

City of Hudson, Ohio

Basic Financial Statements

For the year ended December 31, 2004



**Auditor of State
Betty Montgomery**

Members of Council
City of Hudson
27 East Main Street
Hudson, Ohio 44236

We have reviewed the Independent Auditors' Report of the City of Hudson, Summit County, prepared by Ciuni & Panichi, Inc. for the audit period January 1, 2004 through December 31, 2004. 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 Hudson is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 8, 2005

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City of Hudson, Ohio

For The Year Ended December 31, 2004

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For The Year Ended December 31, 2004

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Independent Auditors' Report

Members of the City Council
Hudson, Ohio

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 Hudson (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison of the General Fund and the Street Construction Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2005 on our consideration of City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Members of the City Council
Hudson, Ohio

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cini & Panichi, Inc.

Cleveland, Ohio
September 6, 2005

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

The discussion and analysis of the City of Hudson's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; along with the review of the basic financial statements for the reader to enhance their understanding of the City's financial performance.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City as a financial whole.

The Statement of Net Assets and Statement of Activities (referred collectively as the government-wide statements) provide information about the activities of the entire City and present a longer-term view of the City's finances. Major 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 dollars remain 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. The proprietary funds' statements are prepared on the same basis as the government-wide statements. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City of Hudson as a Whole

Statement of Net Assets and the Statement of Activities

These government-wide statements answer the question, "How did the City as a whole do financially during 2004"? They are prepared on the accrual basis of accounting, including all assets and liabilities, much the same way as for a private enterprise. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and the changes in those assets. This is important, as it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, nonfinancial information such as changes in the tax base and the condition of the City's need will also need to be evaluated.

- *The Statement of Net Assets.* This Statement (page 12) reports all assets and liabilities of the City as of December 31, 2004. The difference between total assets and total liabilities is reported as net assets. Increases in net assets generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This Statement (page 13) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the City for the year ended December 31, 2004. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities:** The reporting of services including public safety, administration and all departments, with the exception of the Water Fund, Sewer Fund, Electric Fund, Storm Water Fund and Golf Course Fund, which are reported as Business-Type Activity.
- **Business-type activity:** The City reports the activity of services (Water, Sewer, Electric, Storm Water and Golf Course) where the City charges the user fees to recover the cost of providing the service as well as all capital expenses associated with the facilities.

Reporting the City of Hudson's Most Significant Funds

Fund Financial Statements

These statements provide financial position and results of the City's major funds. A fund is an accounting entity created to account for a specific activity or purpose. The creation of some funds is mandated by law and others are created by management to demonstrate financial compliance with budgetary or legal requirements. Funds are classified into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

- ***Governmental Funds.*** Governmental funds are used to account for "Government-Type" activities. Unlike the government-wide financial statements, governmental fund statements use a "flow of financial resources" measurement focus. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Increases in spendable resources are reported in the operating statement as "revenues" or "other financing sources". Decreases in spendable resources are reported as "expenditures" or "other financing uses". Income taxes, property taxes, charges for services and grants finance most of these activities.
- ***Proprietary Funds.*** There are two types of Proprietary funds: enterprise funds and internal service funds.

Enterprise Funds – These funds are used to account for operations that are financed and operated in a manner to private business enterprises for which either 1) the intent is that the costs (expenses, including depreciation) be recovered primarily through user charges, or 2) determination of net income is appropriate for management control, accountability or other purposes.

The City of Hudson's Water Fund, Wastewater Fund and Electric Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 20 through 23.

Internal Service Funds – Often, governments wish to allocate the cost of providing certain centralized services (e.g., motor pools, garages, data processing) to the other departments of the government entity that use the services. An internal service fund is the appropriate

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

accounting mechanism when it is the intent of the government to recover the full cost of providing the service through user charges to other departments.

The Equipment and Reserve and Fleet Maintenance Fund, Self-Insurance Fund, and Flexible Benefits Fund are the City of Hudson's internal service funds.

- **Fiduciary Funds.** Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

A Fiduciary Fund statement is on page 24 of this report.

Other Information

Notes to the Financial Statements

The notes provide additional and explanatory data. They are an integral part of the basic financial statements.

The City of Hudson as a Whole

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Hudson, assets exceed liabilities by \$17,659,724 in governmental activities and \$25,431,111 in business-type activities as of December 31, 2004. The largest portion of the City's net assets reflects its invested in capital assets (i.e.; land, buildings, equipment and machinery, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens, consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets are presented in the following table:

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current Assets	\$ 30,843,345	\$ 45,751,033	\$ 17,937,251	\$ 18,758,780	\$ 48,780,596	\$ 64,509,813
Investment in Joint Venture	-	-	491,907	-	491,907	-
Capital Assets, Net	<u>33,356,206</u>	<u>26,939,998</u>	<u>30,782,376</u>	<u>29,007,486</u>	<u>64,138,582</u>	<u>55,947,484</u>
Total Assets	<u>64,199,551</u>	<u>72,691,031</u>	<u>49,211,534</u>	<u>47,766,266</u>	<u>113,411,085</u>	<u>120,457,297</u>
Liabilities						
Current and Other Liabilities	6,694,735	19,655,109	3,624,280	3,357,070	10,319,015	23,012,179
Long-term Liabilities						
Due Within One Year	2,751,067	1,460,976	1,210,658	785,380	3,961,725	2,246,356
Due In More Than One Year	<u>37,094,025</u>	<u>28,289,995</u>	<u>18,945,485</u>	<u>18,102,064</u>	<u>56,039,510</u>	<u>46,392,059</u>
Total Liabilities	<u>46,539,827</u>	<u>49,406,080</u>	<u>23,780,423</u>	<u>22,244,514</u>	<u>70,320,250</u>	<u>71,650,594</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	4,303,809	7,721,802	10,564,974	8,642,666	14,868,783	16,364,468
Restricted	13,717,010	18,369,211	-	-	13,717,010	18,369,211
Unrestricted (Deficit)	<u>(361,095)</u>	<u>(2,806,062)</u>	<u>14,866,137</u>	<u>16,879,086</u>	<u>14,505,042</u>	<u>14,073,024</u>
Total Net Assets	\$ <u>17,659,724</u>	\$ <u>23,284,951</u>	\$ <u>25,431,111</u>	\$ <u>25,521,752</u>	\$ <u>43,090,835</u>	\$ <u>48,806,703</u>

An additional portion of the City's net assets (32 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$14,505,042 may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report a positive balance for the government as a whole.

For Governmental Activities, there was a \$14,907,688 decrease in Current Assets and an increase of \$6,416,208 in Capital Assets, Net primarily due to the costs incurred by the City's portion of the First and Main project and Milford Connector Road. These costs reduced the Current Assets and increase the Capital Assets. The Current Assets were also reduced by the costs incurred for the construction of the new library. The City records the expenses of the library construction; however, the City does not report the value of the capital asset because the City does not have an ownership interest nor is the library part of the City's reporting entity.

There was a decrease of \$12,960,374 in Current and Other Liabilities and an increase of \$8,804,030 in Long-term Liabilities Due in More Than One Year primarily due to the permanent financing of the City's portion of the First and Main project and Milford Connector Road. The debt on the First and Main project was also paid down by \$1,100,000 using the proceeds from the sale of land. Long-term liabilities were also reduced through regularly scheduled payments on bonds.

Invested in Capital Assets, Net of Related Debt decreased \$3,417,933 due to the increase in capital assets offset by the permanent financing previously discussed. The Restricted Net Assets decreased \$4,652,201 primarily due to the

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2004

expenses incurred by the capital projects previously discussed. The net result of the changes in net assets was an increase of \$2,444,967 increase in Unrestricted Net Assets.

Within the Business-Type Activities, Assets increased \$1,445,268 due to increased fund balances and investment in utility infrastructure. Invested in Capital Assets, Net of Related Debt increased \$1,922,308 due to the completion of utility system improvements; this consequently reduced the balance of the Unrestricted Net Assets by \$2,012,949 due to payment for the improvements.

Table 2 below, indicates the changes in net assets for the year ended December 31, 2004.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Revenues						
Charges for Services and Sales	\$ 882,465	\$ 515,814	\$ 17,949,688	\$ 15,820,015	\$ 18,832,153	\$ 16,335,829
Operating Grants and Contributions	81,558	682,734	-	-	81,558	682,734
Capital Grants and Contributions	1,135,981	-	-	-	1,135,981	-
General Revenues						
Taxes	13,837,127	13,121,253	70,038	-	13,907,165	13,121,253
Grants and Entitlements not restricted to specific programs	3,492,875	4,839,515	-	-	3,492,875	4,839,515
Investment Income	707,906	935,006	122,465	93,667	830,371	1,028,673
Miscellaneous	638,521	1,455,979	260,804	116,549	899,325	1,572,528
Gain (Loss) on Sale of Assets	9,975	95,170	(23,384)	3,045	(13,409)	98,215
Transfers In	-	-	1,084,182	1,542,071	1,084,182	1,542,071
Total Revenues	20,786,408	21,645,471	19,463,793	17,575,347	40,250,201	39,220,818
Program Expenses						
General Government	5,669,001	5,742,228	-	-	5,669,001	5,742,228
Security of Persons and Property	5,197,341	6,678,467	-	-	5,197,341	6,678,467
Public Services	-	422	-	-	-	422
Public Health	522,422	693,053	-	-	522,422	693,053
Leisure Time Services	730,344	1,108,167	-	-	730,344	1,108,167
Community and Economic Development	7,381,476	1,511,699	-	-	7,381,476	1,511,699
Transportation	4,074,221	3,809,204	-	-	4,074,221	3,809,204
Interest and Fiscal Charges	1,752,648	1,793,550	-	-	1,752,648	1,793,550
Electric system	-	-	13,247,767	10,181,157	13,247,767	10,181,157
Golf Course	-	-	877,936	879,472	877,936	879,472
Storm sewer system	-	-	914,430	805,870	914,430	805,870
Wastewater system	-	-	3,019,444	2,422,023	3,019,444	2,422,023
Water system	-	-	1,494,857	1,501,869	1,494,857	1,501,869
Transfers Out	1,084,182	1,542,071	-	-	1,084,182	1,542,071
Total Program Expenses	26,411,635	22,878,861	19,554,434	15,790,391	45,966,069	38,669,252
Increase (Decrease) in Net Assets	\$ (5,625,227)	\$ (1,233,390)	\$ (90,641)	\$ 1,784,956	\$ (5,715,868)	\$ 551,566

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Governmental Activities

The City income tax is the largest contributor of revenues sources in governmental activities accounting for 38 percent of total revenues. Property and other local taxes generate 29 percent and grants and entitlements generate 17 percent of total revenues.

