

CITY OF HUBBARD, OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2003

PREPARED BY:

CITY AUDITOR'S OFFICE
MICHAEL C. VILLANO, CPA, CMA
AUDITOR OF CITY

INTRODUCTORY SECTION

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CITY OF HUBBARD, OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2003

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

Title Page	I 1-3
Table of Contents	I 4-10
Letter of Transmittal	I 11
List of Elected and Appointed Officials	I 12
Organizational Chart	I 13
Certificate of Achievement for Excellence in Financial Reporting	I 13

II. FINANCIAL SECTION

INDEPENDENT AUDITOR’S REPORT	F 1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	F 3-17
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	F 18
Statement of Activities	F 19-20
Fund Financial Statements:	
Balance Sheet - Governmental Funds	F 21
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	F 22
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	F 23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	F 24
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis):	
General Fund	F 25
Street Construction and Maintenance	F 26
Statement of Net Assets - Proprietary Funds	F 27-28
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	F 29-30
Statement of Cash Flows - Proprietary Funds	F 31-34
Statement of Fiduciary Net Assets - Fiduciary Funds	F 35
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	F 36

BASIC FINANCIAL STATEMENTS - (Continued):

Notes to the Basic Financial Statements.	F 37-68
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COMBINING STATEMENTS AND INDIVIDUAL FUND SCHEDULES:

Combining Statements - Nonmajor Governmental Funds:

Fund Descriptions.	F 69-70
Combining Balance Sheet - Nonmajor Governmental Funds.	F 71
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds.	F 72
Combining Balance Sheet - Nonmajor Special Revenue Funds.	F 73-75
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds.	F 76-78
Combining Balance Sheet - Nonmajor Capital Projects Funds.	F 79
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Capital Projects Funds.	F 80

Combining Statements - Nonmajor Fiduciary Funds

Fund Descriptions.	F 81
Combining Balance Sheet - Fiduciary Funds.	F 82
Combining Statement of Revenues, Expenses and Changes in Fund Balances - Fiduciary Funds.	F 83
Combining Statement of Changes in Assets and Liabilities - Agency Fund.	F 84

INDIVIDUAL FUND SCHEDULES OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS):

General Fund.	F 85-87
Street Construction and Maintenance.	F 88
Indigent Drivers Fund.	F 89
Enforcement and Education.	F 90
Fire District.	F 91
State Highway.	F 92
Maple Grove Cemetery.	F 93
Recreation.	F 94
Drug and Law Enforcement.	F 95
Range Fund.	F 96
Escrow Account	F 97
Police Pension.	F 98
Capital Improvement.	F 99
CDBG Sidewalk Project.	F 100
FEMA 2003 Flood Fund.	F 101
Sugar Grove Trust	F 102
Sewer Fund.	F 103
Water Fund.	F 104
Electric Fund	F 105
Guarantee Trust Fund	F 106
Employees Health	F 107
Mizner Trust	F 108
Hultz Trust	F 109

III. STATISTICAL SECTION

General Government Expenditures By Function - Last Ten Fiscal Years	S 1-2
General Government Revenues By Source - Last Ten Years	S 3-4
Assessed and Estimated Actual Value of Taxable Property - Last Ten Years	S 5-6
Real Property Tax Levies and Collections - Last Ten Years	S 7-8
Personal Property Tax Levies and Collections - Last Ten Years	S 9-10
Property Tax Rates - Direct and Overlapping Governments (Per \$1,000 of Assessed Valuation) - Last Ten Years	S 11
Special Assessment Billings and Collections - Last Ten Years	S 12
Computation of Legal Debt Margin	S 13
Computation of Direct and Overlapping General Obligation Bonded Debt	S 14
Revenue Bond Coverage - Sewer Authority - Last Ten Years	S 15
Demographic Statistics - Last Ten Years	S 16
Property Value, Construction and Bank Deposits - Last Ten Years	S 17-18
Principal Taxpayers - Real Property Tax	S 19
Principal Taxpayers - Personal Property Tax	S 20
Principal Taxpayers - Public Utility Property Tax	S 21
Principal Taxpayers - Income Tax Withholding	S 22
Principal Utility Consumers - Electric	S 23
Principal Utility Consumers - Water/Sewer	S 24
Miscellaneous Statistics	S 25-27

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MICHAEL C. VILLANO, CPA
AUDITOR

June 10, 2004

The Honorable Mayor, Members of City Council, and
The Citizens of the City of Hubbard, Ohio:

As required by State of Ohio law, general purpose local governments presenting a CAFR are required to publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP). Accordingly, this report has been prepared in accordance with GAAP as set forth by the Governmental Accounting Standards Board (GASB). Pursuant to that requirement, the comprehensive annual financial report (CAFR) of the City of Hubbard, Ohio, (the "City") for the fiscal year ended December 31, 2003, is hereby presented.

