fines and forfeitures	30,900	30,900	27,503	(3,397)
Intergovernmental.	276,300	276,300	308,116	31,816
Investment income.	5,000	5,000	37,898	32,898
Contributions and donations.	-	-	500	500
Other	7,600	7,600	8,603	1,003
Total revenues	<u>3,107,800</u>	<u>3,107,800</u>	<u>3,219,300</u>	<u>111,500</u>
Expenditures:				
Current:				
General government	608,983	609,883	510,961	98,922
Security of persons and property	2,477,376	2,475,476	2,144,687	330,789
Public health and welfare.	55,624	55,624	37,656	17,968
Transportation	293,155	294,155	257,548	36,607
Community environment	231,360	231,360	212,839	18,521
Total expenditures	<u>3,666,498</u>	<u>3,666,498</u>	<u>3,163,691</u>	<u>502,807</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(558,698)</u>	<u>(558,698)</u>	<u>55,609</u>	<u>614,307</u>
Other financing sources (uses):				
Sale of capital assets.	-	-	2,955	2,955
Transfers (out).	(12,000)	(12,000)	(12,000)	-
Total other financing sources (uses)	<u>(12,000)</u>	<u>(12,000)</u>	<u>(9,045)</u>	<u>2,955</u>
Net change in fund balances	(570,698)	(570,698)	46,564	617,262
Fund balances at beginning of year	1,541,347	1,541,347	1,541,347	-
Prior year encumbrances appropriated	77,788	77,788	77,788	-
Fund balance at end of year	<u>\$ 1,048,437</u>	<u>\$ 1,048,437</u>	<u>\$ 1,665,699</u>	<u>\$ 617,262</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Nonmajor Enterprise Fund	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents . . .	\$ 1,960,764	\$ 2,065,881	\$ 94,974	\$ 4,121,619
Receivables:				
Accounts.	414,983	317,126	-	732,109
Materials and supplies inventory.	163,757	63,682	-	227,439
Prepayments	7,810	15,543	-	23,353
Restricted assets:				
Equity in pooled cash and cash equivalents . . .	-	59,996	-	59,996
Total current assets	<u>2,547,314</u>	<u>2,522,228</u>	<u>94,974</u>	<u>5,164,516</u>
Noncurrent assets:				
Capital assets:				
Land.	505,410	562,881	-	1,068,291
Depreciable capital assets, net.	4,706,011	5,526,670	-	10,232,681
Total capital assets, net.	<u>5,211,421</u>	<u>6,089,551</u>	<u>-</u>	<u>11,300,972</u>
Total noncurrent assets	<u>5,211,421</u>	<u>6,089,551</u>	<u>-</u>	<u>11,300,972</u>
Total assets	<u>7,758,735</u>	<u>8,611,779</u>	<u>94,974</u>	<u>16,465,488</u>
Liabilities:				
Current liabilities:				
Accounts payable.	18,655	4,065	-	22,720
Accrued wages	35,706	21,246	-	56,952
Compensated absences.	85,836	55,539	-	141,375
Due to other governments	27,073	17,132	-	44,205
Accrued interest payable	3,100	632	-	3,732
Payable from restricted assets:				
Refundable deposits payable.	-	59,996	-	59,996
OWDA loans payable	94,125	24,934	-	119,059
Issue II loans payable	2,420	10,923	-	13,343
Notes payable	1,000,000	204,000	-	1,204,000
Total current liabilities	<u>1,266,915</u>	<u>398,467</u>	<u>-</u>	<u>1,665,382</u>
Long-term liabilities:				
Compensated absences payable	115,860	80,375	-	196,235
OWDA loans payable	786,023	174,752	-	960,775
Issue II loans payable	77,788	96,808	-	174,596
Total long-term liabilities	<u>979,671</u>	<u>351,935</u>	<u>-</u>	<u>1,331,606</u>
Total liabilities	<u>2,246,586</u>	<u>750,402</u>	<u>-</u>	<u>2,996,988</u>
Net position:				
Net investment in capital assets.	4,251,065	5,578,134	-	9,829,199
Unrestricted	<u>1,261,084</u>	<u>2,283,243</u>	<u>94,974</u>	<u>3,639,301</u>
Total net position.	<u>\$ 5,512,149</u>	<u>\$ 7,861,377</u>	<u>\$ 94,974</u>	<u>\$ 13,468,500</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