Community and economic development expenses accounts for 29 percent of governmental expenses, general government accounts for 23 percent of governmental expenses, security of persons and property accounts for 20 percent of governmental expenses, and transportation costs represent 16 percent of governmental expenses, respectively.

Governmental activities decreased the City's net assets by \$5,625,227, accounting for 98 percent of the decrease in total net assets. The most significant reason for the decrease is the \$5,965,000 payment for the construction of the new library. As discussed earlier, the City recognizes the expense but it is not reported as a City asset because the City has no ownership interest and the library is not part of the City's reporting entity. Significant fluctuations in revenue include an increase of \$876,000 in capital grants due a reimbursement from the Federal Emergency Management Agency (FEMA) for flooding that occurred in 2003 along with a federal grant through the Ohio Department of Transportation for the improvements to the Route 91/Stoney Hill intersection. The City also had a 5.4 percent increase in tax revenue due to general increases in overall collections.

Business-Type Activities

The City's business-type activities are the water, wastewater, electric, storm sewer and golf course departments. Charges for services generated 92 percent of all revenues in the business-type activities.

Business-Type Activities decreased the City's net assets by \$90,641 accounting for 2 percent of the decrease in total net assets. Charges for services and sales increased by \$2,219,673 due to increased rates and consumption. For 2004, the base charge for a residential water meter was increased from \$9.50 to \$9.98 per month. The consumption rate for the first 2,000 cubic feet of water did not change and the rate for consumption greater than 2,000 cubic feet increased from \$2.40 to \$2.52. The base rate for sewer increased from \$5.85 to \$6.32 per 100 cubic feet and the availability charge increased from \$6.90 to \$7.45 per month. These increases were approved by City Council to fund the water and sewer system operations and finance the infrastructure costs. The electric rates were unchanged for 2004 and remain at a competitive rate of \$.07942 for the first 1,600 kilowatt hours and \$.0627 for usage greater than 1,600. The minimum customer charge remained at \$6.24 per meter per month. The storm water fee remained at \$3.00 per equivalent residential unit per month. With the passage of the income tax increase, this fee will no longer be in effect beginning January 1, 2005. The golf course increased its greens fees and cart rental by \$.50 to \$1.00 depending on the type of round played (18 or 9 holes).

Expenditures increased \$3,764,043 due to increased purchase of power for the electric system of \$2 million and recognition of utility system capital project costs.

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Individual Funds Summary and Analysis

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near term outflows, inflows 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 the end of the year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18,927,297, a decrease of \$684,497 in comparison with the prior year. Approximately 85 percent of this total amount of \$18,927,297 is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not readily available for new spending since it has already been committed to liquidate contracts and purchase commitments, to pay debt service or for a variety of other restricted purposes.

The General Fund is the primary operating fund of the City of Hudson. At the end of the current year, the General Funds' unreserved balance was \$7,297,633, while the total fund balance was \$7,951,316. As a measure of the General Funds liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 45 percent of total General Fund expenditures, while total fund balance represents 49 percent of that same amount. The General Fund balance decreased by \$781,705 or 9 percent over the prior year primarily due to general obligation debt payments, increased operating costs and decreased interest income.

The other major governmental funds of the City are Street Improvements (Service Department), Street Construction, City Acquisition and Construction, and Library Construction.

The fund balance of the Street Improvements Fund increased by \$1,937,313. The increase is primarily due to the issuance of \$4,200,000 in bonds to be used for the construction of the Milford Road to State Route 91 connector road. A portion of the proceeds were paid during the year to reduce the balance.

The fund balance for the Street Construction Fund decreased by \$71,914. The decrease is due to the increased costs of snow and ice removal.

The fund balance for the City Acquisition and Construction Fund increased by \$5,164,304. The increase is due to the issuance of \$7,000,000 in bonds for the permanent financing of the downtown First and Main project offset by expenses related to the project.

The fund balance for the Library Construction Fund decreased by \$6,038,590. The decrease is due to the payments for construction of the new library also located in the downtown First and Main project.

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide business-type activity financial statements, but in more detail. Net assets in the Water, Wastewater and Electric increased/(decreased) by \$28,921 or 0.5 percent, \$(140,229) or (6 percent), and \$(129,383) or (1 percent), respectively.

Budgetary Highlights

As required by State statute, City Council adopts an annual appropriation (budget) resolution for all City funds.

In the General Fund, the original budgeted revenues as compared to the final budgeted revenue did not include an estimated \$270,000 decrease in interest income as a result of reduced interest rates available for local governments to invest. Actual intergovernmental revenue exceeded the final budget amount by approximately \$438,000 primarily due to greater than anticipated inheritance tax revenue.

Actual General Fund expenditures compared to the budget reflected approximately \$790,000 remaining in unencumbered funds as of December 31, 2004. Security of persons and property which is largely the Police Department activity, accounted for \$248,000 of those unencumbered funds and general government accounted for \$365,000. The Police Department personnel costs, primarily part-time and workers' compensation, were substantially less than budgeted. General government departments' actual costs were generally less than budgeted, with the largest variance being from funds budgeted for the Prospect site remediation not being encumbered by year end.

In the Street Construction Fund, there was a reduction in the original intergovernmental revenue estimate due to reduced estimated motor vehicle license and gas tax collections by the state. There were no significant variances between the original budgeted and final budgeted expenditures. There were also no significant differences between the final budget and actual activity.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2004, amounts to \$64,138,582 (net of accumulated depreciation). This investment in capital assets includes land; building structures and improvements; furniture, fixtures and equipment; and infrastructure.

Debt

At December 31, 2004, the City had \$56,966,685 of long-term bonds, loans and other outstanding obligations, excluding compensated absences and capital leases. Details of the individual obligations can be found on pages 46 through 48.

The City also had short-term notes outstanding at December 31, 2004 totaling \$675,000. These notes were issued to temporarily fund the brine tanks, lift station at the water plant and water lines on Chadbourne Drive. In May 2005, the City rolled these notes into \$665,000 in bonds and issued new bonds for Milford

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited) (continued)

For The Year Ended December 31, 2004

Water Tower painting project (\$1,055,000). As well, the City issued bonds for storm water improvements (\$2,410,000) and sanitary sewer improvements (\$1,230,000) to be funded with Issue 3 income taxes. The total bond issue was \$5,360,000.

The general obligation indebtedness of the City is subject to two statutory debt limitations referred to as the direct debt limitation: (Section 133.05 ORC). Certain debt, with a repayment source other than general tax revenue is excluded from the definition of net indebtedness. Under that definition, the City has \$20,915,000 of net indebtedness as of December 31, 2004. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5 percent of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was \$24,292,190 as of December 31, 2004. The total principal amount of voted and unvoted nonexempt net indebtedness of the City may not exceed 10.5 percent of its assessed value of real and personal property. Total net indebtedness for both voted and unvoted issues was \$29,615,000 leaving the City's overall legal debt margin at \$56,689,635 as of December 31, 2004.

Future Funding Considerations

Hudson voters approved an increase in the City's income tax rate going from 1 percent to 2 percent effective January 1, 2005 (referred to as "Issue 3"). As part of the passage, City Council agreed to no longer collect the property taxes for the Fire, EMS and Parks operating levies and eliminate the storm water utility. The legislation approving the income tax increase provides for 4.5 percent of the total income taxes to go toward EMS operations; 7.5 percent to the Fire operations; 7.5 percent to the Parks operations and 6.75 percent to go toward Community Learning Centers in cooperation with Hudson Schools. The remaining portion is not legally designated and is subject to City Council's discretion. The emphasis behind the use of the additional discretionary funds will be to improve the City's storm water and sewer system including its infrastructure.

Contacting the City Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's Finance Department at 330-650-1799 or at 27 East Main Street, Hudson, Ohio 44236.

City Of Hudson, Ohio

Statement of Net Assets

December 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 15,313,169	\$ 15,039,280	\$ 30,352,449
Cash and cash equivalents in segregated accounts	4,097,243	-	4,097,243
Investment in common stock	11,326	-	11,326
Investments in segregated accounts	3,198	-	3,198
Investments with escrow agent	10,000	-	10,000
Materials and supplies inventory	143,373	1,371,344	1,514,717
Accounts receivable	99,071	1,818,463	1,917,534
Internal balances	411,008	(411,008)	-
Intergovernmental receivable	1,307,197	-	1,307,197
Taxes receivable	6,554,965	-	6,554,965
Special assessments receivable	2,892,795	119,172	3,011,967
Noncurrent assets:			
Investment in joint venture	-	491,907	491,907
Nondepreciable capital assets	21,552,951	4,611,194	26,164,145
Depreciable capital assets, net	<u>11,803,255</u>	<u>26,171,182</u>	<u>37,974,437</u>
Total assets	<u>64,199,551</u>	<u>49,211,534</u>	<u>113,411,085</u>
Liabilities			
Current liabilities:			
Accounts payable	1,664,632	2,311,048	3,975,680
Accrued wages and benefits	334,271	119,897	454,168
Intergovernmental payable	178,554	360,423	538,977
Matured interest payable	10,000	-	10,000
Accrued interest payable	141,900	157,912	299,812
Retainage payable	-	28,921	28,921
Claims Payable	16,532	-	16,532
Deferred revenue	4,348,846	-	4,348,846
Notes payable	-	675,000	675,000
Long-term liabilities:			
Due within one year	2,751,067	1,210,658	3,961,725
Due in more than one year	<u>37,094,025</u>	<u>18,945,485</u>	<u>56,039,510</u>
Total liabilities	<u>46,539,827</u>	<u>23,780,423</u>	<u>70,320,250</u>
Net Assets			
Invested in capital assets, net of related debt	4,303,809	10,564,974	14,868,783
Restricted for:			
Capital projects	8,458,865	-	8,458,865
Debt service	3,416,681	-	3,416,681
Other purposes	1,808,832	-	1,808,832
Permanent fund	32,632	-	32,632
Unrestricted	<u>(361,095)</u>	<u>14,866,137</u>	<u>14,505,042</u>
Total net assets	<u>\$ 17,659,724</u>	<u>\$ 25,431,111</u>	<u>\$ 43,090,835</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Activities