This report consists of management's representations concerning the finances of the City. Responsibility for the accuracy, reliability, completeness and fairness of the presentation, including all disclosures, rests with management of the City, and in particular, the City Auditor's Office. To provide a reasonable basis for making these assertions, management has established an internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to assure adequate reliable financial information is available for the compilation of the City's financial statements in accordance with GAAP. The costs of an internal control framework should not outweigh the benefits. Therefore, the City's internal control structure has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, the enclosed representations are accurate in all material respects and are presented in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities and status have been included.

The City's financial statements have been audited by the State of Ohio, Betty D. Montgomery, Auditor of State. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the year ended December 31, 2003, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures presented in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Hubbard's financial statements for the year ended December 31, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report. The City is not required to participate in the Federal single audit program.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Hubbard's MD&A can be found immediately following the report of the independent auditor's.

The CAFR is presented in the following three sections:

1. *Introductory Section* — This section introduces the reader to the report and contains a title page, table of contents, this transmittal letter, an organization chart of the City government, a list of principal City officials, and the 2002 Certificate of Achievement for Excellence in Financial Reporting. This section is unaudited.
2. *Financial Section* — Based on the standards prescribed by the new Governmental Accounting Standards Board Statement No. 34, this section includes the independent auditor's report, management's discussion and analysis, the basic financial statements and notes, the combining statements for non-major funds, and other relevant supplemental financial statements and schedules for 2003.

3. *Statistical Section* — This section, which is unaudited, presents selected financial, economic, and demographic information relative to the City, generally presented on a multi-year basis.

PROFILE OF THE GOVERNMENT

The City of Hubbard, Ohio, incorporated in 1868, is located in the Northeastern part of the State of Ohio. The City currently occupies a land area of 3.50 square miles and serves a population of 8,345 with direct proxemic access to Interstate 80, United States Route 62, and Ohio State Routes 7, 616, and 304. The City's location provides direct exposure to four urban market areas—each with a population in excess of 20,000 people—Warren, Youngstown, Niles, and Sharon, Pennsylvania. The City's location in southeast Trumbull County places it adjacent to the City of Youngstown and Mahoning County to the south, and the State of Pennsylvania to the east. As a result, these neighboring communities have provided social and economic influences affecting the development patterns within the City.

The City is empowered to levy a property tax on real, personal, and public utility properties located within its boundaries. It is also empowered by State Statute to extend its corporate limits by annexation, which occurs periodically when petitioned by the landowner and deemed appropriate by City Council.

The City has operated under the council-mayor form of government since June 20, 1868. Policymaking and legislative authority are vested in the Mayor and City Council, respectively. The City Council is responsible, among other things, for all legislative activities including passing ordinances and resolutions, adopting the annual appropriation ordinance (budget), and appointing legislative committees. The Mayor is elected at-large to serve a four-year term. The Mayor is responsible for administrating the policies and ordinances adopted by the City Council, for overseeing the day-to-day operations of the City, and for appointing the superintendents of various departments. The eight members of City Council are elected every two years with one serving as the President of Council, four serving as ward councilpersons, and three serving at-large.

Aside from the Mayor and Council, citizens elect three other at-large City administrative officials, each of whom is independent within the limits of Ohio law affecting the particular office. These officials, elected to four-year terms, are the Auditor, Treasurer, and Law Director.

The Auditor serves as the chief financial officer of the City. As chief financial officer, no contract or obligation involving the City can be made without the Auditor's certification that appropriations are sufficient and that funds are available, or are in the process of collection, to satisfy the contract or obligation. The Auditor is the central disbursing agent for the City who, by the issuance of warrants, distributes funds to creditors in payment of liabilities incurred by the City and its departments. In addition, the Auditor is responsible for the preparation of the City payroll, maintaining a permanent accounting system and records, and conducting internal audits.