	Business-type Activities - Enterprise Funds			Total
	Sewer	Water	Nonmajor Enterprise Fund	
Operating revenues:				
Charges for services	\$ 1,594,370	\$ 1,490,364	\$ -	\$ 3,084,734
Tap-in fees.	-	18,300	-	18,300
Other operating revenues	3,045	10,176	-	13,221
Total operating revenues.	<u>1,597,415</u>	<u>1,518,840</u>	<u>-</u>	<u>3,116,255</u>
Operating expenses:				
Personal services	1,128,245	771,645	-	1,899,890
Contract services.	69,742	35,170	165	105,077
Materials and supplies.	83,807	155,241	-	239,048
Administrative costs.	19,285	19,285	-	38,570
Utilities	255,844	113,637	-	369,481
Depreciation.	262,668	246,315	-	508,983
Other	2,885	1,891	-	4,776
Total operating expenses.	<u>1,822,476</u>	<u>1,343,184</u>	<u>165</u>	<u>3,165,825</u>
Operating income (loss)	<u>(225,061)</u>	<u>175,656</u>	<u>(165)</u>	<u>(49,570)</u>
Nonoperating revenues (expenses):				
Interest and fiscal charges	(25,723)	(6,612)	-	(32,335)
Loss on sale of capital assets	(552)	-	-	(552)
Interest income.	4,297	2,403	-	6,700
Total nonoperating revenues (expenses).	<u>(21,978)</u>	<u>(4,209)</u>	<u>-</u>	<u>(26,187)</u>
Income (loss) before capital contributions	<u>(247,039)</u>	<u>171,447</u>	<u>(165)</u>	<u>(75,757)</u>
Capital contributions.	<u>-</u>	<u>11,600</u>	<u>-</u>	<u>11,600</u>
Change in net position	<u>(247,039)</u>	<u>183,047</u>	<u>(165)</u>	<u>(64,157)</u>
Net position at beginning of year	<u>5,759,188</u>	<u>7,678,330</u>	<u>95,139</u>	<u>13,532,657</u>
Net position at end of year	<u>\$ 5,512,149</u>	<u>\$ 7,861,377</u>	<u>\$ 94,974</u>	<u>\$ 13,468,500</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Nonmajor Enterprise Fund	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,613,376	\$ 1,519,537	\$ -	\$ 3,132,913
Cash received from other operations	3,045	22,648	-	25,693
Cash payments for personal services.	(1,109,083)	(735,305)	-	(1,844,388)
Cash payments for contract services	(76,705)	(44,818)	(165)	(121,688)
Cash payments for materials and supplies	(95,537)	(178,534)	-	(274,071)
Cash payments for administrative costs.	(19,285)	(19,285)	-	(38,570)
Cash payments for utilities	(268,572)	(118,411)	-	(386,983)
Cash payments for other expenses	(2,885)	(7,378)	-	(10,263)
Net cash provided by (used in) operating activities	44,354	438,454	(165)	482,643
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(13,295)	(276,012)	-	(289,307)
Sale of notes	1,000,000	204,000	-	1,204,000
Principal retirement.	(1,095,047)	(251,367)	-	(1,346,414)
Interest and fiscal charges	(25,274)	(6,553)	-	(31,827)
Net cash used in capital and related financing activities.	(133,616)	(329,932)	-	(463,548)
Cash flows from investing activities:				
Interest received	4,297	2,403	-	6,700
Net cash provided by investing activities	4,297	2,403	-	6,700
Net increase (decrease) in cash and cash equivalents	(84,965)	110,925	(165)	25,795
Cash and cash equivalents at beginning of year . . .	2,045,729	2,014,952	95,139	4,155,820
Cash and cash equivalents at end of year	\$ 1,960,764	\$ 2,125,877	\$ 94,974	\$ 4,181,615

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Nonmajor Enterprise Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (225,061)	\$ 175,656	\$ (165)	\$ (49,570)
Adjustments:				
Depreciation.	262,668	246,315	-	508,983
Changes in assets and liabilities:				
Increase in materials and supplies inventory	(520)	(8,136)	-	(8,656)
Decrease in accounts receivable.	19,006	10,873	-	29,879
Increase in prepayments	(4,169)	(6,700)	-	(10,869)
Decrease in accounts payable	(26,642)	(22,879)	-	(49,521)
Increase in accrued wages.	5,486	3,307	-	8,793
Decrease in intergovernmental payable.	(780)	(674)	-	(1,454)
Increase in compensated absences payable.	14,366	33,612	-	47,978
Increase in payable from restricted assets.	-	7,080	-	7,080
Net cash provided by (used in) operating activities	<u>\$ 44,354</u>	<u>\$ 438,454</u>	<u>\$ (165)</u>	<u>\$ 482,643</u>

During 2012, the water fund received \$11,600 in capital contributions from other funds.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2012

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 11,989
	<u>11,989</u>
Liabilities:	
Deposits held and due to others	\$ 11,989
	<u>11,989</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE CITY

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Willard, this includes police protection, street maintenance and repairs, planning and zoning, parks and recreation, water, sewer and storm water. The operation of each of these activities is directly controlled by Council through the budgetary process.

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

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

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

B. Basis of Presentation - Fund Accounting

The City's BFS consist of government-wide statements, including a statement of net 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 statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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. Fiduciary funds are reported by type.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

C. Fund Accounting

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

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

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

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

Income tax capital improvement - This fund accounts for income tax receipts that are used from the acquisition and construction of capital assets.

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

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

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

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

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

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

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

D. Measurement Focus and Basis of Accounting

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net 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.