For the Year Ended December 31, 2004

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 5,669,001	\$ 347,546	\$ 3,709	\$ -	\$ (5,317,746)	\$ -	\$ (5,317,746)
Security of persons and property	5,197,341	103,058	67,849	-	(5,026,434)	-	(5,026,434)
Public health	522,422	59,240	-	-	(463,182)	-	(463,182)
Leisure time services	730,344	244,179	-	-	(486,165)	-	(486,165)
Community and economic development	7,381,476	122,877	-	259,818	(6,998,781)	-	(6,998,781)
Transportation	4,074,221	5,565	-	876,163	(3,182,493)	-	(3,182,493)
Interest and fiscal charges	1,752,648	-	-	-	(1,752,648)	-	(1,752,648)
Total governmental activities	<u>25,327,453</u>	<u>882,465</u>	<u>81,558</u>	<u>1,135,981</u>	<u>(23,227,449)</u>	<u>-</u>	<u>(23,227,449)</u>
Business-type activities:							
Electric system	13,247,767	13,051,515	-	-	-	(196,252)	(196,252)
Golf course	877,936	956,015	-	-	-	78,079	78,079
Storm sewer system	914,430	474,253	-	-	-	(440,177)	(440,177)
Wastewater system	3,019,444	2,047,434	-	-	-	(972,010)	(972,010)
Water system	1,494,857	1,420,471	-	-	-	(74,386)	(74,386)
Total business-type activities	<u>19,554,434</u>	<u>17,949,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,604,746)</u>	<u>(1,604,746)</u>
Totals	\$ <u>44,881,887</u>	\$ <u>18,832,153</u>	\$ <u>81,558</u>	\$ <u>1,135,981</u>	<u>(23,227,449)</u>	<u>(1,604,746)</u>	<u>(24,832,195)</u>
General revenues:							
Property and other local taxes					6,015,291	70,038	6,085,329
Municipal income tax					7,821,836	-	7,821,836
Grants and entitlements not restricted to specific programs					3,492,875	-	3,492,875
Investment income					707,906	122,465	830,371
Miscellaneous income					638,521	260,804	899,325
Gain (loss) on sale of assets					9,975	(23,384)	(13,409)
Transfers					<u>(1,084,182)</u>	<u>1,084,182</u>	<u>-</u>
Total general revenues and transfers					<u>17,602,222</u>	<u>1,514,105</u>	<u>19,116,327</u>
Change in net assets					(5,625,227)	(90,641)	(5,715,868)
Net assets, beginning of year					<u>23,284,951</u>	<u>25,521,752</u>	<u>48,806,703</u>
Net assets, end of year					\$ <u>17,659,724</u>	\$ <u>25,431,111</u>	\$ <u>43,090,835</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Balance Sheet Governmental Funds

December 31, 2004

	<u>General</u>	<u>Street Construction</u>	<u>Street Improvements</u>	<u>City Acquisition/ Construction</u>	<u>Library Construction</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets							
Current assets:							
Equity in pooled cash and cash equivalents	\$ 6,221,285	\$ 289,283	\$ 2,948,942	\$ 2,061,960	\$ -	\$ 2,974,676	\$ 14,496,146
Cash and cash equivalents in segregated accounts	-	-	-	-	4,052,515	44,728	4,097,243
Investment in common stock	-	-	-	-	-	11,326	11,326
Investment in segregated accounts	-	-	-	-	-	3,198	3,198
Investments with escrow agent	-	-	-	-	-	10,000	10,000
Materials and supplies inventory	29,137	61,099	-	-	-	20,241	110,477
Accounts receivable	29,638	-	1,767	1,502	8,095	58,060	99,062
Interfund receivable	597,936	-	-	-	-	-	597,936
Intergovernmental receivable	770,279	374,323	88,043	-	-	74,552	1,307,197
Taxes receivable	4,356,953	-	-	-	-	2,198,012	6,554,965
Special assessments receivable	-	-	-	-	-	2,892,795	2,892,795
Noncurrent assets:							
Advances to other funds	100,000	-	-	-	-	-	100,000
Total assets	\$ <u>12,105,228</u>	\$ <u>724,705</u>	\$ <u>3,038,752</u>	\$ <u>2,063,462</u>	\$ <u>4,060,610</u>	\$ <u>8,287,588</u>	\$ <u>30,280,345</u>
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 358,803	\$ 198,229	\$ 226,649	\$ 547,368	\$ 174,592	\$ 102,566	\$ 1,608,207
Accrued wages and benefits	206,096	62,393	-	-	-	55,002	323,491
Intergovernmental payable	114,001	15,153	-	-	-	45,308	174,462
Matured interest payable	-	-	-	-	-	10,000	10,000
Interfund payable	-	-	155,000	-	-	131,928	286,928
Deferred revenue	<u>3,475,012</u>	<u>245,308</u>	<u>88,043</u>	<u>-</u>	<u>-</u>	<u>5,141,597</u>	<u>8,949,960</u>
Total liabilities	<u>4,153,912</u>	<u>521,083</u>	<u>469,692</u>	<u>547,368</u>	<u>174,592</u>	<u>5,486,401</u>	<u>11,353,048</u>
Fund Balances:							
Reserved for encumbrances	524,546	24,852	548,145	789,167	-	233,664	2,120,374
Reserved for advance	100,000	-	-	-	-	-	100,000
Reserved for principal trust	-	-	-	-	-	6,473	6,473
Reserved for inventory	29,137	61,099	-	-	-	20,241	110,477
Reserved for common stock	-	-	-	-	-	11,326	11,326
Reserved for debt service	-	-	-	-	-	472,030	472,030
Unreserved, undesignated, reported in:							
General fund	7,297,633	-	-	-	-	-	7,297,633
Special revenue funds	-	117,671	-	-	-	1,600,602	1,718,273
Capital project funds	-	-	2,020,915	726,927	3,886,018	429,692	7,063,552
Permanent fund	-	-	-	-	-	27,159	27,159
Total fund balances	<u>7,951,316</u>	<u>203,622</u>	<u>2,569,060</u>	<u>1,516,094</u>	<u>3,886,018</u>	<u>2,801,187</u>	<u>18,927,297</u>
Total liabilities and fund balances	\$ <u>12,105,228</u>	\$ <u>724,705</u>	\$ <u>3,038,752</u>	\$ <u>2,063,462</u>	\$ <u>4,060,610</u>	\$ <u>8,287,588</u>	\$ <u>30,280,345</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities

December 31, 2004

Total Governmental Funds Balances \$ 18,927,297

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 32,157,572

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Taxes	\$ 962,651	
Special assessments	2,892,796	
Intergovernmental	<u>745,667</u>	
Total		4,601,114

An internal service fund is used by management to charge the costs of insurance to individual funds, the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets 1,887,997

Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	(35,500,000)	
Special assessment bonds	(2,340,000)	
Compensated absences	(1,914,959)	
Capital leases payable	(17,397)	
Accrued interest payable	<u>(141,900)</u>	
Total		<u>(39,914,256)</u>

Net assets of governmental activities \$ 17,659,724

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended December 31, 2004

	General	Street Construction	Street Improvements	City Acquisition/ Construction	Library Construction	Non-major Governmental Funds	Total Governmental Funds
Revenues:							
Property and other local taxes	\$ 2,249,301	\$ -	\$ -	\$ -	\$ -	\$ 3,733,919	\$ 5,983,220
Municipal income tax	7,786,664	-	-	-	-	-	7,786,664
Intergovernmental	3,302,922	741,959	876,163	-	-	824,066	5,745,110
Charges for services	124,221	-	4,305	1,260	-	401,160	530,946
License and permits	2,020	-	-	-	-	-	2,020
Fines and forfeitures	87,643	-	-	-	-	10,437	98,080
Special assessments	-	-	-	-	-	242,358	242,358
Interest	408,134	-	93,093	62,261	101,197	43,043	707,728
Other	236,730	2,383	7,544	224,004	-	115,475	586,136
Total revenues	14,197,635	744,342	981,105	287,525	101,197	5,370,458	21,682,262
Expenditures:							
Current:							
Security of persons and property	3,263,205	-	-	-	-	1,724,008	4,987,213
Public health	282,948	-	-	-	-	229,146	512,094
Leisure time services	-	-	-	-	-	554,907	554,907
Community and economic development	1,210,448	-	-	-	6,139,787	-	7,350,235
Transportation	-	2,511,859	64,427	-	-	410,000	2,986,286
General government	5,020,155	-	-	-	-	40,161	5,060,316
Capital outlay	195,390	23,301	4,459,293	3,515,394	-	708,033	8,901,411
Debt Service:							
Principal retirement	-	-	-	-	-	1,360,000	1,360,000
Interest and fiscal charges	-	-	122,544	45,018	-	1,561,686	1,729,248
Total expenditures	9,972,146	2,535,160	4,646,264	3,560,412	6,139,787	6,587,941	33,441,710
Excess of revenues over (under) expenditures	4,225,489	(1,790,818)	(3,665,159)	(3,272,887)	(6,038,590)	(1,217,483)	(11,759,448)
Other Financing Sources (Uses):							
Proceeds from sale of assets	937,429	14,600	-	-	-	7,300	959,329
Proceeds from sale of debt	-	-	4,200,000	7,000,000	-	-	11,200,000
Transfers - in	316,272	1,704,304	1,402,472	1,437,191	-	617,686	5,477,925
Transfers - out	(6,260,895)	-	-	-	-	(301,408)	(6,562,303)
Total other financing sources (uses)	(5,007,194)	1,718,904	5,602,472	8,437,191	-	323,578	11,074,951
Net change in fund balances	(781,705)	(71,914)	1,937,313	5,164,304	(6,038,590)	(893,905)	(684,497)
Fund balance (deficit) at beginning of year	8,733,021	275,536	631,747	(3,648,210)	9,924,608	3,695,092	19,611,794
Fund balance at end of year	\$ 7,951,316	\$ 203,622	\$ 2,569,060	\$ 1,516,094	\$ 3,886,018	\$ 2,801,187	\$ 18,927,297

The accompanying notes are an integral part of the financial statements

City of Hudson, 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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (684,497)

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

Governmental Funds report Capital Outlay 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 capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 8,252,567	
Depreciation	<u>(648,521)</u>	
Total		7,604,046

In the Statement of Activities, only the loss on the disposal of land and equipment are reported, whereas, in the Governmental Funds, the proceeds from the disposal increase financial resources. Thus, the change in Net Assets differs from the change in Fund Balance by the cost of the Land. (936,260)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the Funds.

