

City of Hudson, Ohio

**Basic Financial Statements
For the year ended December 31, 2008**



Mary Taylor, CPA
Auditor of State

Members of City 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, 2008 through December 31, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 2, 2009

This page intentionally left blank

City of Hudson, Ohio

For The Year Ended December 31, 2008

Table of Contents	Page
Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	16
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	19
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual:	
General Fund.....	21
Street Construction Fund	22
Statement of Fund Net Assets – Proprietary Funds	23
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	24
Statement of Cash Flows – Proprietary Fund Types	25
Statement of Fiduciary Net Assets – Fiduciary Funds	27
Notes to Basic Financial Statements.....	28
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	65

This page intentionally left blank

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, Ohio (the "City") as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 the 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, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Street Construction Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2008, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, GASB Statement No. 50, *Pension Disclosures*, and SFAS 157, *Fair Value Measurements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the City Council
Hudson, Ohio

The Management's Discussion and Analysis on pages 3 through 11 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 inquiries 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 & Parichi, Inc.

Cleveland, Ohio
June 22, 2009

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2008

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, 2008. 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 2008"? 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 13) reports all assets and liabilities of the City as of December 31, 2008. 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 14) 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, 2008. 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) (continued)

For The Year Ended December 31, 2008

- 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, Electric Fund, and Storm Water Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 23 through 26.

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) (continued)

For The Year Ended December 31, 2008

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, Flexible Benefits Fund, and Information Services 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 27 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 \$97,714,101 in governmental activities and \$32,997,400 in business-type activities as of December 31, 2008. The largest portion of 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. The next largest portion of the City's net assets reflects its unrestricted portion. Net assets are presented in the following table:

City of Hudson, Ohio

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

For The Year Ended December 31, 2008

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current Assets	\$ 37,788,878	\$ 36,182,209	\$ 28,938,675	\$ 24,127,597	\$ 66,727,553	\$ 60,309,806
Investment in Joint Venture	-	-	509,763	509,226	509,763	509,226
Capital Assets, Net	<u>99,905,705</u>	<u>101,658,121</u>	<u>31,769,955</u>	<u>32,362,497</u>	<u>131,675,660</u>	<u>134,020,618</u>
Total Assets	<u>137,694,583</u>	<u>137,840,330</u>	<u>61,218,393</u>	<u>56,999,320</u>	<u>198,912,976</u>	<u>194,839,650</u>
Liabilities						
Current and Other Liabilities	9,271,512	6,666,351	6,232,523	2,793,764	15,504,035	9,460,115
Long-term Liabilities						
Due Within One Year	3,439,993	3,154,085	1,593,569	1,513,045	5,033,562	4,667,130
Due In More Than One Year	<u>27,268,977</u>	<u>29,747,998</u>	<u>20,394,901</u>	<u>21,472,494</u>	<u>47,663,878</u>	<u>51,220,492</u>
Total Liabilities	<u>39,980,482</u>	<u>39,568,434</u>	<u>28,220,993</u>	<u>25,779,303</u>	<u>68,201,475</u>	<u>65,347,737</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	75,236,006	77,263,355	13,043,860	12,886,069	88,279,866	90,149,424
Restricted	8,337,706	8,484,414	-	-	8,337,706	8,484,414
Unrestricted	<u>14,140,389</u>	<u>12,524,127</u>	<u>19,953,540</u>	<u>18,333,948</u>	<u>34,093,929</u>	<u>30,858,075</u>
Total Net Assets	\$ <u>97,714,101</u>	\$ <u>98,271,896</u>	\$ <u>32,997,400</u>	\$ <u>31,220,017</u>	\$ <u>130,711,501</u>	\$ <u>129,491,913</u>

An additional portion of the City's net assets (6.4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$34,093,929 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 \$1,606,669 increase in current assets. This was primarily due to an increase in cash balances in the governmental funds due to \$725,000 remaining balance from the issuance of a one year note for the Seasons Road interchange project (discussed below) plus increased tax revenue and the impact of continued cost control measures.

There was an increase of \$2,605,161 in current and other liabilities primarily due to the issuance of \$2,850,000 in one year notes to temporarily finance the Seasons Road interchange project. We anticipate a portion of these notes will be rolled into long-term bonds after completion of the project.

There was a decrease of \$2,479,021 in long-term liabilities due in more than one year primarily due to the reduction in long-term liabilities through regularly scheduled payments on bonds and the advanced refunding of bonds (see note 13 for further discussion).

Invested in capital assets, net of related debt decreased \$2,027,349 due to the routine depreciation of capital assets and disposal of various capital assets. The restricted net assets decreased \$146,708 primarily due to increases in

City of Hudson, Ohio

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

For The Year Ended December 31, 2008

the fund balances of the restricted funds. The net result of the changes in net assets was an increase of \$1,616,262 in unrestricted net assets.

Within the Business-Type Activities, assets increased \$4,219,073 primarily due to the issuance of \$3,200,000 in one year notes to temporarily finance the 138/69 KV transformer at the City's Eastside substation. The majority of the note proceeds are included in the cash balance at year end. Additionally, assets increased due to increased fund balances within the enterprise funds from sales combined with continue cost control measures. Long term liabilities due in more than one year decreased \$1,077,593 primarily due to the debt payments. Invested in capital assets, net of related debt increased \$157,791 due to increase in capital assets less related debt and accumulated depreciation on those items. The balance of the unrestricted net assets increased \$1,619,592 primarily due to the increase in cash balance discussed above.