The Treasurer is the custodian of all City funds. The Treasurer is responsible for the investment of active, inactive, and interim funds as specified by Ohio law. In addition, the Treasurer serves as an internal control function for the Auditor's office as the Treasurer co-signs all budgetary and payroll warrants, as well as performs bank reconciliations monthly.

The Law Director serves as the prosecuting attorney for all cases arising in the mayor's court as well as cases transferred to municipal court. The Law Director is also responsible for the preparation of all contracts, bonds, legislation, and other instruments in writing. As designated by Ohio law, the Law Director serves as chief legal counsel for all City officials, directors, departments, and boards.

In addition to general government activities, the City provides a full range of municipal services, including police and fire protection; the construction and maintenance of streets, state highways, and sidewalks; parks and recreational facilities including the senior citizen center; cemetery; planning and zoning; and electric, water, and sewer utility services. For financial reporting purposes, the City includes all funds, account groups, agencies, boards, commissions, and departments for which the City is financially accountable. The City is the only governmental unit in the reporting entity; it has no component units.

In determining what constitutes the City's reporting entity, criteria established by GASB Statement No. 14, "The Financial Reporting Entity", were used. The City is comprised of all entities not legally separate from the City. Trumbull County, Hubbard Township, and the Hubbard Exempted Village School District are separate governmental jurisdictions that overlap the City's boundaries. However, these entities are not included in the City's financial report.

The City participates in the Municipal Energy Services Agency which is an Intergovernmental Joint Venture Agreement. The City maintains an equity interest participation in the Ohio Municipal Electric Generation Agency Joint Ventures One and Five (OMEGA JV1 and OMEGA JV5). The City's electric enterprise fund participates in OMEGA JV1 with 21 other municipal electric systems for the purpose of providing electric power and energy to its participants on a cooperative basis. The City electric enterprise fund also participates in OMEGA JV5 with 41 other municipal electric systems for the purpose of acquiring, constructing, and installing a 42 megawatt hydroelectric power generation facility along with related transmission and fossil-fired backup electric generation facilities.

The City has entered into a contractual agreement with Hubbard Township (the "Township") and the Hubbard Volunteer Fire Department, Inc. (HVFD) to provide fire protection services to the citizens of the City and the Township. The City and the Township share equally (fifty percent) in the cost of operating the HVFD. The City's share of costs is reported as a separate special revenue fund.

The City also participates in a contractual agreement with Hubbard Township establishing the Hubbard Township-City of Hubbard Joint Economic Development District (J.E.D.D.). The J.E.D.D. serves as a means to facilitate economic growth, create jobs, and expand overall employment opportunities within the City and Township without the need for land annexation. The City's participation is classified as a joint venture with equity interest. Additional information concerning all of these agreements and contractual relationships of the City can be found in Note 2.A in the notes to the financial statements.

The annual appropriation ordinance, or budget, serves as the foundation for the City's financial planning and control. In June of each year, the City Auditor provides each department an estimate of revenue receipts for the following fiscal year. All departments of the City are then required to submit requests for appropriation to the City Auditor by the first week of August. The City Auditor uses these requests as a starting point for developing a proposed budget. A complete budget proposal and revenue forecast is presented to City Council for their review prior to September 30th. The Council holds public hearings with regard to each department's proposed budget and the final budget is adopted by December 31st—the close of the City's fiscal year. Periodically, Council operates for the first three months of the budgetary year on a temporary budget, passing the final budget by the March 30th statutory deadline. However, this practice is limited for use during periods of uncertain and adverse budgetary conditions. Generally, the City adopts its final budget prior to December 31st of the preceding budgetary year. The appropriated budget is prepared by fund, function (i.e. security of persons and property), department (i.e. police), and line item (i.e. salaries). This is known as the legal level of budgetary control. Any changes in appropriations outside of the legal level of budgetary control require the approval of Council by an appropriation amendment ordinance. Budget-to-actual comparisons are provided in this report for all funds for which an appropriated annual budget has been adopted by City Council.