Property and other taxes	18,961	
Special assessments	(653,784)	
Intergovernmental	<u>(18,197)</u>	
Total		(967,453)

Repayment of Bond Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. 1,360,000

Bond proceeds, reported as an other financing source, provide current financial resources to governmental funds, but has no effect on net assets. (11,200,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Compensated absences	(297,096)	
Internal balances	(31,668)	
Capital leases	5,799	
Accrued interest on debt	<u>(23,400)</u>	
Total		(346,365)

Internal Service Funds are used by management to charge to costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the Internal Service Fund is reported with Governmental Activities (454,698)

Change in Net Assets of Governmental Activities \$ (5,625,227)

The accompanying notes are an integral part of the financial statements

City of Hudson, 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, 2004

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Property and other local taxes	\$ 2,277,445	\$ 2,244,525	\$ 2,249,301	\$ 4,776
Income taxes	7,650,000	7,505,000	7,537,728	32,728
Charges for services	120,000	120,000	124,371	4,371
Licenses and permits	86,000	86,000	84,893	(1,107)
Intergovernmental	2,792,402	2,793,985	3,232,573	438,588
Interest	850,000	580,000	589,479	9,479
Other	260,113	260,113	258,686	(1,427)
Total revenues	<u>14,035,960</u>	<u>13,589,623</u>	<u>14,077,031</u>	<u>487,408</u>
Expenditures:				
Current:				
General government	5,556,641	5,878,415	5,513,221	365,194
Security of persons and property	3,597,840	3,595,523	3,347,417	248,106
Public health	275,559	275,559	275,558	1
Community and economic development	1,355,403	1,348,633	1,292,097	56,536
Capital outlay	<u>268,861</u>	<u>398,338</u>	<u>277,537</u>	<u>120,801</u>
Total expenditures	<u>11,054,304</u>	<u>11,496,468</u>	<u>10,705,830</u>	<u>790,638</u>
Excess of revenues over expenditures	<u>2,981,656</u>	<u>2,093,155</u>	<u>3,371,201</u>	<u>1,278,046</u>
Other Financing Sources (Uses):				
Transfers - in	216,091	231,733	316,272	84,539
Proceeds from sale of capital assets	890,000	890,000	937,429	47,429
Transfers - out	(5,985,895)	(6,260,895)	(6,260,895)	-
Advances - out	-	<u>(156,928)</u>	<u>(156,928)</u>	-
Total other financing sources (uses)	<u>(4,879,804)</u>	<u>(5,296,090)</u>	<u>(5,164,122)</u>	<u>131,968</u>
Net change in fund balance	(1,898,148)	(3,202,935)	(1,792,921)	1,410,014
Fund balance at beginning of fiscal year	7,161,273	7,161,273	7,161,273	-
Prior fiscal year encumbrances appropriated	<u>513,213</u>	<u>513,213</u>	<u>513,213</u>	-
Fund balance at end of fiscal year	\$ <u>5,776,338</u>	\$ <u>4,471,551</u>	\$ <u>5,881,565</u>	\$ <u>1,410,014</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) Street Construction

For The Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues				
Intergovernmental	\$ 765,482	\$ 696,482	\$ 728,396	\$ 31,914
Other	<u>-</u>	<u>-</u>	<u>2,630</u>	<u>2,630</u>
Total revenues	<u>765,482</u>	<u>696,482</u>	<u>731,026</u>	<u>34,544</u>
Expenditures:				
Current:				
Transportation	2,633,529	2,624,553	2,516,089	108,464
Capital outlay	<u>14,432</u>	<u>47,222</u>	<u>46,277</u>	<u>945</u>
Total expenditures	<u>2,647,961</u>	<u>2,671,775</u>	<u>2,562,366</u>	<u>109,409</u>
Excess of revenues over (under) expenditures	<u>(1,882,479)</u>	<u>(1,975,293)</u>	<u>(1,831,340)</u>	<u>143,953</u>
Other financing sources (uses):				
Transfers - in	1,700,000	1,700,000	1,704,304	4,304
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>14,600</u>	<u>14,600</u>
Total other financing sources (uses)	<u>1,700,000</u>	<u>1,700,000</u>	<u>1,718,904</u>	<u>18,904</u>
Net change in fund balance	(182,479)	(275,293)	(112,436)	162,857
Fund balance at beginning of fiscal year	221,334	221,334	221,334	-
Prior fiscal year encumbrances appropriated	<u>100,051</u>	<u>100,051</u>	<u>100,051</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>138,906</u>	\$ <u>46,092</u>	\$ <u>208,949</u>	\$ <u>162,857</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Fund Net Assets Proprietary Funds

December 31, 2004

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>All other Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Assets						
Current assets:						
Equity in pooled cash and cash equivalents	\$ 1,188,826	\$ 1,629,792	\$ 11,248,982	\$ 971,680	\$ 15,039,280	\$ 817,023
Accounts receivable	107,971	150,961	1,455,443	104,088	1,818,463	9
Special assessments receivable	119,172	-	-	-	119,172	-
Materials and supplies inventory	<u>230,261</u>	<u>7,217</u>	<u>1,080,130</u>	<u>53,736</u>	<u>1,371,344</u>	<u>32,896</u>
Total current assets	<u>1,646,230</u>	<u>1,787,970</u>	<u>13,784,555</u>	<u>1,129,504</u>	<u>18,348,259</u>	<u>849,928</u>
Noncurrent assets:						
Investment in joint venture	-	-	491,907	-	491,907	-
Nondepreciable capital assets	639,022	71,605	442,145	3,458,422	4,611,194	11,967
Depreciable capital assets, net	<u>9,937,664</u>	<u>8,318,189</u>	<u>6,421,081</u>	<u>1,494,248</u>	<u>26,171,182</u>	<u>1,186,667</u>
Total noncurrent assets	<u>10,576,686</u>	<u>8,389,794</u>	<u>7,355,133</u>	<u>4,952,670</u>	<u>31,274,283</u>	<u>1,198,634</u>
Total assets	<u>12,222,916</u>	<u>10,177,764</u>	<u>21,139,688</u>	<u>6,082,174</u>	<u>49,622,542</u>	<u>2,048,562</u>
Liabilities						
Current liabilities:						
Accounts payable	88,700	93,689	2,084,408	44,251	2,311,048	56,425
Claims payable	-	-	-	-	-	16,532
Accrued wages and benefits	15,411	18,175	66,308	20,003	119,897	10,780
Intergovernmental payable	9,224	284,224	30,508	36,467	360,423	4,092
Due to other funds	-	-	-	311,008	311,008	-
Accrued interest payable	11,782	133,370	7,059	5,701	157,912	-
Notes payable	675,000	-	-	-	675,000	-
Compensated absences payable	144,524	31,593	200,150	31,290	407,557	15,846
OWDA loans payable	-	349,941	-	-	349,941	-
General obligation bonds payable	185,000	15,000	100,000	145,000	445,000	-
Capital leases payable	-	-	-	8,160	8,160	-
Total current liabilities	<u>1,129,641</u>	<u>925,992</u>	<u>2,488,433</u>	<u>601,880</u>	<u>5,145,946</u>	<u>103,675</u>
Long-term liabilities (net of current portion):						
Advances from other funds	-	100,000	-	-	100,000	-
Compensated absences payable	26,130	169,736	349,507	68,368	613,741	56,890
OWDA loans payable	-	6,086,744	-	-	6,086,744	-
General obligation bonds payable	<u>5,380,000</u>	<u>840,000</u>	<u>3,055,000</u>	<u>2,970,000</u>	<u>12,245,000</u>	<u>-</u>
Total long-term liabilities	<u>5,406,130</u>	<u>7,196,480</u>	<u>3,404,507</u>	<u>3,038,368</u>	<u>19,045,485</u>	<u>56,890</u>
Total liabilities	<u>6,535,771</u>	<u>8,122,472</u>	<u>5,892,940</u>	<u>3,640,248</u>	<u>24,191,431</u>	<u>160,565</u>
Net Assets						
Invested in capital assets, net of related debt	4,192,162	1,066,516	3,508,076	1,798,220	10,564,974	1,198,634
Unrestricted	<u>1,494,983</u>	<u>988,776</u>	<u>11,738,672</u>	<u>643,706</u>	<u>14,866,137</u>	<u>689,363</u>
Total net assets	\$ <u>5,687,145</u>	\$ <u>2,055,292</u>	\$ <u>15,246,748</u>	\$ <u>2,441,926</u>	\$ <u>25,431,111</u>	\$ <u>1,887,997</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended December 31, 2004

	Water	Wastewater	Electric	All other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Operating revenues:						
Charges for services	\$ 1,420,471	\$ 2,047,434	\$ 13,051,515	\$ 1,430,268	\$ 17,949,688	\$ 1,157,029
Other	<u>31,373</u>	<u>10,000</u>	<u>72,107</u>	<u>9,578</u>	<u>123,058</u>	<u>52,385</u>
Total operating revenues	<u>1,451,844</u>	<u>2,057,434</u>	<u>13,123,622</u>	<u>1,439,846</u>	<u>18,072,746</u>	<u>1,209,414</u>
Operating Expenses:						
Personal services	340,113	59,994	2,045,556	796,879	3,242,542	6,572
Materials and supplies	83,769	2,048	74,438	266,855	427,110	290,216
Contractual services	360,633	1,789,409	10,630,716	427,477	13,208,235	560,396
Claims	-	-	-	-	-	186,913
Other	170,351	525,785	125	86,132	782,393	252,775
Depreciation	<u>285,379</u>	<u>212,012</u>	<u>403,107</u>	<u>80,143</u>	<u>980,641</u>	<u>354,520</u>
Total operating expenses	<u>1,240,245</u>	<u>2,589,248</u>	<u>13,153,942</u>	<u>1,657,486</u>	<u>18,640,921</u>	<u>1,651,392</u>
Operating income (loss)	<u>211,599</u>	<u>(531,814)</u>	<u>(30,320)</u>	<u>(217,640)</u>	<u>(568,175)</u>	<u>(441,978)</u>
Non-Operating Revenues (Expenses):						
Investment income	99,831	17,591	-	5,043	122,465	178
Special assessments	70,038	-	-	-	70,038	-
Interest and fiscal charges	(254,612)	(430,196)	(125,493)	(134,880)	(945,181)	-
Gain (loss) on disposal of capital assets	3,400	(3,417)	13,754	(37,121)	(23,384)	(13,094)
Other non-operating revenue (expense)	<u>4,600</u>	<u>396</u>	<u>(7,032)</u>	<u>139,782</u>	<u>137,746</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(76,743)</u>	<u>(415,626)</u>	<u>(118,771)</u>	<u>(27,176)</u>	<u>(638,316)</u>	<u>(12,916)</u>
Income (loss) before transfers	134,856	(947,440)	(149,091)	(244,816)	(1,206,491)	(454,894)
Transfers - in	3,213	914,154	19,708	363,198	1,300,273	196
Transfers - out	<u>(109,148)</u>	<u>(106,943)</u>	<u>-</u>	<u>-</u>	<u>(216,091)</u>	<u>-</u>
Change in net assets	28,921	(140,229)	(129,383)	118,382	(122,309)	(454,698)
Net assets at beginning of year	<u>5,658,224</u>	<u>2,195,521</u>	<u>15,376,131</u>	<u>2,323,544</u>	<u>25,553,420</u>	<u>2,342,695</u>
Net assets at end of year	\$ <u>5,687,145</u>	\$ <u>2,055,292</u>	\$ <u>15,246,748</u>	\$ <u>2,441,926</u>	\$ <u>25,431,111</u>	\$ <u>1,887,997</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2004