Table 2 below, indicates the changes in net assets for the year ended December 31, 2008.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program Revenues						
Charges for services and sales	\$ 1,271,888	\$ 2,116,650	\$ 21,954,516	\$ 21,063,079	\$ 23,226,404	\$ 23,179,729
Operating grants and contributions	38,278	54,353	-	-	38,278	54,353
Capital grants and contributions	640,297	-	-	-	640,297	-
General Revenues						
Taxes	22,155,512	22,020,930	-	-	22,155,512	22,020,930
Grants and entitlements not restricted to specific programs	5,350,421	6,548,880	-	-	5,350,421	6,548,880
Investment income	1,691,590	2,353,917	71,148	99,494	1,762,738	2,453,411
Miscellaneous	449,144	522,512	196,212	526,748	645,356	1,049,260
Transfers in	-	-	4,037,500	3,225,000	4,037,500	3,225,000
Total revenues	<u>31,597,130</u>	<u>33,617,242</u>	<u>26,259,376</u>	<u>24,914,321</u>	<u>57,856,506</u>	<u>58,531,563</u>
Program Expenses						
General government	7,744,245	6,748,249	-	-	7,744,245	6,748,249
Security of persons and property	6,474,982	5,660,201	-	-	6,474,982	5,660,201
Public health	545,095	527,688	-	-	545,095	527,688
Leisure time services	1,043,393	896,350	-	-	1,043,393	896,350
Community and economic development	1,438,345	1,264,672	-	-	1,438,345	1,264,672
Transportation	9,612,434	4,521,706	-	-	9,612,434	4,521,706
Interest and fiscal charges	1,258,931	1,596,855	-	-	1,258,931	1,596,855
Electric system	-	-	16,309,912	15,625,165	16,309,912	15,625,165
Golf course	-	-	1,423,812	1,316,200	1,423,812	1,316,200
Storm sewer system	-	-	1,372,255	1,098,617	1,372,255	1,098,617
Wastewater system	-	-	3,065,976	3,562,706	3,065,976	3,562,706
Water system	-	-	2,310,038	1,647,573	2,310,038	1,647,573
Transfers out	4,037,500	3,225,000	-	-	4,037,500	3,225,000
Total program expenses	<u>32,154,925</u>	<u>24,440,721</u>	<u>24,481,993</u>	<u>23,250,261</u>	<u>56,636,918</u>	<u>47,690,982</u>
Change in net assets	\$ <u>(557,795)</u>	\$ <u>9,176,521</u>	\$ <u>1,777,383</u>	\$ <u>1,664,060</u>	\$ <u>1,219,588</u>	\$ <u>10,840,581</u>

City of Hudson, Ohio

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

For The Year Ended December 31, 2008

Governmental Activities

The City income tax is the largest contributor of revenues sources in governmental activities accounting for 54.5 percent of total revenues. Property and other local taxes generate 16 percent and grants and entitlements generate 17 percent of total revenues.

Community and economic development expenses accounts for 4 percent of governmental expenses, general government accounts for 24 percent of governmental expenses, security of persons and property accounts for 20 percent of governmental expenses, and transportation costs represent 30 percent of governmental expenses, respectively.

Governmental activities decreased the City's net assets by \$557,795. Total revenues decreased approximately \$2.0 million primarily due to decreased investment income as well as the decreased intergovernmental revenues. Charges for services decreased approximately \$845,000 primarily due to prior year special assessments for traffic signals and sidewalks and a decrease in revenue from the Wastewater Fund. Grants and entitlements not restricted to specific programs decreased approximately \$1.2 million due to the decrease in funding from governmental entities. Lastly, the investment income of the City decreased approximately \$660,000 due to the downturn in the market late in the fiscal year.

The decrease in overall net assets of \$557,795 as compared to the increase of \$9,176,521 in 2007 was due to increased transportation and security of person & property related expenditures along with overall general government expenditures.

Business-Type Activities

The City's business-type activities are the water, wastewater, electric, storm sewer, and golf course departments. Charges for services generated 84 percent of all revenues in the business-type activities.

Business-Type Activities increased the City's net assets by \$1,777,383. Charges for services and sales increased \$891,437 due to increased consumption and corresponding purchase power. Transfers-in also increased by \$812,500. Expenditures increased \$1,231,732 due to increased purchase of power for the electric system.

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.

City of Hudson, Ohio

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

For The Year Ended December 31, 2008

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$21,960,172, a increase of \$825,085 in comparison with the prior year.

Approximately 85 percent of this total amount or \$18,574,315 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 \$13,064,788, while the total fund balance was \$13,409,252. The General Fund balance increased by \$1,316,183 or 11 percent over the prior year due to a combination of several items including the increase in income and special assessments offset by increases in transfers-out to other funds.

The other major governmental funds of the City are Street Construction, Street Improvements (Service Department), and Seasons Road Interchange.

The fund balance for the Street Construction Fund decreased \$192,225. The decrease is due to the decrease in transfers from the General Fund.

The fund balance of the Street Improvements Fund increased \$660,493. The increase is primarily due to decreased spending on capital projects.

The fund balance of the Seasons Road Interchange Fund decreased \$2,179,410. The decrease is due to the spending of money received from a note, which is due in October 2009, on capital projects.

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, Electric, and Storm Sewer increased/(decreased) by \$(537,731) or (10 percent), \$1,602,692 or 67 percent, \$882,662 or 4 percent, and \$(19,146) or (2 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 final budgeted revenues as compared to the original budgeted revenue decreased by approximately \$560,000 for income taxes, increased by \$1,261,649 for intergovernmental revenues, and decreased by \$282,400 for interest income. The income tax revenue estimate decrease was due to the unknown downturn in the economic status when the 2008 budget was originally prepared. The final estimate was 4.0% lower than the original because actual collections were far below original expectations. The intergovernmental revenue estimate increase was primarily due to conservative estimating of estate tax revenue. Estate taxes are very unpredictable and the City has budgeted \$800,000 for the past several years as the minimum amount it would expect. For 2008, the City collected \$2,088,757 in estate taxes which is \$1,288,757 more than originally estimated and adequately explains the reason for the increase in intergovernmental revenue.

City of Hudson, Ohio

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

For The Year Ended December 31, 2008

Actual General Fund expenditures compared to the budget reflected approximately \$922,000 remaining in unencumbered funds as of December 31, 2008. Security of persons and property which is largely the Police Department activity, accounted for \$139,000 of those unencumbered funds, capital outlay projects accounted for \$198,000 and general government accounted for \$459,000.

The Police Department personnel costs and overall operating expenses were less than budgeted. General government departments' actual costs were generally less than budgeted for personnel costs within several departments and capital outlay in Public Properties.

In the Street Construction Fund, there were no significant variances between the original budgeted and final budgeted revenues. The original budgeted expenditures were amended by approximately \$195,000 to account for additional road and sidewalk improvement projects incurred by the Street Construction Fund. 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, 2008, amounts to \$131,675,660 (net of accumulated depreciation). This investment in capital assets includes land; building structures and improvements; furniture, fixtures and equipment; and infrastructure.