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

E. Basis of Accounting

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

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

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

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

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

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

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

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

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

F. Budgetary Data

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

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

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

Appropriations - In accordance with the City Charter, an annual appropriation ordinance must be passed by December 26 of each year for the following period January 1 to December 31, this must be submitted to the County by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council.

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

G. Encumbrances

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

H. Inventories of Materials and Supplies

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

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

I. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2012, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

J. Cash and Cash Equivalents

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

During 2012, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), nonnegotiable certificates of deposit and negotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

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

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2012 amounted to \$82,537, which included \$52,666 assigned from other funds of the City.

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

Investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

K. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

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

L. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination (severance) payments and by those employees for whom it is probable they will become eligible to receive termination (severance) benefits in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service; or 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Interfund Balances

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

O. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

P. Fund Balance

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

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

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

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

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

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

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

Q. Restricted Assets

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

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

R. Estimates

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

S. Contributions of Capital

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

T. Net Position

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

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

U. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

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

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

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

B. Deficit Fund Balances

Fund balances at December 31, 2012 included the following individual fund deficits:

<u>Major governmental fund:</u>	<u>Deficit</u>
Bond retirement	\$ 283,890
<u>Nonmajor governmental fund:</u>	
CDBG	82,073

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Noncompliance

The City had invoices dated prior to purchase order dates, in noncompliance with Ohio Revised Code Section 5705.41(D).

NOTE 4 - DEPOSITS AND INVESTMENTS

Monies held by the City are classified by State statute into three categories:

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

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

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

Interim monies may be deposited or invested in the following:

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

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

1. Bonds of the State of Ohio;

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash on Hand

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

B. Cash in Segregated Accounts

At year end, the City had \$249,256 deposited with a financial institution for monies related to the municipal road fund permissive tax. These amounts are included in the City's depository balance below.

C. Deposits with Financial Institutions

At December 31, 2012, the carrying amount of all City deposits, including cash in segregated accounts, was \$1,444,268. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2012, \$406,472 of the City's bank balance of \$1,636,821 was exposed to custodial risk as discussed below, while \$1,230,349 was covered by the FDIC.

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
Negotiable CDs	\$ 8,553,974	\$ 1,706,760	\$ 1,483,445	\$ 1,238,848	\$ 741,386	\$ 3,383,535
STAR Ohio	<u>26,321</u>	<u>26,321</u>	-	-	-	-
Total	<u>\$ 8,580,295</u>	<u>\$ 1,733,081</u>	<u>\$ 1,483,445</u>	<u>\$ 1,238,848</u>	<u>\$ 741,386</u>	<u>\$ 3,383,535</u>

The weighted average maturity of investments is 1.86 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. 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 finance director or qualified trustee.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Negotiable CDs	\$ 8,553,974	99.69%
STAR Ohio	<u>26,321</u>	<u>0.31%</u>
Total	<u>\$ 8,580,295</u>	<u>100.00%</u>

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 1,444,268
Investments	8,580,295
Cash in segregated accounts	249,256
Cash on hand	950
Total	<u>\$ 10,274,769</u>
<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 6,081,165
Business-type activities	4,181,615
Agency funds	11,989
Total	<u>\$ 10,274,769</u>

NOTE 5 - INTERFUND ACTIVITY

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

<u>Transfer From</u>	<u>Transfer To</u>		<u>Total</u>
	<u>Bond Retirement</u>	<u>Nonmajor Governmental</u>	
General	\$ 12,000	\$ -	\$ 12,000
Income tax capital improvement	<u>213,000</u>	<u>43,000</u>	<u>256,000</u>
Total	<u>\$ 225,000</u>	<u>\$ 43,000</u>	<u>\$ 268,000</u>

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

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

- B.** Interfund loans consisted of the following at December 31, 2012, as reported on the fund financial statements.

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 5 - INTERFUND ACTIVITY - (Continued)

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at December 31, 2012 are reported on the statement of net position.

NOTE 6 - PROPERTY TAXES

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

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

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

The full tax rate for all City operations for the year ended December 31, 2012 was \$3.80 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 56,131,610
Commercial/industrial/mineral	26,405,880
<u>Public utility</u>	
Real	2,131,780
Personal	<u>3,570,920</u>
Total assessed value	<u>\$ 88,240,190</u>

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 7 - LOCAL INCOME TAX

From January 1, 2012 through September 30, 2012, the City levied an income tax of 1.375%. Beginning October 1, 2012, the City levies an income tax of 1.25%. The income tax is levied on the gross salaries, wages and other personnel service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a full credit for taxes paid to other Ohio municipalities, up to the percentage which would be due to the City.