The City uses a fully automated accounting system. In order to maintain proper budgetary control, all expenditures are subjected to the controls afforded by the purchasing procedure. Purchase requisitions are submitted to the City Auditor's Office by department heads following approval by the Service or Safety Director; the purchase order is generated encumbering the necessary funds; revenue resources are certified as available and properly appropriated for expense by the City Auditor; the purchase order is released to the vendor. Those purchase requisitions which, if issued as a purchase order, exceed the available line item appropriations authorized are rejected until additional resources are secured. A computerized appropriation system enables the City Auditor's office to ascertain the status of a department's appropriations prior to authorizing additional purchases from a particular line item. Encumbrances do not lapse at year-end and are included as expenditures in the current budget year (non-GAAP budgetary basis).

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and major special revenue fund, Street Construction and Maintenance, this comparison is presented on pages F25 and F26 as part of the basic financial statements for the governmental funds. For all governmental funds with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page F85.

ECONOMIC CONDITION AND OUTLOOK

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

The City benefits from its highly accessible location with regard to the number of substantial arterials and highways intersecting the City and immediate surrounding area. The City is a component of the large regional Cleveland-Pittsburgh American manufacturing belt. Within 75 miles of the City, there are approximately 11,000 manufacturing plants, 12,000 wholesale distribution centers, and 46 Fortune 500 industrial, service, and corporate world headquarters. The residents greatly benefit from and have easy access to employment, educational, recreational, medical, and cultural facilities afforded by the greater Youngstown-Warren metropolitan area. Employment in the City and surrounding area is primarily in the manufacturing sector and within that sector largely in the automobile and steel industries. Since 1983, there have been overall decreases in manufacturing sector employment and increased employment in the non-manufacturing sector. However, the City experiences economic growth and expansion despite the transition of workforce demographics.

During 2003, the economic condition of the City remained stable despite the overall national economic recession. Although lay-offs and production declines in the manufacturing sector continued during 2003, the City collected \$1,046,519 in local income taxes. Resulting from the sluggish regional economy, the City's income tax collections during 2003 were \$19,818 or 1.8% less than 2002 receipts.

In an effort to encourage business ventures to enter into long-term commitments within the City, the City actively participates in the Enterprise Zone Program sponsored by Trumbull County and the State of Ohio. Since 1983, Trumbull County has assisted businesses expand or locate within the County through the use of this aggressive economic development program. The Enterprise Zone Program permits ad valorem property tax abatements for new real and personal property. Trumbull County's Enterprise Zone is one of the largest and most successful in the State of Ohio with over 115 agreements in eighteen local communities. During 2003, the City of Hubbard participated with three Enterprise Zone Agreements for businesses located within the City including the United States Can Company, Lighting Products, and J.P. Marsh & Company.

In addition to the City's participation in the Enterprise Zone Program sponsored by Trumbull County, the City entered into a Joint Economic Development District (J.E.D.D.) agreement with Hubbard Township in December 2001. The J.E.D.D. agreement allows the City and Township to jointly pursue economic development projects. As part of the agreement, the City provides utility services to the site of commercial or industrial development, and the Township retains possession of the land. The tax-sharing component of the agreement allows for the City to collect its enacted one percent income tax within the J.E.D.D. property boundary, while the Township retains all property taxes paid on the site. The Hubbard Township-City of Hubbard Joint Economic Development District is the tenth agreement of its kind to be enacted between local government agencies in the State of Ohio.

In February 2003, Flying J, Inc. of Ogden, Utah, completed construction and opened its \$8.5 million travel plaza and service center within the district. The district continued its expansion in 2003 with the commencement of construction of a new car dealership—Greenwood's Hubbard Chevrolet.

In addition to efforts to promote commercial development within the City, residential expansion also contributes to the City's economic vitality. Current single-family home construction is primarily based in three subdivisions—Jerry Drive extension, Eastwood Meadows, and Timberpoint. Likewise, expansion of the Timberpoint villa community continued during 2003.

Beyond the commercial and residential development within the City, project planning continued at the Pine Lakes Golf Club and Estates. Restoration of the Powell Estate on the property was completed in 2002, and re-opened as Julia's Bed and Breakfast. Preliminary engineering continued concerning the proposed residential and condominium development slated to be known as Pine Lakes Estates with construction anticipated to begin in 2004 and continue for seven to ten years.

MAJOR INITIATIVES – CURRENT AND FUTURE PROJECTS

Throughout 2003, a number of projects were initiated enabling the City to operate with increased efficiency as well as compete for commercial and industrial development promoting an atmosphere conducive for job retention and growth.