Table 3 shows fiscal 2008 balances of Capital Assets as compared to the restated 2007 balances:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 8,945,384	\$ 8,945,384	\$ 2,296,866	\$ 2,269,866	\$ 11,242,250	\$ 11,215,250
Construction in process	3,190,486	691,225	432,714	1,049,763	3,623,200	1,740,988
Buildings	7,599,226	7,609,195	5,282,305	4,811,168	12,881,531	12,420,363
Land improvements	413,763	439,539	2,123,612	2,081,725	2,537,375	2,521,264
Vehicles	4,486,566	4,718,415	1,907,269	1,962,365	6,393,835	6,680,780
Equipment, furniture and fixtures	3,081,093	4,058,869	3,850,100	4,091,961	6,931,193	8,150,830
Infrastructure:						
Roads	110,345,517	110,151,921	-	-	110,345,517	110,151,921
Sidewalks	2,765,137	2,749,430	-	-	2,765,137	2,749,430
Traffic signals	2,480,705	2,452,178	-	-	2,480,705	2,452,178
Water main lines	-	-	14,379,640	14,020,659	14,379,640	14,020,659
Sewer lines	-	-	8,868,081	8,909,066	8,868,081	8,909,066
Storm sewers	-	-	1,326,985	958,046	1,326,985	958,046
Electric	-	-	5,415,943	5,567,179	5,415,943	5,567,179
Less: accumulated depreciation	(43,402,172)	(40,158,035)	(14,113,560)	(13,359,301)	(57,515,732)	(53,517,336)
Total capital assets	\$ 99,905,705	\$ 101,658,121	\$ 31,769,955	\$ 32,362,497	\$ 131,675,660	\$ 134,020,618

City of Hudson, Ohio

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

For The Year Ended December 31, 2008

Debt

At December 31, 2008, the City had \$49,452,970 of long-term bonds, loans and other outstanding obligations, excluding compensated absences and capital leases. Details of the individual obligations can be found in Note 13.

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 \$30,350,273 of net indebtedness as of December 31, 2008. 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 \$30,873,677 as of December 31, 2008. 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 \$12,316,795 leaving the City's overall legal debt margin at \$78,297,369 as of December 31, 2008.

Future Funding Considerations

During 2008, the City of Hudson maintained its bond rating of Aa1 as determined by Moody's Investors Service. Additionally, the City obtained an AA+ rating from Standard & Poor's. These ratings put the City in the top 5% among municipalities in the state of Ohio, in terms of credit-worthiness.

During 2008, the City completed its 2009-2013 Five Year Financial Plan that includes operating and capital cost projections for the City's operating funds. The plan identifies numerous capital expenditures including the cost of the Atterbury Road Reconstruction project, Village South park construction, replacing various safety forces vehicles and equipment, along with several road/intersection, sewer, storm water and electric system capital improvements.

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. Electronic copies of the City's 2009 Budget Book and 2009-2013 Five Year Financial Plan are available at the City's website – <http://www.hudson.oh.us>.

This page intentionally left blank

City of Hudson, Ohio

Statement of Net Assets

December 31, 2008

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 23,004,774	\$ 23,970,366	\$ 46,975,140
Investment in common stock	12,312	-	12,312
Investments in segregated accounts	2,987	-	2,987
Materials and supplies inventory	195,137	1,868,016	2,063,153
Accounts receivable	344,699	3,770,547	4,115,246
Internal balances	779,458	(779,458)	-
Intergovernmental receivable	1,139,654	-	1,139,654
Taxes receivable	9,892,107	-	9,892,107
Special assessments receivable	2,248,697	93,744	2,342,441
Unamortized bond issuance costs	169,053	15,460	184,513
Noncurrent assets:			
Investment in joint venture	-	509,763	509,763
Nondepreciable capital assets	12,135,870	2,729,580	14,865,450
Depreciable capital assets, net	<u>87,769,835</u>	<u>29,040,375</u>	<u>116,810,210</u>
Total assets	<u>137,694,583</u>	<u>61,218,393</u>	<u>198,912,976</u>
Liabilities			
Current liabilities:			
Accounts payable	882,916	2,020,143	2,903,059
Accrued wages and benefits	400,224	151,551	551,775
Intergovernmental payable	597,102	709,856	1,306,958
Accrued interest payable	93,881	144,174	238,055
Retainage payable	86,190	6,799	92,989
Notes payable	2,850,000	3,200,000	6,050,000
Claims Payable	12,617	-	12,617
Deferred revenue	4,348,582	-	4,348,582
Long-term liabilities:			
Due within one year	3,439,993	1,593,569	5,033,562
Due in more than one year	<u>27,268,977</u>	<u>20,394,901</u>	<u>47,663,878</u>
Total liabilities	<u>39,980,482</u>	<u>28,220,993</u>	<u>68,201,475</u>
Net Assets			
Invested in capital assets, net of related debt	75,236,006	13,043,860	88,279,866
Restricted for:			
Capital projects	1,324,960	-	1,324,960
Debt service	882,018	-	882,018
Other purposes	6,092,851	-	6,092,851
Permanent fund	37,877	-	37,877
Unrestricted	<u>14,140,389</u>	<u>19,953,540</u>	<u>34,093,929</u>
Total net assets	<u>\$ 97,714,101</u>	<u>\$ 32,997,400</u>	<u>\$ 130,711,501</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, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 7,744,245	\$ 397,066	\$ 10,000	\$ -
Security of persons and property	6,474,982	437,034	28,278	-
Public health	545,095	78,338	-	-
Leisure time services	1,043,393	287,920	-	-
Community and economic development	1,438,345	71,530	-	-
Transportation	9,612,434	-	-	640,297
Interest and fiscal charges	<u>1,258,931</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>28,117,425</u>	<u>1,271,888</u>	<u>38,278</u>	<u>640,297</u>
Business-type activities:				
Electric system	16,309,912	17,116,612	-	-
Golf course	1,423,812	1,160,735	-	-
Storm sewer system	1,372,255	2,617	-	-
Wastewater system	3,065,976	2,025,202	-	-
Water system	<u>2,310,038</u>	<u>1,649,350</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>24,481,993</u>	<u>21,954,516</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 52,599,418</u>	<u>\$ 23,226,404</u>	<u>\$ 38,278</u>	<u>\$ 640,297</u>