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

NOTE 8 - RECEIVABLES

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

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

Governmental activities:

Income taxes	\$ 517,107
Real and other taxes	330,835
Payments in lieu of taxes	68,000
Accounts	128,507
Special assessments	23,403
Due from other governments	230,083
Accrued interest	29,340

Business-type activities:

Accounts	732,109
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year is the special assessments receivable which is collected over the life of the assessments.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 9 - LEASE

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

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

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

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

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**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 10 - CAPITAL ASSETS

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

<u>Governmental activities:</u>	<u>Balance</u> <u>1/1/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,458,892	\$ -	\$ -	\$ 1,458,892
Total capital assets, not being depreciated	<u>1,458,892</u>	<u>-</u>	<u>-</u>	<u>1,458,892</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	260,410	16,580	-	276,990
Buildings	4,043,947	35,750	-	4,079,697
Equipment	2,517,992	112,612	(52,431)	2,578,173
Vehicles	2,500,534	21,762	-	2,522,296
Infrastructure	<u>7,195,028</u>	<u>499,411</u>	<u>-</u>	<u>7,694,439</u>
Total capital assets, being depreciated	<u>16,517,911</u>	<u>686,115</u>	<u>(52,431)</u>	<u>17,151,595</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(96,749)	(20,758)	-	(117,507)
Buildings	(2,824,171)	(103,858)	-	(2,928,029)
Equipment	(1,747,933)	(119,591)	51,723	(1,815,801)
Vehicles	(1,940,046)	(265,691)	-	(2,205,737)
Infrastructure	<u>(1,611,563)</u>	<u>(196,818)</u>	<u>-</u>	<u>(1,808,381)</u>
Total accumulated depreciation	<u>(8,220,462)</u>	<u>(706,716)</u>	<u>51,723</u>	<u>(8,875,455)</u>
Total capital assets, being depreciated, net	<u>8,297,449</u>	<u>(20,601)</u>	<u>(708)</u>	<u>8,276,140</u>
Governmental activities capital assets, net	<u>\$ 9,756,341</u>	<u>\$ (20,601)</u>	<u>\$ (708)</u>	<u>\$ 9,735,032</u>

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 10 - CAPITAL ASSETS - (Continued)

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

<u>Business-type activities:</u>	<u>Balance</u> <u>1/1/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/12</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,068,291	\$ -	\$ -	\$ 1,068,291
Total capital assets, not being depreciated	<u>1,068,291</u>	<u>-</u>	<u>-</u>	<u>1,068,291</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	78,249	-	-	78,249
Buildings	6,411,584	1,323	-	6,412,907
Equipment	5,275,140	42,119	(9,318)	5,307,941
Vehicles	413,501	-	-	413,501
Utility plant in service	<u>12,132,292</u>	<u>257,465</u>	<u>-</u>	<u>12,389,757</u>
Total capital assets, being depreciated	<u>24,310,766</u>	<u>300,907</u>	<u>(9,318)</u>	<u>24,602,355</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(38,069)	(7,845)	-	(45,914)
Buildings	(4,906,528)	(95,737)	-	(5,002,265)
Equipment	(4,726,896)	(72,853)	8,766	(4,790,983)
Vehicles	(326,882)	(27,389)	-	(354,271)
Utility plant in service	<u>(3,871,082)</u>	<u>(305,159)</u>	<u>-</u>	<u>(4,176,241)</u>
Total accumulated depreciation	<u>(13,869,457)</u>	<u>(508,983)</u>	<u>8,766</u>	<u>(14,369,674)</u>
Total capital assets, being depreciated, net	<u>10,441,309</u>	<u>(208,076)</u>	<u>(552)</u>	<u>10,232,681</u>
Business-type activities capital assets, net	<u>\$ 11,509,600</u>	<u>\$ (208,076)</u>	<u>\$ (552)</u>	<u>\$ 11,300,972</u>

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 10 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 52,402
Security of persons and property	321,136
Public health and welfare	4,187
Transportation	195,709
Community environment	69,253
Leisure time activities	<u>64,029</u>
 Total depreciation expense - governmental activities	 <u>\$ 706,716</u>

Business-type activities:

Sewer	\$ 262,668
Water	<u>246,315</u>
 Total depreciation expense - business-type activities	 <u>\$ 508,983</u>

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

Vacation is earned and accrued monthly based upon the years of service, ranging from 4 hours/month to 20 hours/month. Vacation may be accrued up to two full years. Accrued vacation is paid at termination unless the employee has not completed one full year of service. The total obligation for vacation accrual for the City as a whole amounted to \$252,286 at December 31, 2012. Sick leave accumulates at a rate of 10 hours/month for all full-time employees. Accumulation of sick leave is limited to 1,440 hours. The amount payable to an eligible retirant is 35% of the unused accumulated sick leave.

The pay-off of the sick leave provision is also applicable in the case of death. The maximum liability to the City for accumulated sick leave vested employees on December 31, 2012 was \$380,132.

The City has union agreements with the Fraternal Order of Police (FOP) and the International Association of Fire Fighters (IAFF). The FOP agreement covers all the full-time police officers and dispatchers except the chief of police and probationary employees in the first sixty days of employment. The agreement with the IAFF covers all full-time fire fighters except the chief and assistant chief. Non-union employees are governed by the charter and City ordinances.