Public Safety

Underscoring the administration's commitment to public safety, the City's Department of Public Safety continued its effort to improve the quality of equipment for its safety forces. During 2003, the City replaced three police cruisers. Also, the Department of Public Safety sponsored several training programs to enhance the officer's skills in various areas of public safety. The Hubbard Volunteer Fire Department fully retired the outstanding debt associated with the 2001 purchase of a new fire engine.

Public Works

The City engaged in an annual street resurfacing program focusing resources in areas of the community where streets required rehabilitation and resurfacing to prevent further damage. In 2003, the City paved portions of Belle Vista Drive, Bentley Avenue, Christian Avenue, Clingan Street, Elizabeth Street, Scott Street, Gary Drive, and Spring Street. The City also paid \$146,674 to the Ohio Department of Transportation for its local match portion of the repaving of State Routes 304, 62, and 7 within the City limits. The project began construction in early 2004.

The City also replaced 52 sidewalk curb-ramps at various locations throughout the City. The new handicap accessible ramps are Ohio Department of Transportation approved and incurred a total cost of \$34,450 with \$29,000 paid through the Federal Community Development Block Grant Program.

Utility Service

The goals of the City Utility Service departments are improving service and increasing quality while controlling costs. During 2003, various programs were undertaken to achieve these objectives.

The City Light Department completed engineering and construction of two-phase overhead rebuilds on Christian Avenue, Grandview Avenue, and Hager Street to accommodate increased load capacities. Also, three-phase overhead line extensions along North Main Street were completed in order to provide an underground service extension to the new Greenwood's Hubbard Chevrolet dealership.

During 2003, the Light Department completed an underground three-phase line extension along State Route 304 for the purpose of servicing the Pine Lakes Golf Club driving range and practice facility as well as enabling sufficient capacity for future system expansion.

The City Water Department engaged in a variety of projects during 2003 to improve quality and efficiency of water service throughout the City. The North Main Street Waterline Replacement Project was completed—a project replacing 5,200 feet of 12" and 360 feet of 8" water main distribution line, replacement of twenty-five fire hydrants and twenty-two valves, and reconnection of seventy-two existing service lines. The project cost was paid with a \$201,989 grant and a \$600,000 loan through the Ohio Public Works Commission Issue II program and the City of Hubbard Water Department paid the remaining portion of project costs as a local match.

The Water Department also entered into a contract with the W.E. Downie Company for the purpose of rebuilding and completing various improvements to the Creed Avenue water pump station. The completion of the project will improve water pressure, delivery, and reliability to residents in the eastern limits of the distribution system. The Department also installed several replacement valves in order to isolate portions of the system in times of emergency.

The City of Hubbard Sewer Department continued upgrading sanitary sewer service throughout the City. The system's four existing lift station force mains underwent various maintenance rebuilds in order to insure continued reliability and extend their useful life.

In order to improve waste water treatment plant efficiency and capacity, the effluent return motors were rebuilt, a new dehumidifier was placed in the clarifier building basement, and improved perimeter drainage was completed. The City's engineering consultants, ms consultants, inc., completed an inflow and infiltration study on the sanitary sewer system and also developed repair plans for various locations requiring sanitary sewer rebuilds. These preventative investigations will aid in the continued operation of the plant while meeting or exceeding the standards as required by the Ohio Environmental Protection Agency for the processing and treatment of waste water.

Cash Management

The City pools all idle cash to achieve maximum investment efficiency and to enhance accountability. The City Treasurer, as custodian of all City monies, is responsible for investing idle funds and directing the investments of the City.

The City strives to minimize credit and market risks while maintaining a competitive yield on its portfolio. During 2003, the City's cash resources were limited to bank deposits, repurchase agreements, certificates of deposit, United States Government money market mutual funds, and the State Treasury Asset Reserve of Ohio (STAR Ohio).

Approximately 99% of all available monies are continuously maintained in interest-bearing activities. At December 31, 2003, the City maintained \$784,080 in U.S. Government money market mutual funds, \$43,854 in STAR Ohio, \$450,560 in demand deposit accounts, \$2,845,605 in segregated savings accounts, and \$3,704,273 in certificates of deposit. Investment income from primary investment activities amounted to \$207,201 for 2003 compared to \$242,152 for 2002.