General revenues:
 Property and other local taxes
 Municipal income tax
 Grants and entitlements not restricted
 to specific programs
 Investment income
 Miscellaneous income
 Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning of year, restated

Net assets, end of year

The accompanying notes are an integral part of the financial statements

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
\$ (7,337,179)	\$ -	\$ (7,337,179)
(6,009,670)	-	(6,009,670)
(466,757)	-	(466,757)
(755,473)	-	(755,473)
(1,366,815)	-	(1,366,815)
(8,972,137)	-	(8,972,137)
<u>(1,258,931)</u>	<u>-</u>	<u>(1,258,931)</u>
<u>(26,166,962)</u>	<u>-</u>	<u>(26,166,962)</u>
-	806,700	806,700
-	(263,077)	(263,077)
-	(1,369,638)	(1,369,638)
-	(1,040,774)	(1,040,774)
<u>-</u>	<u>(660,688)</u>	<u>(660,688)</u>
<u>-</u>	<u>(2,527,477)</u>	<u>(2,527,477)</u>
<u>(26,166,962)</u>	<u>(2,527,477)</u>	<u>(28,694,439)</u>
4,924,556	-	4,924,556
17,230,956	-	17,230,956
5,350,421	-	5,350,421
1,691,590	71,148	1,762,738
449,144	196,212	645,356
<u>(4,037,500)</u>	<u>4,037,500</u>	<u>-</u>
<u>25,609,167</u>	<u>4,304,860</u>	<u>29,914,027</u>
(557,795)	1,777,383	1,219,588
<u>98,271,896</u>	<u>31,220,017</u>	<u>129,491,913</u>
\$ <u>97,714,101</u>	\$ <u>32,997,400</u>	\$ <u>130,711,501</u>

City of Hudson, Ohio

Balance Sheet Governmental Funds

December 31, 2008

	<u>General</u>	<u>Street Construction</u>	<u>Street Improvements</u>	<u>Seasons Road Interchange</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Current assets:						
Equity in pooled cash and cash equivalents	\$ 10,865,209	\$ 239,574	\$ 2,842,461	\$ 725,000	\$ 7,878,589	\$ 22,550,833
Investment in common stock	-	-	-	-	12,312	12,312
Investment in segregated accounts	-	-	-	-	2,987	2,987
Materials and supplies inventory	34,711	77,333	-	-	35,745	147,789
Accounts receivable	21,870	-	13,802	4,711	304,312	344,695
Interfund receivable	900,458	-	-	-	-	900,458
Intergovernmental receivable	626,417	425,603	-	-	87,634	1,139,654
Taxes receivable	6,570,967	-	-	-	3,321,140	9,892,107
Special assessments receivable	441,193	-	-	-	1,807,504	2,248,697
Noncurrent assets:						
Advances to other funds	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Total assets	\$ <u>19,560,825</u>	\$ <u>742,510</u>	\$ <u>2,856,263</u>	\$ <u>729,711</u>	\$ <u>13,450,223</u>	\$ <u>37,339,532</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 256,090	\$ 128,201	\$ 333,661	\$ -	\$ 128,336	\$ 846,288
Accrued wages and benefits	235,112	65,988	-	-	78,822	379,922
Intergovernmental payable	323,109	51,269	-	59,121	142,248	575,747
Interfund payable	-	-	155,000	-	66,000	221,000
Retainage payable	-	-	86,190	-	-	86,190
Notes payable	-	-	-	2,850,000	-	2,850,000
Deferred revenue	<u>5,337,262</u>	<u>283,838</u>	<u>-</u>	<u>-</u>	<u>4,799,113</u>	<u>10,420,213</u>
Total liabilities	<u>6,151,573</u>	<u>529,296</u>	<u>574,851</u>	<u>2,909,121</u>	<u>5,214,519</u>	<u>15,379,360</u>
Fund Balances:						
Reserved for encumbrances	209,753	104,191	1,707,351	-	215,970	2,237,265
Reserved for advance	100,000	-	-	-	-	100,000
Reserved for principal trust	-	-	-	-	6,473	6,473
Reserved for inventory	34,711	77,333	-	-	35,745	147,789
Reserved for common stock	-	-	-	-	12,312	12,312
Reserved for debt service	-	-	-	-	882,018	882,018
Unreserved, undesignated, (deficit) reported in:						
General fund	13,064,788	-	-	-	-	13,064,788
Special revenue funds	-	31,690	-	-	5,882,859	5,914,549
Capital project funds	-	-	574,061	(2,179,410)	1,167,923	(437,426)
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,404</u>	<u>32,404</u>
Total fund balances (deficit)	<u>13,409,252</u>	<u>213,214</u>	<u>2,281,412</u>	<u>(2,179,410)</u>	<u>8,235,704</u>	<u>21,960,172</u>
Total liabilities and fund balances	\$ <u>19,560,825</u>	\$ <u>742,510</u>	\$ <u>2,856,263</u>	\$ <u>729,711</u>	\$ <u>13,450,223</u>	\$ <u>37,339,532</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, 2008

Total Governmental Funds Balances \$ 21,960,172

*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 99,747,040

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

Taxes	\$ 2,491,054	
Special assessments	2,248,697	
Charges for services	166,399	
Intergovernmental	<u>1,165,481</u>	
Total		6,071,631

In the statement of activities, interest is accrued on outstanding bonds,
whereas in governmental funds, an interest expenditure is reported when
due. (93,881)

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 372,886

In the statement of activities, bond issuance costs are amortized over
the term of the bonds, whereas in governmental funds a bond issuance
expenditures is reported when bonds are issued. 169,053

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	(26,939,529)	
Special assessment bonds	(1,760,106)	
Compensated absences	(1,644,935)	
Capital leases payable	<u>(168,230)</u>	
Total		<u>(30,512,800)</u>