	Enterprise Funds			All other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
	Water	Wastewater	Electric			
Cash Flows from Operating Activities						
Cash received from customers	\$ 1,485,660	\$ 2,158,760	\$ 13,151,029	\$ 1,363,253	\$ 18,158,702	\$ 1,010,664
Cash payments to employees for services	(319,747)	(4,757)	(1,951,544)	(832,376)	(3,108,424)	(68)
Cash payments for goods and services	(454,465)	(1,620,496)	(9,548,679)	(732,409)	(12,356,049)	(875,452)
Cash payments for claims	-	-	-	-	-	(77,775)
Other operating revenues	31,373	10,000	76,227	9,578	127,178	146,365
Other operating expenses	(170,351)	(525,785)	-	(65,806)	(761,942)	(252,775)
Net cash provided by (used for) operating activities	<u>572,470</u>	<u>17,722</u>	<u>1,727,033</u>	<u>(257,760)</u>	<u>2,059,465</u>	<u>(49,041)</u>
Cash Flows from Noncapital Financing Activities						
Transfer-in	3,213	914,154	19,708	363,198	1,300,273	196
Transfers-out	(109,148)	(106,943)	-	-	(216,091)	-
Other non-operating revenues (expenses)	<u>4,600</u>	<u>396</u>	<u>(7,032)</u>	<u>189,782</u>	<u>187,746</u>	<u>-</u>
Net cash provided by (used for) noncapital financing activities	<u>(101,335)</u>	<u>807,607</u>	<u>12,676</u>	<u>552,980</u>	<u>1,271,928</u>	<u>196</u>
Cash Flows from Capital and Related Financing Activities						
Proceeds from sale of notes	675,000	855,000	1,000,000	-	2,530,000	-
Acquisition of capital assets	(1,271,815)	(467,451)	(1,096,567)	(456,349)	(3,292,182)	(116,812)
Proceeds from sale of capital assets	3,400	3,500	13,754	-	20,654	786
Special assessments	2,852	-	-	-	2,852	-
Principal payments	(170,000)	(1,191,220)	(1,075,000)	(152,724)	(2,588,944)	-
Interest payments	(264,906)	(298,144)	(127,924)	(140,923)	(831,897)	-
Net cash used for capital and related financing activities	<u>(1,025,469)</u>	<u>(1,098,315)</u>	<u>(1,285,737)</u>	<u>(749,996)</u>	<u>(4,159,517)</u>	<u>(116,026)</u>
Cash Flows from Investing Activities						
Interest on investments	<u>99,449</u>	<u>17,163</u>	<u>-</u>	<u>5,005</u>	<u>121,617</u>	<u>169</u>
Net increase (decrease) cash and cash equivalents	(454,885)	(255,823)	453,972	(449,771)	(706,507)	(164,702)
Cash and cash equivalents at beginning of year	<u>1,643,711</u>	<u>1,885,615</u>	<u>10,795,010</u>	<u>1,421,451</u>	<u>15,745,787</u>	<u>981,725</u>
Cash and cash equivalents at end of year	\$ <u>1,188,826</u>	\$ <u>1,629,792</u>	\$ <u>11,248,982</u>	\$ <u>971,680</u>	\$ <u>15,039,280</u>	\$ <u>817,023</u>

(Continued)

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Cash Flows Proprietary Funds (continued)

For the Year Ended December 31, 2004

	Enterprise Funds			All other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
	Water	Wastewater	Electric			
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 211,599	\$ (531,814)	\$ (30,320)	\$ (217,640)	\$ (568,175)	\$ (441,978)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	285,379	212,012	403,107	80,143	980,641	354,520
(Increase) Decrease in Operating Assets:						
Accounts receivables	65,189	110,470	99,511	(67,015)	208,155	-
Materials and supplies inventory	(28,621)	(7,217)	(71,682)	34,312	(73,208)	6,178
Increase (Decrease) in Operating Liabilities:						
Accounts payable	16,869	(93,703)	1,228,680	(67,306)	1,084,540	22,560
Accrued wages and benefits	3,604	6,388	26,710	4,812	41,514	5,629
Compensated absences payable	25,972	54,086	102,004	(32,857)	149,205	6,952
Intergovernmental payable	(7,521)	267,500	(30,977)	7,791	236,793	(6,100)
Claims payable	-	-	-	-	-	3,198
Total adjustments	<u>360,871</u>	<u>549,536</u>	<u>1,757,353</u>	<u>(40,120)</u>	<u>2,627,640</u>	<u>392,937</u>
Net cash provided by (used for) operating activities	\$ <u>572,470</u>	\$ <u>17,722</u>	\$ <u>1,727,033</u>	\$ <u>(257,760)</u>	\$ <u>2,059,465</u>	\$ <u>(49,041)</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,052,707
Cash and cash equivalents in segregated accounts	3,831
Taxes receivable	<u>719,254</u>
Total Assets	\$ <u>1,775,792</u>
Liabilities:	
Accounts payable	\$ 127,839
Undistributed Monies	488,580
Deposits Held and Due to Others	440,119
Deferred revenue	<u>719,254</u>
Total Liabilities	\$ <u>1,775,792</u>

The accompanying notes are an integral part of the basic financial statements

City of Hudson, Ohio

Notes to Basic Financial Statements

For The Year Ended December 31, 2004

Note 1: Description of the City and Reporting Entity

The City of Hudson, Ohio (the "City") is a charter municipal corporation established and operating under the laws of the State of Ohio. The City was incorporated as a village in 1837, and became a city on March 20, 1991. The City merged with Hudson Township on January 1, 1994. The municipal government provided by the Charter is known as a Mayor – Council – Manager form of government. Legislative power is vested in a seven-member Council, each elected to a four-year term. The Mayor is also elected to a four-year term and is the official and ceremonial head of the municipal government. The City Manager is the chief executive officer and the head of the administrative agencies of the City. The City Manager appoints all department managers while Council appoints the Clerk of Council.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the City are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Hudson, this includes police and fire protection, emergency medical, parks, planning, zoning, street maintenance and repair, and general administrative services. Overall, City activities are directly controlled by Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance 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.

The City is associated with a joint venture and a shared risk pool. The joint venture is the Ohio Municipal Electric Generation Agency Joint Venture 5. The Northern Ohio Risk Management Association (NORMA) is the shared risk pool. These organizations are presented in Notes 21 and 22.

Note 2: Summary of Significant Accounting Policies

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its enterprise fund activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The Statement of Net Assets presents the financial condition of the governmental and business-type activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

B. Fund Accounting

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

Governmental Funds

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Hudson and/or the general laws of Ohio.

Street Construction - The street construction special revenue fund accounts for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Street Improvements - The street improvements capital projects fund accounts for the costs of the City's annual street maintenance and construction program.

City Acquisition/Construction - The City acquisition/construction capital projects fund accounts for the cost of the City's share of the downtown development project and related funding sources.

Library Construction - The library construction capital projects fund accounts for the costs associated with the construction of the new library and related funding sources.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

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

Enterprise Funds - 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:

Water Enterprise Fund - The water enterprise fund accounts for the provision of water treatment and distribution to its residential and commercial uses located within the City.

Wastewater Enterprise Fund - The wastewater enterprise fund accounts for the cost of operating the municipally-owned wastewater system and the related revenue from charges for services.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

Electric Enterprise Fund – The electric enterprise fund accounts for the cost of operating the municipally-owned electric utility and the related revenue from charges for services.

Internal Service Funds – Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds report on fleet management and a self-insurance program for employee medical benefits.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. The agency funds account for contractor's deposits and bonds held by the City, property taxes levied by the City on behalf of Hudson Library and Historical Society, insurance proceeds held as deposits on fire claims as well as traffic fines and associated state costs that are distributed to the City's General Fund and the State of Ohio, as required. The City has no Trust Funds.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets.

Fund Financial Statements

All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

D. 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 fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is 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 of year-end.

Non-exchange 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. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from non-exchange 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), fines and forfeitures, interest, grants, fees and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

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.

E. Budgetaries

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 Annual Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Annual Appropriation Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the department level. Any budgetary modifications at this level may only be made by resolution of the City Council.

Tax Budget At the first Council meeting in July, the City Manager presents the annual Tax Budget for the following year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews the estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the Annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official Certificate of Estimated Resources issued during 2004.

Appropriations For management, a temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. The Annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. Appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures and encumbrances may not exceed the appropriations at any level of control. Any revisions that alter the appropriations among departments within a fund must first be approved by City Council. Council may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

Appropriations (continued)

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. Appropriation amounts are as originally adopted, or as amended by City Council throughout the year by supplemental appropriations which either reallocate or increase the original appropriation amounts. During the year, supplemental appropriation measures were legally enacted; however, none of these amendments were significant. The budgetary figures which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all amendments and modifications.

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of budgetary control.

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. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

F. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the Balance Sheet.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as overnight repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the year 2004 amounted to \$408,134, which includes \$237,078 assigned from other City funds.

The City has segregated bank accounts and investments for monies held separate from the City's central bank accounts. These accounts and investments are presented in the Balance Sheet as "Cash and Cash Equivalents in Segregated Accounts" and "Investments in Segregated Accounts" since they are not required to be deposited into the City treasury.

The City utilizes a fiscal agent to hold bonds and coupons for retainage on construction contracts. The balance in this account is presented on the Balance Sheet as "Investments With Escrow Agent" and represents deposits.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

The City has donated stock. The account is presented in the balance sheet as “Investment in Common Stock” since they are not required to be deposited into the City treasury. See Note 6, Deposits and Investments.