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 12 - NOTES PAYABLE

The City had the following bond anticipation notes outstanding at December 31, 2012:

	<u>Issue</u> <u>Date</u>	<u>Interest</u> <u>Rate</u>	<u>Balance</u> <u>12/31/2011</u>	<u>Issued</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2012</u>
Governmental activities:						
<u>Bond retirement fund:</u>						
Fire truck	2011	0.80%	\$ 288,000	\$ -	\$ (288,000)	\$ -
Fire truck	2012	0.93%	-	246,000	-	246,000
Street improvement	2011	0.80%	105,000		(105,000)	-
Street improvement	2012	0.93%	-	90,000	-	90,000
Total governmental activities			<u>393,000</u>	<u>336,000</u>	<u>(393,000)</u>	<u>336,000</u>
Business-type activities:						
<u>Water fund:</u>						
Dale Street waterline	2011	0.80%	216,000	-	(216,000)	-
Dale Street waterline	2012	0.93%	-	204,000	-	204,000
<u>Sewer fund:</u>						
WWTP upgrade	2011	0.80%	1,000,000	-	(1,000,000)	-
WWTP upgrade	2012	0.93%	-	1,000,000	-	1,000,000
Total business-type activities			<u>1,216,000</u>	<u>1,204,000</u>	<u>(1,216,000)</u>	<u>1,204,000</u>
Total notes payable			<u>\$ 1,609,000</u>	<u>\$ 1,540,000</u>	<u>\$ (1,609,000)</u>	<u>\$ 1,540,000</u>

Bond anticipation notes - street improvement: On August 31, 2011, the City issued \$105,000 in street improvement bond anticipation notes. These notes bore an interest rate of 0.80% and matured on August 30, 2012. On August 30, 2012, the City issued \$90,000 in street improvement bond anticipation notes. The proceeds were used to retire the 2011 notes. These notes bear an interest rate of 0.93% and mature on August 30, 2013. These notes are recorded as a liability in the bond retirement fund, which is the fund that received the proceeds.

Bond anticipation notes - fire truck: On August 31, 2011, the City issued \$288,000 in fire truck bond anticipation notes. These notes bore an interest rate of 0.80% and matured on August 30, 2012. On August 30, 2012, the City issued \$246,000 in fire truck bond anticipation notes. The proceeds were used to retire the 2011 notes. These notes bear an interest rate of 0.93% and mature on August 30, 2013. These notes are recorded as a liability in the bond retirement fund, which is the fund that received the proceeds.

Bond anticipation notes - Dale Street waterline: On August 31, 2011, the City issued \$216,000 in bond anticipation notes. The debt was incurred to pay the costs of construction and improvements to the Dale Street waterline. These notes bore an interest rate of 0.80% and matured on August 30, 2012. On August 30, 2012, the City issued \$204,000 in bond anticipation notes. The proceeds were used to retire the 2011 notes. These notes bear an interest rate of 0.93% and mature on August 30, 2013. These notes are recorded as a liability in the water fund, which is the fund that received the proceeds.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 12 - NOTES PAYABLE - (Continued)

Bond anticipation notes - WWTP upgrade: On August 31, 2011, the City issued \$1,000,000 in bond anticipation notes. The debt was incurred to pay the costs of upgrades at the wastewater treatment plant. These notes bore an interest rate of 0.80% and matured on August 30, 2012. On August 30, 2012, the City issued \$1,000,000 in bond anticipation notes. The proceeds were used to retire the 2011 notes. These notes bear an interest rate of 0.93% and mature on August 30, 2013. These notes are recorded as a liability in the sewer fund, which is the fund that received the proceeds. These notes are not included in the calculation of the sewer fund's net investment in capital assets as no proceeds had been spent as of December 31, 2012.

NOTE 13 - LONG-TERM OBLIGATIONS

A. During 2012, the following changes occurred in governmental activities long-term obligations:

Governmental activities:	Date of Issue	Interest Rate	Balance 12/31/2011	Additions	Retirements	Balance 12/31/2012	Amounts Due in One Year
<u>Issue II loans:</u>							
Pearl Street repavement	1999	0.00%	\$ 56,249	\$ -	\$ (7,031)	\$ 49,218	\$ 7,031
East Howard repavement I	2002	0.00%	2,012	-	(191)	1,821	191
East Howard repavement II	2003	0.00%	31,934	-	(2,457)	29,477	2,457
Ash Street reconstruction I	2005	0.00%	27,734	-	(1,981)	25,753	1,981
North Main reconstruction	2005	0.00%	27,325	-	(2,024)	25,301	2,024
Ash Street reconstruction II	2006	0.00%	91,772	-	(6,118)	85,654	6,118
Myrtle Avenue curbs and ramps	2009	0.00%	27,000	-	(1,500)	25,500	1,500
US 224 widening	2010	0.00%	18,500	-	(1,000)	17,500	1,000
Myrtle Avenue Phase VII	2011	0.00%	20,000	-	(1,000)	19,000	1,000
Total Issue II loans			<u>302,526</u>	<u>-</u>	<u>(23,302)</u>	<u>279,224</u>	<u>23,302</u>
<u>Bond payable:</u>							
Industrial park	2009	3.0-4.5%	560,000	-	(70,000)	490,000	75,000
Fire station	2009	3.0-3.5%	210,000	-	(105,000)	105,000	105,000
Total bonds payable			<u>770,000</u>	<u>-</u>	<u>(175,000)</u>	<u>595,000</u>	<u>180,000</u>
<u>Other long-term obligations:</u>							
Compensated absences			<u>289,050</u>	<u>153,311</u>	<u>(147,553)</u>	<u>294,808</u>	<u>186,820</u>
Total governmental activities long-term obligations			<u>\$ 1,361,576</u>	<u>\$ 153,311</u>	<u>\$ (345,855)</u>	<u>\$ 1,169,032</u>	<u>\$ 390,122</u>