Net assets of governmental activities \$ 97,714,101

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, 2008

	General	Street Construction	Street Improvements	Seasons Road Interchange	Non-major Governmental Funds	Total Governmental Funds
Revenues:						
Property and other local taxes	\$ 2,351,165	\$ -	\$ -	\$ -	\$ 2,573,082	\$ 4,924,247
Municipal income tax	14,539,142	-	-	-	4,036,359	18,575,501
Intergovernmental	3,347,008	865,093	640,297	-	602,709	5,455,107
Charges for services	440,869	-	-	-	809,969	1,250,838
Fines and forfeitures	71,079	-	-	-	2,234	73,313
Special assessments	51,149	-	-	-	217,686	268,835
Interest	1,411,125	-	26,422	-	201,583	1,639,130
Other	175,103	699	302,049	4,711	124,284	606,846
Total revenues	22,386,640	865,792	968,768	4,711	8,567,906	32,793,817
Expenditures:						
Current:						
Security of persons and property	3,628,666	-	-	-	2,302,950	5,931,616
Public health	298,308	-	-	-	225,691	523,999
Leisure time services	-	-	-	-	871,337	871,337
Community and economic development	1,327,380	-	-	-	57,898	1,385,278
Transportation	-	2,998,385	23,571	-	-	3,021,956
General government	4,854,387	-	-	-	51,724	4,906,111
Capital outlay	348,698	95,616	3,812,204	2,184,121	1,215,729	7,656,368
Debt Service:						
Principal retirement	-	-	-	-	2,641,049	2,641,049
Interest and fiscal charges	-	-	-	-	1,255,238	1,255,238
Bond issuance costs	-	-	-	-	186,053	186,053
Total expenditures	10,457,439	3,094,001	3,835,775	2,184,121	8,807,669	28,379,005
Excess of revenues over (under) expenditures	11,929,201	(2,228,209)	(2,867,007)	(2,179,410)	(239,763)	4,414,812
Other financing sources (uses):						
Proceeds from sale of assets	11,935	13,984	-	-	173,141	199,060
Transfers - in	-	2,022,000	3,527,500	-	1,355,734	6,905,234
Transfers - out	(10,624,953)	-	-	-	(317,781)	(10,942,734)
Issuance of debt	-	-	-	-	13,790,000	13,790,000
Premium on bonds	-	-	-	-	1,151,529	1,151,529
Payment on refunded bond escrow agent	-	-	-	-	(14,692,816)	(14,692,816)
Total other financing sources (uses)	(10,613,018)	2,035,984	3,527,500	-	1,459,807	(3,589,727)
Net change in fund balances	1,316,183	(192,225)	660,493	(2,179,410)	1,220,044	825,085
Fund balance at beginning of year	12,093,069	405,439	1,620,919	-	7,015,660	21,135,087
Fund balance (deficit) at end of year	\$ 13,409,252	\$ 213,214	\$ 2,281,412	\$ (2,179,410)	\$ 8,235,704	\$ 21,960,172

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, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 825,085

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	\$ 3,460,889	
Depreciation	<u>(4,703,502)</u>	
Total		(1,242,613)

In the Statement of Activities, a gain or loss is reported for each disposal, whereas, in the Governmental Funds, only report the disposal of capital assets to the extent proceeds are received from the sale. (470,583)

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	309	
Municipal income taxes	(1,344,545)	
Special assessments	(260,935)	
Charges for services	(9,014)	
Intergovernmental	<u>(161,734)</u>	
Total		(1,775,919)

Other financing sources in the Governmental Funds increase Long-Term Liabilities in the Statement of Net Assets.

General obligation bonds issued	(12,950,000)	
Special assessment bonds issued	(840,000)	
Premium on bonds issued	<u>(1,151,529)</u>	
Total		(14,941,529)

Repayment of Long-Term Obligations is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets.

General obligation bonds	15,250,000	
Special assessment bonds	1,015,366	
Capital leases	85,683	
Compensated absences	(213,038)	
Accretion on capital appreciation bonds	(17,370)	
Loss on refunding	<u>982,817</u>	
Total		17,103,458

In the Statement of Activities, bond issuance costs are amortized over the term of the bonds, whereas, in the Governmental Funds, a bond issuance expenditure is reported when bonds are issued. 186,053

(continued)

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 (Continued)

For The Year Ended December 31, 2008

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.

Accrued interest on debt	14,596	
Amortization of premium	100,978	
Amortization of loss on refunding	(84,897)	
Amortization of issuance costs	<u>(17,000)</u>	
Total		13,677

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

(255,424)

Change in Net Assets of Governmental Activities

\$ (557,795)

City of Hudson, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) General Fund

For The Year Ended December 31, 2008

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Property and other local taxes	\$ 2,374,714	\$ 2,374,714	\$ 2,351,165	\$ (23,549)
Income taxes	13,900,000	13,337,548	13,337,548	-
Charges for services	464,585	464,585	440,869	(23,716)
Fines and forfeitures	85,000	85,000	75,766	(9,234)
Intergovernmental	2,945,089	4,206,738	4,113,241	(93,497)
Special assessment	-	51,149	51,149	-
Interest	1,200,000	917,600	918,743	1,143
Other	-	25,378	173,989	148,611
Total revenues	<u>20,969,388</u>	<u>21,462,712</u>	<u>21,462,470</u>	<u>(242)</u>
Expenditures:				
Current:				
General government	5,175,870	5,424,270	4,965,120	459,150
Security of persons and property	3,782,802	3,759,778	3,620,312	139,466
Public health	293,255	293,255	293,255	-
Community and economic development	1,484,916	1,486,649	1,360,940	125,709
Capital outlay	<u>626,854</u>	<u>625,695</u>	<u>427,516</u>	<u>198,179</u>
Total expenditures	<u>11,363,697</u>	<u>11,589,647</u>	<u>10,667,143</u>	<u>922,504</u>
Excess of revenues over expenditures	<u>9,605,691</u>	<u>9,873,065</u>	<u>10,795,327</u>	<u>922,262</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	-	-	11,935	11,935
Transfers – out	(10,009,992)	(10,624,953)	(10,624,953)	-
Advance – in	400,000	400,000	405,533	5,533
Advances – out	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(9,649,992)</u>	<u>(10,264,953)</u>	<u>(10,247,485)</u>	<u>17,468</u>
Net change in fund balance	(44,301)	(391,888)	547,842	939,730
Fund balance at beginning of fiscal year	9,066,162	9,066,162	9,066,162	-
Prior fiscal year encumbrances appropriated	379,645	251,837	251,837	-
Decertification of prior year encumbrances	<u>-</u>	<u>127,808</u>	<u>127,808</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>9,401,506</u>	\$ <u>9,053,919</u>	\$ <u>9,993,649</u>	\$ <u>939,730</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 Fund