The City's demand deposit account average monthly balance in 2003 was \$534,265 with an average monthly yield of 1.03%. The City's four certificate of deposit investments ended 2003 with balances of \$1,058,364, \$1,058,364, \$1,058,364 and \$529,182, earning monthly compounded interest of 3.94%, with annual percentage yields of 4.00%. In accordance with State of Ohio constitutional and statutory requirements, interest receipts are deposited primarily in the general fund.

Risk Management

The City maintains comprehensive insurance coverage with Clarendon National Insurance Company carried through the Love Insurance Agency. The plan insures against losses related to property, general liability, wrongful acts, law enforcement professional liability, automobile, bond, crime, inland marine, and EDP liability. Automobile policies include \$6,000,000 of liability coverage for bodily injury and property damage. Real property and contents are insured by blanket coverage in the amount of \$17,036,978. General liability, public officials, and law enforcement professional liability insurances provide for \$6,000,000 per occurrence with \$8,000,000 aggregate coverage. There is no per occurrence deductible for general liability coverage, a \$5,000 deductible for law enforcement professional liability coverage and public official liability coverage.

The City operates and manages an employee hospitalization and health benefit plan on a self-insured basis. The City maintains an internal service fund to account for and finance its hospitalization claims liabilities as well as financing any uninsured risks of loss in the program. In order to mitigate the City's maximum health insurance liabilities, stop-loss insurance is carried through Spectrum Underwriting Managers with coverage of \$40,000 per individual and an aggregate amount of \$477,812. The City's risk management programs are further discussed in Note 13 of the notes to the financial statements.

Pension and Other Post Employment Benefits

Full-time uniformed employees of the City participate in the Ohio Police and Firemen's Disability Pension Fund (OP&F), a cost sharing multiple employer defined benefit pension plan. The City's required contributions for pension obligations to the OP&F for the years ended December 31, 2003, 2002, and 2001 were \$120,379, \$123,973, and \$120,312, respectively.

All other full-time and part-time employees of the City participate in the Ohio Public Employees Retirement System (OPERS), a cost sharing multiple employer public employee retirement system created by the State of Ohio. The City's required contributions for pension obligations to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$239,750, \$233,325, and \$227,550, respectively. Additional information on the City's pension arrangements and other post-employment benefits can be found in Notes 14 and 15 in the notes to the financial statements.

AWARDS & ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Hubbard for its comprehensive annual financial report for the year ended December 31, 2002. This was the third consecutive year for the City to receive this prestigious award. In order to be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and this report will be submitted to the GFOA to determine its eligibility for another certificate.

The presentation of this Comprehensive Annual Financial Report would not have been possible without the continued commitment of City Council and its Finance Committee, City officials, and departments. The expertise of Steven Julian, CPA and Carrie Simmons, CPA of Trimble, Julian, & Grube, Inc. continues to insure the successful preparation of this report. Also, sincere appreciation is extended to David A. Hines, *Trumbull County Auditor*, and his staff, particularly Adrian Biviano, CPA, *Chief Deputy Auditor*, Mark DelFrate, CPA, and Marie Woloszyn. A very special thanks to Patty Baker for her photography which graces this CAFR's cover.

Lastly, and certainly most importantly, the accomplishment of this report would not have been possible without the commitment and dedicated service of the Auditor’s Office staff—Jo Ann Oaks, Joyce Schiraldi, and Daisy Evans—your professionalism in the management of the financial operations of the City serves as continued inspiration and is always appreciated.

Very truly yours,

A handwritten signature in black ink, appearing to read 'M. Villano', written in a cursive style.

Michael C. Villano, CPA, CMA
Auditor of City

CITY OF HUBBARD, OHIO
ELECTED AND APPOINTED OFFICIALS
DECEMBER 31, 2003

ELECTED OFFICIALS

Executive Branch

Mayor	George P. Praznik
Auditor	Michael C. Villano
Treasurer	Marsha A. Ruha
Law Director	Gary M. Gilmartin

Legislative Branch

Council Member – Council President	John D. Darko
Council Member – 1 st Ward	Bonnie L. Viele
Council Member – 2 nd Ward	John R. Marshall
Council Member – 3 rd Ward	Lisha A. Baumiller
Council Member – 4 th Ward	Richard D. Keenan
Council Member – At-Large	Raymond Farcas
Council Member – At-Large	Douglas L. Rohrer
Council Member – At-Large	William J. Williams