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

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

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

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

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

Year Ending December 31,	Issue II Loans			Bonds Payable		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 23,302	\$ -	\$ 23,302	\$ 180,000	\$ 23,800	\$ 203,800
2014	23,302	-	23,302	75,000	17,500	92,500
2015	23,303	-	23,303	80,000	14,687	94,687
2016	23,303	-	23,303	85,000	11,487	96,487
2017	23,304	-	23,304	85,000	7,875	92,875
2018 - 2022	95,322	-	95,322	90,000	4,050	94,050
2023 - 2027	57,888	-	57,888	-	-	-
2028 - 2031	9,500	-	9,500	-	-	-
	<u>\$ 279,224</u>	<u>\$ -</u>	<u>\$ 279,224</u>	<u>\$ 595,000</u>	<u>\$ 79,399</u>	<u>\$ 674,399</u>

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**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

B. During 2012, the following changes occurred in the City's business-type long-term obligations:

Business-type activities:	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/12</u>	<u>Amounts Due in One Year</u>
<u>OWDA loans:</u>							
Drinking water loan	2000	2.00%	\$ 224,130	\$ -	\$ (24,444)	\$ 199,686	\$ 24,934
Water pollution loan	2000	1.20%	148,876	-	(16,739)	132,137	16,941
Sewer loan	2001	2.20%	278,432	-	(26,658)	251,774	27,249
Storm water loan	1998	1.20%	201,053	-	(25,777)	175,276	26,086
Storm water loan	2001	2.20%	138,638	-	(13,274)	125,364	13,568
US 224 lift station	2010	1.00%	<u>205,776</u>	<u>-</u>	<u>(10,179)</u>	<u>195,597</u>	<u>10,281</u>
Total OWDA loans			<u>1,196,905</u>	<u>-</u>	<u>(117,071)</u>	<u>1,079,834</u>	<u>119,059</u>
<u>Issue II loans:</u>							
Tiffin Steet water line	1996	0.00%	17,879	-	(3,973)	13,906	3,973
Myrtle Avenue	2006	0.00%	100,775	-	(6,950)	93,825	6,950
Woodbine Street	2005	0.00%	32,666	-	(2,420)	30,246	2,420
US 224 pump station	2010	0.00%	<u>49,962</u>	<u>-</u>	<u>-</u>	<u>49,962</u>	<u>-</u>
Total Issue II loans			<u>201,282</u>	<u>-</u>	<u>(13,343)</u>	<u>187,939</u>	<u>13,343</u>
<u>Other long-term obligations:</u>							
Compensated absences			<u>289,632</u>	<u>148,231</u>	<u>(100,253)</u>	<u>337,610</u>	<u>141,375</u>
Total business type activities long-term obligations			<u>\$ 1,687,819</u>	<u>\$ 148,231</u>	<u>\$ (230,667)</u>	<u>\$ 1,605,383</u>	<u>\$ 273,777</u>

Issue II loans: These loans were issued for the purpose of advancing funds so as to improve the Tiffin Street water line, the Myrtle Avenue water line system, the Woodbine Street sewer system and the US 224 pump station. Funding for the projects came from the local funds and the above-mentioned note for a period of 20 years. The loans are interest free. The Tiffin Street water line and Myrtle Avenue loans are to be repaid from the water fund. The Woodbine Avenue and US 224 pump station loans are to be repaid from the sewer fund. The US 224 pump station loan is not closed as of December 31, 2012 and therefore is not presented in the amortization schedule below.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

OWDA (Ohio Water Development Authority) loans:

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

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

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

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

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

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

The City has pledged future water revenues to repay the drinking water OWDA loan. The loan is payable solely from water fund revenues and is payable through 2019. Annual principal and interest payments on the loan are expected to require 6.79 percent of net revenues and 1.89 percent of total revenues. Principal and interest paid for the current year were \$28,804, total net revenues were \$424,374 and total revenues were \$1,521,243.