For The Year Ended December 31, 2008

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Intergovernmental	\$ 866,665	\$ 859,665	\$ 868,629	\$ 8,964
Other	<u>-</u>	<u>-</u>	<u>699</u>	<u>699</u>
Total revenues	<u>866,665</u>	<u>859,665</u>	<u>869,328</u>	<u>9,663</u>
Expenditures:				
Current:				
Transportation	2,989,856	3,176,356	3,115,460	60,896
Capital outlay	<u>93,650</u>	<u>102,150</u>	<u>97,137</u>	<u>5,013</u>
Total Expenditures	<u>3,083,506</u>	<u>3,278,506</u>	<u>3,212,597</u>	<u>65,909</u>
Excess of revenues over (under) expenditures	<u>(2,216,841)</u>	<u>(2,418,841)</u>	<u>(2,343,269)</u>	<u>75,572</u>
Other financing sources (uses):				
Transfers - in	1,950,000	2,022,000	2,022,000	-
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>13,984</u>	<u>13,984</u>
Total other financing sources (uses)	<u>1,950,000</u>	<u>2,022,000</u>	<u>2,035,984</u>	<u>13,984</u>
Net change in fund balance	(266,841)	(396,841)	(307,285)	89,556
Fund balance at beginning of fiscal year	228,880	228,880	228,880	-
Prior fiscal year encumbrances appropriated	169,052	146,975	146,975	-
Decertification of prior year encumbrances	<u>-</u>	<u>22,077</u>	<u>22,077</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>131,091</u>	\$ <u>1,091</u>	\$ <u>90,647</u>	\$ <u>89,556</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, 2008

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</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	\$ 898,968	\$ 2,031,801	\$ 17,944,016	\$ 3,088,855	\$ 6,726	\$ 23,970,366	\$ 453,941
Accounts receivable	465,339	377,026	2,927,114	766	302	3,770,547	4
Special assessments receivable	93,744	-	-	-	-	93,744	-
Materials and supplies inventory	269,798	9,674	1,538,860	36,352	13,332	1,868,016	47,348
Total current assets	<u>1,727,849</u>	<u>2,418,501</u>	<u>22,409,990</u>	<u>3,125,973</u>	<u>20,360</u>	<u>29,702,673</u>	<u>501,293</u>
Noncurrent assets:							
Unamortized bond premium	15,460	-	-	-	-	15,460	-
Investment in joint venture	-	-	509,763	-	-	509,763	-
Nondepreciable capital assets	-	240,776	258,591	221,988	2,008,225	2,729,580	11,967
Depreciable capital assets, net	9,913,518	9,241,985	6,403,365	1,289,670	2,191,837	29,040,375	146,698
Total noncurrent assets	<u>9,928,978</u>	<u>9,482,761</u>	<u>7,171,719</u>	<u>1,511,658</u>	<u>4,200,062</u>	<u>32,295,178</u>	<u>158,665</u>
Total assets	<u>11,656,827</u>	<u>11,901,262</u>	<u>29,581,709</u>	<u>4,637,631</u>	<u>4,220,422</u>	<u>61,997,851</u>	<u>659,958</u>
Liabilities							
Current liabilities:							
Accounts payable	63,596	34,274	1,879,482	40,977	1,814	2,020,143	36,628
Claims payable	-	-	-	-	-	-	12,617
Accrued wages and benefits	17,033	25,534	75,451	20,158	13,375	151,551	20,302
Intergovernmental payable	22,047	560,541	89,914	15,928	21,426	709,856	21,355
Retainage payable	-	-	-	6,799	-	6,799	-
Due to other funds	-	-	-	80,350	599,108	679,458	-
Accrued interest payable	16,747	106,139	7,438	9,431	4,419	144,174	-
Compensated absences payable	60,514	4,625	250,656	14,717	55,489	386,001	95,713
Notes payable	-	-	3,200,000	-	-	3,200,000	-
Capital lease payable	-	47,339	-	47,339	8,889	103,567	32,032
OWDA loans payable	-	410,655	-	-	-	410,655	-
General obligation bonds payable	333,346	40,000	110,000	90,000	120,000	693,346	-
Total current liabilities	<u>513,283</u>	<u>1,229,107</u>	<u>5,612,941</u>	<u>325,699</u>	<u>824,520</u>	<u>8,505,550</u>	<u>218,647</u>
Long-term liabilities (net of current portion):							
Advances from other funds	-	100,000	-	-	-	100,000	-
Compensated absences payable	183,993	14,696	293,160	15,101	27,971	534,921	377
Capital lease payable	-	100,566	-	100,566	9,514	210,646	68,048
OWDA loans payable	-	4,538,229	-	-	-	4,538,229	-
General obligation bonds payable	5,921,105	1,935,000	2,635,000	3,105,000	1,515,000	15,111,105	-
Total long-term liabilities	<u>6,105,098</u>	<u>6,688,491</u>	<u>2,928,160</u>	<u>3,220,667</u>	<u>1,552,485</u>	<u>20,494,901</u>	<u>68,425</u>
Total liabilities	<u>6,618,381</u>	<u>7,917,598</u>	<u>8,541,101</u>	<u>3,546,366</u>	<u>2,377,005</u>	<u>29,000,451</u>	<u>287,072</u>
Net Assets							
Invested in capital assets, net of related debt	3,659,067	2,410,972	3,916,956	510,206	2,546,659	13,043,860	58,585
Unrestricted	1,379,379	1,572,692	17,123,652	581,059	(703,242)	19,953,540	314,301
Total net assets	\$ <u>5,038,446</u>	\$ <u>3,983,664</u>	\$ <u>21,040,608</u>	\$ <u>1,091,265</u>	\$ <u>1,843,417</u>	\$ <u>32,997,400</u>	\$ <u>372,886</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, 2008