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Assets/Balance Sheet, investments with original maturities of three months or less at the time they are purchased by the City and investments of the cash management pool are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Interfund Balances

On fund financial statements, interfund loans are classified as “Interfund Receivable/Payable” on the balance sheet. Long-term interfund loans are classified as “Advances to/from Other Funds” on the Balance Sheet and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

H. Inventory

Inventories of all funds are stated at cost which 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 expenditures in the governmental fund types and as expenses in the proprietary fund type when used.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold \$1,000. The City’s infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	50 years	50 years
Infrastructure	30 to 65 years	30 to 65 years
Machinery and Equipment	5 to 30 years	5 to 30 years
Vehicles	8 years	8 years

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all eligible employees with more than one year of service.

Sick leave benefits are as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported.

K. 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

K. Accrued Liabilities and Long-Term Obligations (continued)

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, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

The City records reservations for portions of fund equity which is legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balances are reserved for encumbrances, advances to other funds, common stock, debt service principal payments, permanent fund principal payments and inventories.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for golf, waste water treatment, water services and self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

O. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 2: Summary of Significant Accounting Policies (continued)

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

R. Estimates

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

Note 3: Changes in Accounting Principles

For 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units" and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditure/Expenses and Liabilities by Cost-Sharing Employers."

GASB Statement No. 39 states that entities for which a primary organization is not financially accountable may still be reported as a component unit based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies how enabling legislation should be defined for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39, GASB Statement No. 46, and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the City.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 4: Budgetary Basis of Accounting

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

The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Basis) presented for the General Fund is presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund and Street Construction Fund:

	Net Change In Fund Balance	
	<u>General Fund</u>	<u>Street Construction</u>
GAAP Basis	\$ (781,705)	\$ (71,914)
Net Adjustment for Revenue Accruals	(120,604)	(13,316)
Net Adjustment for Expenditure Accruals	143,421	53,128
Encumbrances	<u>(747,191)</u>	<u>(80,334)</u>
Budget Basis	\$ <u><u>(1,792,921)</u></u>	\$ <u><u>(112,436)</u></u>

Note 5: Accountability and Compliance

Deficit Fund Balances

The following fund had a deficit in net assets at December 31, 2004:

<u>Fund</u>	<u>Deficit</u>
DUI Task Force	\$ 5,232

This fund complied with Ohio law, which does not permit cash basis deficits. The deficit fund balance resulted from adjustments for accrued liabilities.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Deposits and Investments

Deposits and investments are restricted by provisions of the Ohio Revised Code. State statutes classify monies held by the City into three categories:

1. 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.
2. Inactive deposits are public deposits that the Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.
3. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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 monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Deposits and Investments (continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

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

1. Commercial paper notes issued by an entity that is defined in division (D) of Section 1705.01 of the Revised Code and that has assets exceeding five hundred million dollars, to which the notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eight days after purchase; and
2. Bankers acceptances of banks that are insured by the Federal Deposit Insurance Corporation (FDIC) and to which the obligations are eligible for purchase by the Federal Reserve System and the obligations mature no later than one hundred eighty days after purchase.

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 treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements".

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 6: Deposits and Investments (continued)

Deposits - At year-end, the carrying amount of the City's deposits was \$3,600,374 and the bank balance was \$4,028,303. Of the bank balance:

1. \$200,000 was covered by federal depository insurance; and
2. \$3,828,303 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money have been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments - The City's investments are required to be categorized to give an indication of the level of custodial risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterpart, or by its trust department or agent, but not in the City's name.

At year end, the City's investment balances were as follows:

	<u>Category</u>		<u>Fair Value</u>
	<u>1</u>	<u>3</u>	
Overnight Repurchase Agreements \$	-	\$ 7,215,102	\$ 7,215,102
Government Agency Obligations	-	20,526,138	20,526,138
Common Stock	11,326	-	11,326
Series E Bonds	3,198	-	3,198
PEN Investment	-	4,173,248	4,173,248
Total Investments	<u>\$ 14,524</u>	<u>\$ 31,914,488</u>	<u>\$ 31,929,012</u>

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Government Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the basic financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash</u>	
	<u>Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 35,516,230	\$ 14,524
Investments of Cash Management Pool:		
MBS	(20,526,138)	20,526,138
Overnight Repurchase Agreements	(7,215,102)	7,215,102
PEN Investment	(4,173,248)	4,173,248
Cash on Hand	<u>(1,368)</u>	<u>-</u>
GASB Statement No. 3	<u>\$ 3,600,374</u>	<u>\$ 31,929,012</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 7: Receivables

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenues. All accounts, taxes, special assessments and intergovernmental receivables are deemed collectible in full.

Note 8: Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property taxes collected in 2004 are levied after October 1, 2003, on assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes collected in 2004 were intended to finance 2004 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88% of cost). Public utility property taxes paid in 2004 became a lien December 31, 2003, are levied after October 1, 2003, and are collected in 2004 with real property taxes. 2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. Tangible personal property assessments are 25% of actual value.

The full tax rate for all City operations for the year ended December 31, 2004, was \$9.67 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 657,992,180
Commercial/Industrial/Mineral	92,350,660
Public Utilities	62,720
Tangible Personal Property Valuation:	
General	48,164,887
Public Utilities	<u>14,221,560</u>
Total Valuation	\$ <u>812,792,007</u>

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 9: Income Tax

The City levies a municipal income tax of 1% on all gross salaries, wages, and other compensation, earned by the residents of the City and on 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 100% credit for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Tax Authority (RITA) either monthly or quarterly as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, disbursement of the revenue received from income taxes is as follows: first, all expenses of collecting the tax and of administering and enforcing the income tax ordinance are paid. Then, the balance remaining after payment of the expenses is deposited in the general fund for street construction, maintenance and repair, capital improvements and general municipal operations, or as such other fund or funds as Council may, from time to time, establish or designate. For 2004, municipal income tax revenue was \$7,786,664.

Note 10: Special Assessments

Special assessments include annually assessed service assessments. Service type special assessments are levied against all property owners who benefit from the provided service. Special assessments are payable by the time and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

The City's special assessments include off-street parking improvements, watermain improvements and storm sewer improvements which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 11: Capital Assets

	<u>Balance</u> <u>12/31/2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2004</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,913,263	\$ 17,290	\$ (890,000)	\$ 9,040,553
Construction in progress	<u>7,119,598</u>	<u>7,010,980</u>	<u>(1,618,180)</u>	<u>12,512,398</u>
Total capital assets, not being depreciated	<u>17,032,861</u>	<u>7,028,270</u>	<u>(2,508,180)</u>	<u>21,552,951</u>
Capital assets, being depreciated:				
Buildings	7,063,155	89,363	-	7,152,518
Land improvements	119,582	4,998	-	124,580
Vehicles	4,538,614	318,851	(216,109)	4,651,356
Equipment, furniture and fixtures	3,812,536	370,896	(96,576)	4,086,856
Infrastructure	<u>1,949,650</u>	<u>2,175,191</u>	<u>-</u>	<u>4,124,841</u>
Total capital assets, being depreciated	<u>17,483,537</u>	<u>2,959,299</u>	<u>(312,685)</u>	<u>20,130,151</u>
Less accumulated depreciation:				
Buildings	(949,426)	(144,652)	-	(1,094,078)
Land improvements	(38,526)	(6,224)	-	(44,750)
Vehicles	(3,264,627)	(387,924)	179,745	(3,472,806)
Equipment, furniture and fixtures	(2,519,358)	(328,211)	72,800	(2,774,769)
Infrastructure	<u>(804,463)</u>	<u>(136,030)</u>	<u>-</u>	<u>(940,493)</u>
Total accumulated depreciation	<u>(7,576,400)</u>	<u>(1,003,041)</u>	<u>252,545</u>	<u>(8,326,896)</u>
Total capital assets, being depreciated, net	<u>9,907,137</u>	<u>1,956,258</u>	<u>(60,140)</u>	<u>11,803,255</u>
Governmental activities capital assets, net	\$ <u>26,939,998</u>	\$ <u>8,984,528</u>	\$ <u>(2,568,320)</u>	\$ <u>33,356,206</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 11: Capital Assets (continued)

	Balance <u>12/31/2003</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/2004</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 2,269,866	\$ -	\$ -	\$ 2,269,866
Construction in progress	<u>4,838,034</u>	<u>1,018,615</u>	<u>(3,515,321)</u>	<u>2,341,328</u>
Total capital assets, not being depreciated	\$ <u>7,107,900</u>	\$ <u>1,018,615</u>	\$ <u>(3,515,321)</u>	\$ <u>4,611,194</u>
Capital assets, not being depreciated:				
Buildings	\$ 4,034,831	\$ 114,706	\$ (12,502)	\$ 4,137,035
Land improvements	526,080	-	-	526,080
Vehicles	675,380	178,485	(149,935)	703,930
Equipment, furniture and fixtures	5,633,024	58,918	(75,278)	5,616,664
Infrastructure	<u>19,536,368</u>	<u>5,436,779</u>	<u>(25,000)</u>	<u>24,948,147</u>
Total capital assets, being depreciated	<u>30,405,683</u>	<u>5,788,888</u>	<u>(262,715)</u>	<u>35,931,856</u>
Less accumulated depreciation:				
Buildings	(1,148,918)	(83,331)	9,002	(1,223,247)
Land improvements	(164,012)	(25,395)	-	(189,407)
Vehicles	(408,850)	(69,413)	149,935	(328,328)
Equipment, furniture and fixtures	(2,528,152)	(191,659)	38,157	(2,681,654)
Infrastructure	<u>(4,752,195)</u>	<u>(610,843)</u>	<u>25,000</u>	<u>(5,338,038)</u>
Total accumulated depreciation	<u>(9,002,127)</u>	<u>(980,641)</u>	<u>222,094</u>	<u>(9,760,674)</u>
Total capital assets, being depreciated, net	<u>21,403,556</u>	<u>4,808,247</u>	<u>(40,621)</u>	<u>26,171,182</u>
Business-type activities capital assets, net	\$ <u>28,511,456</u>	\$ <u>5,826,862</u>	\$ <u>(3,555,942)</u>	\$ <u>30,782,376</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 553,126
Security of persons and property	129,772
Public health and welfare	4,281
Transportation	127,827
Community environment	9,895
Leisure time activities	<u>178,140</u>
 Total	 \$ <u>1,003,041</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 12: Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City has joined together with other neighboring cities to form the Northern Ohio Risk Management Association (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self-insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement for formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limits described in the agreement. This coverage is maintained through the general fund. There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

In addition, the City has established a health care self-insurance fund. The purpose of this fund is to pay dental and vision claims of the City's employees and their covered dependents in order to minimize the total cost of annual health care insurance. The City has contracted with a third party administrator to direct this program.