The City has pledged future sewer revenues to repay OWDA loans. The loans are payable solely from sewer fund revenues and are payable through 2030. Annual principal and interest payments on the loans are expected to require 256.99 percent of net revenues and 6.72 percent of total revenues. Principal and interest paid for the current year were \$107,688, total net revenues were \$41,904 and total revenues were \$1,601,712.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

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

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

Year Ending December 31,	Issue II Loans			OWDA Loans		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 13,343	\$ -	\$ 13,343	\$ 119,059	\$ 17,434	\$ 136,493
2014	13,342	-	13,342	121,085	15,410	136,495
2015	13,342	-	13,342	123,144	13,347	136,491
2016	11,356	-	11,356	125,245	11,246	136,491
2017	9,369	-	9,369	127,386	9,107	136,493
2018 - 2022	46,850	-	46,850	375,891	16,647	392,538
2023 - 2027	30,375	-	30,375	57,949	3,109	61,058
2028 - 2030	-	-	-	30,075	453	30,528
	<u>\$ 137,977</u>	<u>\$ -</u>	<u>\$ 137,977</u>	<u>\$ 1,079,834</u>	<u>\$ 86,753</u>	<u>\$ 1,166,587</u>

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2012, the City's total debt margin was \$8,670,220 and the unvoted debt margin was \$4,853,210.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 14 - RISK MANAGEMENT

A. Property and Casualty Insurance

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Workers' Compensation.

Through November 30, 2012, the City participated with other cities in the Buckeye Ohio Risk Management Agency, Inc. - Property and Liability Insurance Division Pool, in a jointly funded risk financing program.

Effective December 1, 2012, the City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insurance risks up to an amount specified in the contracts. At December 31, 2011 (the latest information available), PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010 (the latest information available):

<u>Casualty & Property Coverage</u>	<u>2011</u>	<u>2010</u>
Assets	\$33,362,404	\$34,952,010
Liabilities	<u>(14,187,273)</u>	<u>(14,320,812)</u>
Retained earnings	<u>\$19,175,131</u>	<u>\$20,631,198</u>

At December 31, 2011 and 2010 (the latest information available), respectively, the liabilities above include approximately \$13.0 million and \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.1 million and \$12.4 million of unpaid claims to be billed to approximately 455 member governments in the future, as of December 31, 2011 and 2010, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the City's share of these unpaid claims collectible in future years is approximately \$53,000.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 14 - RISK MANAGEMENT - (Continued)

Based on discussions with PEP the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2012	\$53,000

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

B. Employee Health Insurance

The City participates with other cities in the Buckeye Ohio Risk Management Association (BORMA), in a jointly funded risk financing program administered by Core Source, Inc.

The pool is for employee benefits and includes life insurance, accidental death and dismemberment insurance, health insurance and prescription drug insurance. Each member has an option on the coverage it has elected to provide for its employees. Willard provides to its employees all available options offered by the pool. The employee benefits pool includes the following municipalities: Archbold, Bowling Green, Bucyrus, Carey, Clyde, Defiance, Fayette, Fremont, Hicksville, Macedonia, Napoleon, Oberlin, Oregon, Pepper Pike, Sandusky, Upper Sandusky and Willard. As of December 31, 2012, the pool had cash reserves of \$3,187,349. The pool also includes the following entities: Correction Center of Northwest Ohio, Henry County, Sandusky County Board of Health and Sandusky County Engineers.

Premiums are paid to the employee benefits pool for the traditional plan at a monthly cost of \$1,508.37 for family coverage and \$546.51 for single party coverage. Premiums are paid to the employee benefits pool for the HSA plan at a monthly cost of \$1,226.84 for family coverage and \$444.50 for single party coverage. Life insurance monthly premiums are \$3.60. During 2012, the City paid \$554,565 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the employee is \$125,000 per individual with excess claims coverage provided by HCC.

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

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 15 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

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

The City's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2012 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$223,378, \$229,351, and \$207,348, respectively; 87.56% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 pension liability has been reported as due to other governments on the basic financial statements. Contributions to the member-directed plan for 2012 were \$280 made by the City and \$200 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.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 15 - PENSION PLANS - (Continued)

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. The police officer plan member 10.0% contribution is paid for by the City. Contribution rates are established by State statute. For 2012, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$136,777 and \$59,795 for the year ended December 31, 2012, \$146,003 and \$54,771 for the year ended December 31, 2011, and \$148,723 and \$50,728, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 79.97% has been contributed for police and firefighters for 2012. The remaining 2012 pension liability has been reported as due to other governments on the basic financial statements.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

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

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

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were \$92,014, \$94,249, and \$117,169, respectively; 87.56% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

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.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan. The police officer plan members 10.0% contribution is paid for by the City.