	Water	Wastewater	Electric	Storm Sewer	All other Enterprise Funds	Totals	Government Activities - Internal Service Funds
Operating revenues:							
Charges for services	\$ 1,649,350	\$ 2,025,202	\$ 17,118,412	\$ 817	\$ 1,160,735	\$ 21,954,516	\$ 1,612,321
Other	<u>84,789</u>	<u>25,278</u>	<u>74,162</u>	<u>-</u>	<u>11,983</u>	<u>196,212</u>	<u>88,889</u>
Total operating revenues	<u>1,734,139</u>	<u>2,050,480</u>	<u>17,192,574</u>	<u>817</u>	<u>1,172,718</u>	<u>22,150,728</u>	<u>1,701,210</u>
Operating expenses:							
Personal services	512,259	653,890	2,433,070	527,080	661,485	4,787,784	606,172
Materials and supplies	113,632	20,201	125,663	69,236	310,941	639,673	492,096
Contractual services	895,216	1,665,774	12,879,946	423,859	134,859	15,999,654	595,464
Claims	-	-	-	-	-	-	228,426
Other	819	-	109,053	-	71,087	180,959	-
Depreciation	<u>345,596</u>	<u>300,514</u>	<u>428,814</u>	<u>57,713</u>	<u>138,806</u>	<u>1,271,443</u>	<u>21,379</u>
Total operating expenses	<u>1,867,522</u>	<u>2,640,379</u>	<u>15,976,546</u>	<u>1,077,888</u>	<u>1,317,178</u>	<u>22,879,513</u>	<u>1,943,537</u>
Operating income (loss)	<u>(133,383)</u>	<u>(589,899)</u>	<u>1,216,028</u>	<u>(1,077,071)</u>	<u>(144,460)</u>	<u>(728,785)</u>	<u>(242,327)</u>
Non-operating revenues (expenses):							
Investment income	38,168	30,688	-	2,292	-	71,148	1,551
Equity in loss of joint venture	-	-	537	-	-	537	-
Interest and fiscal charges	(283,157)	(309,794)	(121,984)	(160,527)	(73,520)	(948,982)	-
Gain (loss) on disposal of capital assets	<u>(159,359)</u>	<u>(115,803)</u>	<u>(211,919)</u>	<u>(133,840)</u>	<u>(33,114)</u>	<u>(654,035)</u>	<u>(14,648)</u>
Total non-operating (expenses)	<u>(404,348)</u>	<u>(394,909)</u>	<u>(333,366)</u>	<u>(292,075)</u>	<u>(106,634)</u>	<u>(1,531,332)</u>	<u>(13,097)</u>
Income (loss) before transfers	(537,731)	(984,808)	882,662	(1,369,146)	(251,094)	(2,260,117)	(255,424)
Transfers – in	<u>-</u>	<u>2,587,500</u>	<u>-</u>	<u>1,350,000</u>	<u>100,000</u>	<u>4,037,500</u>	<u>-</u>
Change in net assets	(537,731)	1,602,692	882,662	(19,146)	(151,094)	1,777,383	(255,424)
Net assets at beginning of year, restated	<u>5,576,177</u>	<u>2,380,972</u>	<u>20,157,946</u>	<u>1,110,411</u>	<u>1,994,511</u>	<u>31,220,017</u>	<u>628,310</u>
Net assets at end of year	\$ <u>5,038,446</u>	\$ <u>3,983,664</u>	\$ <u>21,040,608</u>	\$ <u>1,091,265</u>	\$ <u>1,843,417</u>	\$ <u>32,997,400</u>	\$ <u>372,886</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, 2008

	Water	Wastewater	Electric	Storm Sewer	All Other Enterprise Funds	Total Enterprise Funds	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:							
Cash received from customers	\$ 1,364,691	\$ 1,900,265	\$ 16,622,799	\$ 2,671	\$ 1,160,735	\$ 21,051,161	\$ 1,612,321
Cash payments to employees for services	(472,343)	(641,310)	(2,357,402)	(507,747)	(612,822)	(4,591,624)	(579,555)
Cash payments for goods and services	(1,007,576)	(1,760,961)	(12,145,990)	(456,876)	(446,300)	(15,817,703)	(1,121,195)
Cash payments for claims	-	-	-	-	-	-	(231,569)
Other operating revenues	92,065	25,278	32,013	4,400	11,935	165,691	88,891
Other operating expenses	(819)	-	(680,385)	-	(71,048)	(752,252)	-
Net cash provided by (used for) operating activities	<u>(23,982)</u>	<u>(476,728)</u>	<u>1,471,035</u>	<u>(957,552)</u>	<u>42,500</u>	<u>55,273</u>	<u>(231,107)</u>
Cash Flows from Noncapital Financing Activities:							
Advance-in	-	-	-	-	40,000	40,000	-
Advance-out	-	-	-	-	-	-	(5,533)
Transfer-in	-	<u>2,587,500</u>	-	<u>1,350,000</u>	<u>100,000</u>	<u>4,037,500</u>	-
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>2,587,500</u>	<u>-</u>	<u>1,350,000</u>	<u>140,000</u>	<u>4,077,500</u>	<u>(5,533)</u>
Cash Flows from Capital and Related Financing Activities:							
Acquisition of capital assets	(1,870)	(844,385)	(209,840)	(238,410)	(59,291)	(1,353,796)	-
Proceeds from sale of capital assets	1,500	-	19,360	-	-	20,860	3,193
Proceeds from issuance of notes	-	-	3,200,000	-	-	3,200,000	-
Proceeds from general obligation bonds	1,240,000	-	-	-	-	1,240,000	-
Premium from general obligation bonds	18,887	-	-	-	-	18,887	-
Payment to refunded bond escrow agent	(1,236,791)	-	-	-	-	(1,236,791)	-
Bond issuance costs	(17,392)	-	-	-	-	(17,392)	-
Principal payments	(319,634)	(475,033)	(105,000)	(135,479)	(123,305)	(1,158,451)	(30,773)
Interest payments	(275,455)	(317,202)	(121,744)	(159,644)	(73,630)	(947,675)	-
Net cash provided by (used for) capital and related financing activities	<u>(590,755)</u>	<u>(1,636,620)</u>	<u>2,782,776</u>	<u>(533,533)</u>	<u>(256,226)</u>	<u>(234,358)</u>	<u>(27,580)</u>
Cash Flows from Investing Activities:							
Interest on investments	<u>38,168</u>	<u>30,688</u>	<u>-</u>	<u>2,292</u>	<u>-</u>	<u>71,148</u>	<u>1,551</u>
Net increase (decrease) cash and cash equivalents	(576,569)	504,840	4,253,811	(138,793)	(73,726)	3,969,563	(262,669)
Cash and cash equivalents at beginning of year	<u>1,475,537</u>	<u>1,526,961</u>	<u>13,690,205</u>	<u>3,227,648</u>	<u>80,452</u>	<u>20,000,803</u>	<u>716,610</u>
Cash and cash equivalents at end of year	\$ <u><u>898,968</u></u>	\$ <u><u>2,031,801</u></u>	\$ <u><u>17,944,016</u></u>	\$ <u><u>3,088,855</u></u>	\$ <u><u>6,726</u></u>	\$ <u><u>23,970,366</u></u>	\$ <u><u>453,941</u></u>
Non-cash capital financing activities:							
Amortization of premium on general obligation bonds	\$ (2,099)	\$ -	\$ -	\$ -	\$ -	\$ (2,099)	\$ -
Amortization of loss on refunding	<u>9,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,088</u>	<u>-</u>
Total non-cash capital financing activities	\$ <u><u>6,989</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>6,989</u></u>	\$ <u><u>-</u></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, 2008