APPOINTED OFFICIALS

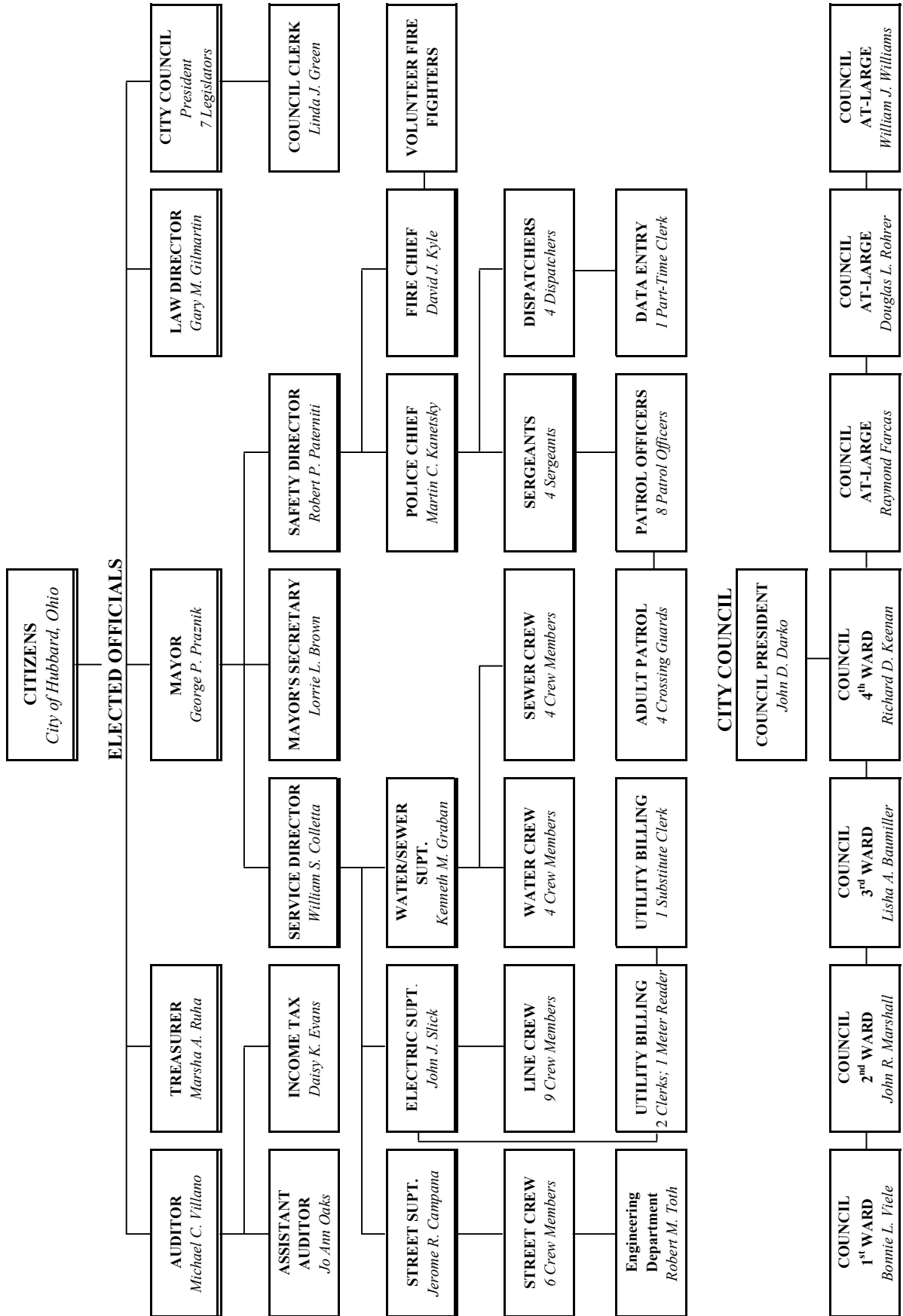
Department of Public Service

Director of Public Service	William S. Colletta
Street Superintendent	Jerome R. Campana
Water/Waste Water Superintendent	Kenneth M. Graban
Electric Superintendent	John J. Slick

Department of Public Safety

Director of Public Safety	Robert P. Paterniti
Police Chief	Martin C. Kanetsky
Fire Chief	David J. Kyle

CITY OF HUBBARD, OHIO
ORGANIZATIONAL CHART
 December 31, 2003



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Hubbard,
Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director