The claims liability of \$16,532 reported in the fund at December 31, 2004, is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims to be reported. The costs are to be based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any other factors that would modify past experience. The claims liability is based on an estimate supplied by the City's third party administrator. A summary of the fund's claims liability follows:

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2003	\$ 10,404	\$ 145,179	\$ 142,249	\$ 13,334
2004	13,334	138,891	135,693	16,532

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 13: Note Debt

The City's note activity, including amounts outstanding, interest rates and maturity dates, is as follows:

	<u>Balance</u> <u>01/01/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2004</u>
2003 road improvement, 1.5%, Due 05/04	\$ 4,200,000	\$ -	\$ 4,200,000	\$ -
2003 downtown development, 1.5%, Due 05/04	1,900,000	-	1,900,000	-
2003 road improvement, 1.5%, Due 05/04	6,200,000	-	6,200,000	-
2003 sanitary sewer improvement, 1.5%, Due 05/04	855,000	-	855,000	-
2003 electric system improvement, 1.5%, Due 05/04	1,000,000	-	1,000,000	-
2004 water system improvement, 2.5%, Due 05/05	<u>-</u>	<u>675,000</u>	<u>-</u>	<u>675,000</u>
Total notes	\$ <u>14,155,000</u>	\$ <u>675,000</u>	\$ <u>14,155,000</u>	\$ <u>675,000</u>

All notes are backed by the full faith and credit of the City of Hudson. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 14: Long-Term Obligations

The changes in the City's long-term obligations during the year consist of the following:

	Balance 01/01/2004	Additions	Deletions	Balance 12/31/04	Amount Due in One Year
Governmental Activities:					
<u>General Obligation Bonds:</u>					
1992 Multipurpose					
2.5% to 5.2%, due through 2007	\$ 445,000	\$ -	\$ (100,000)	\$ 345,000	\$ 110,000
1992 Safety Center					
2.9% to 6.35 %, due through 2012	650,000	-	(70,000)	580,000	70,000
1998 Park Acquisition					
4.5% to 5.0%, due through 2007	5,735,000	-	(305,000)	5,430,000	315,000
1998 Village South					
4.5% to 5.5%, due through 2018	2,875,000	-	(140,000)	2,735,000	145,000
1999 Park Improvement					
4.5% to 4.9%, due through 2018	900,000	-	(45,000)	855,000	45,000
2000 Park Improvement					
4.5% to 6.125%, due through 2019	940,000	-	(40,000)	900,000	40,000
2000 Library Construction					
4.4% to 6.35%, due through 2019	8,475,000	-	(345,000)	8,130,000	360,000
2002 Community Center Expansion					
1.65% to 4.65%, due through 2023	330,000	-	(10,000)	320,000	10,000
2002 Police Facility Construction					
1.65% to 4.65%, due through 2023	3,985,000	-	(135,000)	3,850,000	145,000
2002 Road Improvement					
1.75%, due through 2023	1,200,000	-	(45,000)	1,155,000	45,000
2004 Milford/Rt. 91 Construction					
3.00% to 5.00%, due through 2024	-	4,200,000	-	4,200,000	155,000
2004 Downtown TIF					
3.00% to 4.50%, due through 2015	-	7,000,000	-	7,000,000	635,000
Total General Obligation Bonds	<u>25,535,000</u>	<u>11,200,000</u>	<u>(1,235,000)</u>	<u>35,500,000</u>	<u>2,075,000</u>
<u>Special Assessment Bonds:</u>					
1998 Sewer Improvement					
4.5% to 5.0%, due through 2016	1,230,000	-	(70,000)	1,160,000	70,000
1998 Executive Parkway					
4.3% to 5.0%, due through 2018	870,000	-	(40,000)	830,000	45,000
1999 Water Main Construction					
3.9% to 5.625%, due through 2019	365,000	-	(15,000)	350,000	15,000
Total Special Assessment Bonds	<u>2,465,000</u>	<u>-</u>	<u>(125,000)</u>	<u>2,340,000</u>	<u>130,000</u>
Capital lease	23,196	-	(5,799)	17,397	5,799
Compensated absences	1,727,775	259,920	-	1,987,695	540,268
Total Governmental Activities - Long-Term Obligations	<u>\$ 29,750,971</u>	<u>\$ 11,459,920</u>	<u>\$ (1,365,799)</u>	<u>\$ 39,845,092</u>	<u>\$ 2,751,067</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 14: Long-Term Obligations (continued)

	Balance 01/01/2004	Additions	Deletions	Balance 12/31/04	Amount Due in One Year
Business-Type Activities:					
<u>General Obligation Bonds:</u>					
2002 Substation Construction 1.75%, due through 2023	\$ 2,230,000	\$ -	\$ (75,000)	\$ 2,155,000	\$ 80,000
1998 Water System Improvement 4.5% to 5.0%, due through 2016	1,700,000	-	(100,000)	1,600,000	110,000
2002 Water System Improvement 1.75%, due through 2033	4,035,000	-	(70,000)	3,965,000	75,000
2002 Storm Water Improvement 1.75%, due through 2023	1,090,000	-	(40,000)	1,050,000	40,000
Golf Course Improvement 4.3% to 5.1%, due through 2019	525,000	-	(45,000)	480,000	45,000
2002 Golf Course Improvement 1.75%, due 11/02	1,645,000	-	(60,000)	1,585,000	60,000
2004 Electric Issue 3.00% to 5.00%, due through 2034	-	1,000,000	-	1,000,000	20,000
2004 Sewer Improvement 3.00% to 5.00%, due through 2034	-	855,000	-	855,000	15,000
Total General Obligation Bonds	11,225,000	1,855,000	(390,000)	12,690,000	445,000
<u>OWDA Loan:</u>					
OWDA Loan 4.04%, due through 2018	6,772,905	-	(336,220)	6,436,685	349,941
Capital leases	15,884	-	(7,724)	8,160	8,160
Compensated absences	873,655	147,644	-	1,021,298	407,557
Total Business-Type Activities	\$ 18,887,444	\$ 2,002,644	\$ (733,944)	\$ 20,156,143	\$ 1,210,658

The annual requirements to amortize all long-term debt outstanding as of December 31, 2004, including interest payments of \$25,850,040, are as follows:

Year ending December 31,	<u>Governmental Activities</u>				<u>Business-Type Activities</u>			
	<u>General Obligation</u>		<u>Special Assessments</u>		<u>General Obligation</u>		<u>OWDA Loan</u>	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 2,075,000	\$1,690,149	\$ 130,000	\$ 113,881	\$ 445,000	\$ 566,346	\$ 349,941	\$ 256,544
2006	2,140,000	1,600,189	135,000	107,964	445,000	541,649	364,221	242,262
2007	2,205,000	1,506,808	150,000	101,799	455,000	516,951	379,084	227,399
2008	2,150,000	1,412,283	160,000	94,851	475,000	497,038	394,554	211,929
2009	2,240,000	1,321,999	160,000	87,356	500,000	480,418	410,655	195,829
2010-2014	12,485,000	4,946,637	925,000	312,815	2,600,000	2,117,483	2,318,750	713,672
2015-2019	9,345,000	2,076,603	680,000	81,223	2,685,000	1,547,115	2,219,480	206,456
2020-2024	2,860,000	387,448	-	-	2,375,000	964,927	-	-
2025-2029	-	-	-	-	1,305,000	534,317	-	-
2030-thereafter	-	-	-	-	1,405,000	187,700	-	-
Total	\$ 35,500,000	\$14,942,116	\$ 2,340,000	\$ 899,889	\$ 12,690,000	\$ 7,953,944	\$ 6,436,685	\$ 2,054,091

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 14: Long-Term Obligations (continued)

The enterprise general obligation bonds will be paid with electric, wastewater, water service charges and golf course revenues funds. The OWDA loan will be repaid with income tax monies and wastewater service charges from the wastewater enterprise fund. General obligation bonds will be paid from property taxes received in the debt service funds. The special assessments bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. Compensated absences reported in the "Compensated Absences Payable" account will be paid from the funds from which the employees' salaries are paid.

Note 15: Capital Leases – Lessee Disclosure

The City, in prior years, has entered into capital leases for the acquisition of various equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital assets acquired by lease have been capitalized as equipment in the amount of \$53,870 equal to the present value of the future minimum lease payments in the government-wide financial statements. Principal payments in the current year totaled \$5,799 in the Governmental Activities and \$7,724 in the Business-Type Activities.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments at year-end:

<u>Year</u>	<u>Governmental Lease Payments</u>	<u>Business-Type Lease Payments</u>
2005	\$ 5,799	\$ 8,406
2006	5,799	-
2007	5,799	-
Total minimum lease payments	17,397	8,406
Less: amount representing interest	-	(246)
Present value of minimum lease payments	\$ <u>17,397</u>	\$ <u>8,160</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 16: Pension Plans

A. *Ohio Public Employees Retirement System*

The City of Hudson participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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 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 and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City contributed 13.55 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Hudson's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$765,255, \$624,458, and \$517,927, respectively, equal to the required contributions for each year. The full amount has been contributed for all three years. Contributions to the member-directed plan for 2004 were \$13,715 made by the City of Hudson and \$8,603 made by the plan members.

B. *Ohio Police and Fire Pension Fund*

The City of Hudson 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 information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 16: Pension Plans (continued)

B. Ohio Police and Fire Pension Fund (continued)

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City of Hudson' contributions for the years ended December 31, 2004, 2003, and 2002 for police officers and firefighters were \$222,278, \$206,675, and \$205,014, respectively, equal to the required contributions for each year.

Note 13: Postemployment Benefits

A. Ohio Public Employees Retirement System

OPERS administers three separate pension plans: the traditional plan – a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan – a defined contribution plan; and the combined plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the traditional and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. The 2004 employer contribution rate was 13.55 percent of covered payroll; 4.0 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.0 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increase, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 13: Postemployment Benefits (continued)

A. *Ohio Public Employees Retirement System (continued)*

At December 31, 2004, the number of active contributing participants in the Traditional and Combined Plans totaled 369,885. The City's actual contributions for 2004, which were used to fund postemployment benefits, were \$320,525. The actual contribution and the actuarially-required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially-accrued liability and the unfunded actuarially-accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The HCPP incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retirement Medical Account that can be used to fund future health care expenses.