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$72,412 and \$23,398 for the year ended December 31, 2012, \$77,296 and \$21,432 for the year ended December 31, 2011, and \$78,735 and \$19,850, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 79.97% has been contributed for police and firefighters for 2012. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments on the basic financial statements.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 46,564
Net adjustment for revenue accruals	15,960
Net adjustment for expenditure accruals	3,751
Funds budgeted elsewhere	(448,270)
Adjustment for encumbrances	<u>60,406</u>
GAAP basis	<u>\$ (321,589)</u>

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

NOTE 18 - CONTINGENCIES

A. Grants

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

B. Litigation

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

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 19 - FUND BALANCE

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

Fund balance	General	Bond Retirement	Income Tax Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Materials and supplies inventory	\$ 9,064	\$ -	\$ -	\$ 19,064	\$ 28,128
Prepays	40,737	-	-	15,187	55,924
Electric system sale	1,575,000	-	-	-	1,575,000
Unclaimed monies	1,216	-	-	-	1,216
Perpetual care	-	-	-	18,382	18,382
Total nonspendable	<u>1,626,017</u>	<u>-</u>	<u>-</u>	<u>52,633</u>	<u>1,678,650</u>
Restricted:					
Capital improvements	-	-	693,026	497,798	1,190,824
Recreation programs	-	-	-	3,457	3,457
Transportation projects	-	-	-	532,094	532,094
Police and fire purposes	-	-	-	494,636	494,636
Other purposes	-	-	-	69,447	69,447
Total restricted	<u>-</u>	<u>-</u>	<u>693,026</u>	<u>1,597,432</u>	<u>2,290,458</u>
Committed:					
Recreation programs	-	-	-	64,277	64,277
Transportation projects	-	-	-	13,581	13,581
Other purposes	-	-	-	20,275	20,275
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,133</u>	<u>98,133</u>
Assigned:					
Debt service	-	-	-	5,617	5,617
Capital improvements	-	-	-	41,834	41,834
Subsequent year appropriations	695,900	-	-	-	695,900
Other purposes	39,706	-	-	-	39,706
Total assigned	<u>735,606</u>	<u>-</u>	<u>-</u>	<u>47,451</u>	<u>783,057</u>
Unassigned (deficit)	<u>1,561,010</u>	<u>(283,890)</u>	<u>-</u>	<u>(82,073)</u>	<u>1,195,047</u>
Total fund balances	<u>\$ 3,922,633</u>	<u>\$ (283,890)</u>	<u>\$ 693,026</u>	<u>\$ 1,713,576</u>	<u>\$ 6,045,345</u>

**CITY OF WILLARD
HURON COUNTY, OHIO**

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

NOTE 20 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 41,971
Income tax capital improvement	154,359
Other governmental	<u>45,613</u>
 Total	 <u>\$ 241,943</u>

NOTE 21 - RESTRICTED ASSETS

Restricted assets are specifically restricted for repayment to water customers who were required to make deposits for the guarantee of payment of water and sewer bills. Restricted cash and cash equivalents designated by the City or provided by operations are equally offset by a net position restriction. Restricted assets at December 31, 2012 are comprised of the following:

	<u>Cash and Cash Equivalents</u>
Water fund:	
Customer deposits	<u>\$ 59,996</u>

NOTE 22 - SUBSEQUENT EVENT

In 2013, the Willard Area Hospital, Inc. exercised its purchase option. In connection with this exercised option, the City transferred the premises to Huron County Development Corporation who in turn transferred the premises to the hospital.



Julian & Grube, Inc.
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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 Willard
631 S. Myrtle Avenue
P.O. Box 367
Willard, Ohio 44890

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 Willard, Huron County, Ohio as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City of Willard's basic financial statements and have issued our report thereon dated June 17, 2013 wherein we noted as discussed in Note 3, the City of Willard adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City of Willard'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 Willard'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 Willard'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 Willard

Compliance and Other Matters

As part of reasonably assuring whether the City of Willard'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 one instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2012-COW-001.

City of Willard's Response to Findings

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

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 Willard'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 Willard's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.
June 17, 2013

**CITY OF WILLARD
HURON COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2012**

2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2012-COW-001

Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of monies are to be made unless there is certificate of the Fiscal Officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

Of the expenditures tested, we noted 26% were not certified in a timely manner. These consisted primarily of utility purchase orders.

Without timely certification, the City may expend more funds than available in the treasury, or in the process of collection, or appropriated. This may also result in unnecessary purchases.

We recommend that all orders or contracts involving the expenditure of money be timely certified to ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection and or a "Then & Now" certification is approved on the purchase order.

Client Response: While the Administration agrees with the results of the testing, we do not believe that it accurately portrays the City's compliance with this requirement for all expenditures made during 2012. The City's Finance Director and City Administrator are actively working to develop a system that meets the Ohio Revised Code requirements, but also facilitates daily operations at the City. The Administration carefully reviews and approves each purchase order. Often times, this may occur due to limited funds being available at the time the utility invoices are dated. We will continue to investigate various possibilities to better comply with this Ohio Revised Code Section.

**CITY OF WILLARD
HURON COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <u>Explain:</u>
2011-001	<u>Material Weakness</u> - In 2010 and 2011 the City was utilizing the Utility Debt Service Fund for the repayment of debt issued for water and sewer purposes as well as co-mingling the utility capital charges that are earmarked for water and sewer capital.	Yes	N/A

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Dave Yost • Auditor of State

CITY OF WILLARD

HURON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 15, 2013**