B. *Ohio Police and Fire Pension Fund*

The OP&F provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22, if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an OPEB as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The Ohio Revised Code provides the statutory authority allowing the OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The total police officers' employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2003, the date of the last actuarial valuation available, was 13,662 for police officers and 10,474 for firefighters. The City's actual contributions for 2004 that were used to fund post employment benefits were \$137,656 for police officers and \$6,474 for firefighters. OP&F's total health care expenses for the year ending December 31, 2003, the date of the last actuarial valuation available, was \$150,853,148, which was net of member contributions of \$17,207,506.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 18: Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Full-time employees earn and accumulate varying hours of vacation per year, depending upon length of service. Maximum vacation accumulations range from 240 to 360 hours, depending upon length of service. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at the rate of 10 hours per each month of service. Sick leave may be accumulated to a maximum of 1,440 hours. After the maximum accumulation of 1,440 hours, each employee must elect, in writing each year, one of the following options for sick leave time accumulated in excess of the 1,440 hours:

1. In 40 sick leave hour increments, to have that time converted to vacation at the ratio of 40 hours of sick leave to eight hours of vacation; or
2. To be paid for the excess 40 hours accumulated at the employee's current rate of pay. This may be paid only once each year and no further sick leave will be accumulated during that year, unless the total number of hours accumulated is less than 1,440 hours.

Upon resignation, retirement or death, an employee with 10 or more years of service with the City is eligible for a severance payment for his/her accumulated but unused sick leave, but the maximum payment shall not exceed 1,440 hours. Such payment shall be based on the employee's rate of pay at the time of resignation, retirement or death.

As of December 31, 2004, the total liability for unpaid compensated absences was \$3,008,993.

Note 19: Contingencies

A. Grants

The City has received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2004.

B. Litigation

Several claims and lawsuits are pending against the City. The amount of liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material effect on the overall financial position of the City at December 31, 2004.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 20: Interfund Transactions

Interfund Receivable/Payable for the year ended December 31, 2004 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Street Improvements	\$ 155,000
General Fund	Non-Major Governmental Fund	131,928
General Fund	Non-Major Enterprise Funds	<u>311,008</u>
		<u>\$ 597,936</u>

Long-term interfund loans are classified as "advances to/from other funds" and consist of the following at December 31, 2004:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Wastewater	\$ <u>100,000</u>

Advances to/from for the year ended December 31, 2004 consisted of the following:

<u>Advance from</u>	<u>Advance to</u>	<u>Amount</u>
General Fund	Non-Major Governmental Funds	\$ 106,928
General Fund	Non-Major Enterprise Funds	<u>50,000</u>
		<u>\$ 156,928</u>

As of December 31, 2004, interfund transfers were as follows:

	<u>Transfer In:</u>				
	<u>General</u>	<u>Street Construction</u>	<u>Street Improvements</u>	<u>Acquisition and Construction</u>	<u>Non-Major Governmental</u>
Transfer out:					
General Fund	\$ -	\$ 1,700,000	\$ 1,246,066	\$ 1,437,191	\$ 602,442
Water Fund	109,148	-	-	-	-
Sewer Fund	106,943	-	-	-	-
Non-Major Governmental	<u>100,181</u>	<u>4,304</u>	<u>156,406</u>	<u>-</u>	<u>15,244</u>
	<u>\$ 316,272</u>	<u>\$ 1,704,304</u>	<u>\$ 1,402,472</u>	<u>\$ 1,437,191</u>	<u>\$ 617,686</u>

	<u>Transfer In:</u>					
	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Non-Major Enterprise Funds</u>	<u>Internal Service Fund</u>	<u>Total</u>
Transfer out:						
General Fund	\$ -	\$ 912,000	\$ -	\$ 363,000	\$ 196	\$ 6,260,895
Water Fund	-	-	-	-	-	109,148
Sewer Fund	-	-	-	-	-	106,943
Non-Major Governmental	<u>3,213</u>	<u>2,154</u>	<u>19,708</u>	<u>198</u>	<u>-</u>	<u>301,408</u>
	<u>\$ 3,213</u>	<u>\$ 914,154</u>	<u>\$ 19,708</u>	<u>\$ 363,198</u>	<u>\$ 196</u>	<u>\$ 6,778,394</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 21: Joint Venture

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)

The City of Hudson is a Financing Participant with an ownership percentage of 5.69%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

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

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

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement, each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2004, Hudson has met their debt coverage obligation.

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 21: Joint Venture (continued)

Ohio Municipal Electric Generation Agency Joint Venture 1 and 5 (JV1 and JV5) (continued)

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$491,907 at December 31, 2004. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

Note 22: Shared Risk Pool

The Northern Ohio Risk Management Association (NORMA) is a shared risk pool comprised of various cities. NORMA was formed to enable its members to obtain property and liability insurance, including vehicles, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a board of trustees that consists of the mayor from each of the participating members.

Each entity must remain a member for at least three years from their commencement date. After the initial three years, each City may extend its term in three-year increments. Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$100,000 per occurrence, will come from the self-insurance pool with any excess paid from the stop-loss coverage carried by the pool. Any losses over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2004, the City paid \$127,475 for premiums. Financial information can be obtained by contacting the fiscal agent: City of Bedford Heights, Finance Director, 5661 Perkins Road, Bedford Heights, Ohio 44146.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2004

Note 23: Outstanding Contractual Commitments

The City has the following outstanding contractual commitments for various construction projects at December 31, 2004:

<u>Contractor</u>	<u>Contract and Contingency</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>
Cleveland Cement	\$ 1,749,700	\$ 1,662,420	\$ 87,280
The Davis Company	307,783	295,107	12,675
Karvo Paving Company	1,377,442	1,228,363	149,079
Kenmore Construction	858,260	837,215	21,044
Kenmore Construction	1,610,697	1,475,549	135,148
Mr. Excavator	2,226,768	2,029,073	197,694
The Shelly Company	544,087	391,574	152,513
Vito Gironda	388,012	378,342	9,669
Vito Gironda	21,320	16,800	4,520
Vito Gironda	874,145	826,513	47,631
The Shelly Company	1,216,530	1,073,378	143,151
Michael Construction Company	573,381	487,967	85,413
Dura-Mark	86,851	83,517	3,333
Spano Brothers Construction	163,659	155,513	8,145
Bochert Excavating	165,500	158,431	7,068
Bochert Excavating	86,350	-	86,350
Nerone & Sons	537,600	422,658	114,941
Kenmore Construction	495,975	-	495,975
Mr. Excavator	36,000	-	36,000
RB Stout, Inc.	251,529	141,300	110,229
Kiler Structural Movers	30,250	29,808	442
Ver-Dick Builders	145,860	119,696	26,164
Norfolk Southern Railway	66,140	-	66,140
Northern Valley Contractors	2,031,458	1,936,494	94,963
Northern Valley Contractors	100,000	96,000	4,000

Note 24: Subsequent Event

For fiscal year 2005, the City of Hudson voters approved an increase in the City's income tax rate going from 1% to 2% effective January 1, 2005. As part of the passage, City Council agreed to no longer collect the property taxes for the Fire, EMS and Parks operating levies and eliminate the storm water utility. The legislation approving the income tax increase provides for 4.5% of the total income taxes to go toward EMS operations; 7.5% to the Fire operations; 7.5% to the Parks operations and 6.75% to go toward Community Learning Centers in cooperation with Hudson Schools. The remaining portion is not legally designated and is subject to City Council's discretion. The emphasis behind the use of the additional discretionary funds will be to improve the City's storm water and sewer system including its infrastructure.

During May 2005, the City sold \$5,360,000 of various purpose bonds to finance upcoming storm water, sanitary sewer and water system improvements.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the City Council
Hudson, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson (the “City”), as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated September 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated September 6, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of the City Council
Hudson, Ohio

This report is intended solely for the information and use of the City Council, management, finance committee, the Auditor of State's Office, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cuni & Panichi, Inc.

Cleveland, Ohio
September 6, 2005

**Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Members of the City Council
Hudson, Ohio

Compliance

We have audited the compliance of the City of Hudson (the “City”), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City’s management. Our responsibility is to express an opinion on the City’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City’s compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Members of the City Council
Hudson, Ohio

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson, as of and for the year ended December 31, 2004, and have issued our report thereon dated September 6, 2005.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, finance committee, the Auditor of State's Office, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Parichi, Inc.

Cleveland, Ohio
September 6, 2005

City of Hudson

Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2004

<u>Federal Grantor/Pass-Through Entity</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Receipts</u>	<u>Disbursements</u>
U.S. Department of Homeland Security:				
Assistance to Firefighters Grant	97.044	EMW-2002-FG-18808	\$ 40,885	\$ 47,890
Assistance to Firefighters Grant	97.044	EMW-2003-FG-18612	<u>18,004</u>	<u>39,105</u>
Total Assistance to Firefighters Grant			<u>58,889</u>	<u>86,995</u>
U.S. Federal Highway Administration:				
Pass through Programs from Ohio Department of Transportation:				
Highway Planning and Construction	20.205	23930	558,357	223,358
Highway Planning and Construction	20.205	22453	<u>317,806</u>	<u>317,806</u>
Total Highway Planning and Construction			<u>876,163</u>	<u>541,164</u>
Federal Emergency Management Agency:				
Pass through Programs from Ohio Emergency Management Agency:				
Flood Mitigation Assistance	97.029	153-36651-00	<u>259,818</u>	<u>75,505</u>
Total expenditures of federal awards			\$ <u>1,194,870</u>	\$ <u>703,664</u>

The accompanying notes are an integral part of this schedule

City of Hudson

Notes to Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2004

Note 1: General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Hudson (the "City").

Note 2: Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the cash basis of accounting. The City's expenditures for the year ended December 31, 2004 as reported on the Schedule reflect federal expenditures only and do not include matching expenditures.

City of Hudson

Schedule of Findings
OMB Circular A-133 Section .505

December 31, 2004

1. Summary of Auditor's Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	ODOT Grant Highway Planning and Construction, CFDA No. 20.205
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	No

2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS

None.

3. Findings for Federal Awards

None.

City of Hudson, Ohio

Schedule of Prior Audit Findings
OMB Circular A-133-Section .315(b)

December 31, 2004

None.

City of Hudson

27 East Main Street
Hudson, Ohio 44236
(330) 650-1799

Response to Findings Associated with Audit Conducted in Accordance with *Government Auditing Standards* for the Year Ended December 31, 2004

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
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Not applicable.



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF HUDSON

SUMMIT 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
DECEMBER 22, 2005**