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>	<u>All other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Government Activities - Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash from operating activities:							
Operating income (loss)	\$ (133,383)	\$ (589,899)	\$ 1,216,028	\$ (1,077,071)	\$ (144,460)	\$ (728,785)	\$ (242,327)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	345,596	300,514	428,814	57,713	138,806	1,271,443	21,379
(Increase) Decrease in Operating Assets:							
Accounts receivables	(285,795)	(124,937)	(537,762)	6,254	(48)	(942,288)	2
Materials and supplies inventory	(36,881)	(3,226)	111,003	2,192	(563)	72,525	(16,543)
Special assessments receivable	3,708	-	-	-	-	3,708	-
Increase (Decrease) in Operating Liabilities:							
Accounts payable	39,835	(1,228)	176,657	24,792	(18)	240,038	(17,140)
Accrued wages and benefits	(2,817)	(18)	(13,525)	5,740	(1,745)	(12,365)	(770)
Compensated absences payable	34,277	665	47,202	8,518	41,635	132,297	15,670
Intergovernmental payable	11,478	(58,599)	42,618	7,511	8,893	11,901	11,765
Retainage payable	-	-	-	6,799	-	6,799	-
Claims payable	-	-	-	-	-	-	(3,143)
Total adjustments	<u>109,401</u>	<u>113,171</u>	<u>255,007</u>	<u>119,519</u>	<u>186,960</u>	<u>784,058</u>	<u>11,220</u>
Net cash provided by (used for) operating activities	\$ <u>(23,982)</u>	\$ <u>(476,728)</u>	\$ <u>1,471,035</u>	\$ <u>(957,552)</u>	\$ <u>42,500</u>	\$ <u>55,273</u>	\$ <u>(231,107)</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, 2008

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 768,716
Taxes receivable	1,781,085
Intergovernmental receivable	<u>1,224</u>
Total Assets	\$ <u>2,551,025</u>
Liabilities:	
Accounts payable	\$ 94,997
Undistributed Monies	348,839
Deposits Held and Due to Others	326,104
Deferred revenue	<u>1,781,085</u>
Total Liabilities	\$ <u>2,551,025</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, 2008

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 20 and 21.

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, 2008

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.

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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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.

Seasons Road Interchange - The street improvements capital projects fund accounts for the costs of the City's construction project.

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.

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.

Storm Sewer Enterprise Fund – The storm sewer enterprise fund accounts for the cost of operating the City's storm sewer system.

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, a self-insurance program for employee medical benefits, and Information Services.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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 and Hudson Schools, 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, 2008

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 7). 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, 2008, but which were levied to finance year 2009 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.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (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 Appropriated 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 2008.

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetaries (continued)

Appropriations (continued)

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.

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 statues, 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 2008 amounted to \$1,411,125, which includes \$384,797 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, 2008

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 5, 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 of \$5,000. The City’s infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, traffic signals, 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, 2008

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 to 100 years	10 to 50 years
Infrastructure	20 to 50 years	30 to 65 years
Land improvements	15 to 50 years	15 to 50 years
Machinery and equipment	5 to 30 years	5 to 30 years
Vehicles	5 to 30 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, 2008

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, 2008

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 2008.

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.

S. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements

Note 3: Changes in Accounting Principles and Restatement of Prior Year Balances

A. Changes in Accounting Principles

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)*, GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 50, *Pension Disclosures*.

Effective January 1, 2008, the City implemented FASB Statement No. 157 "Fair Value Measurements". The required disclosures are included in Note 24 to the financial statements.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 3: Changes in Accounting Principles and Restatement of Prior Year Balances (continued)

A. Changes in Accounting Principles (continued)

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The City has determined that the adoption of this statement did not have an impact on the City's financial statements; however, note disclosures related to post-employment benefits have been modified. An OPEB liability at transition was determined in accordance with this Statement for both the OPERS and OP&F post-employment healthcare plans in the amount of \$59,774 and \$34,688, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 49 provides guidance on how to calculate and report costs and obligations associated with pollution cleanup efforts.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements.

The implementation of GASB Statements No. 49 and No. 50 and SFAS 157 did not affect the presentation of the financial statements of the City.

B. Restatement of Prior Year Balances

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
Net assets, December 31, 2007	\$ 98,472,552	\$ 30,934,876		
Restatement of capital assets	<u>(200,656)</u>	<u>285,141</u>		
Net assets, December 31, 2007, restated	\$ <u>98,271,896</u>	\$ <u>31,220,017</u>		
	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>
Net assets, December 31, 2007	\$ 5,583,300	\$ 2,316,958	\$ 19,938,332	\$ 1,262,318
Restatement of capital assets	<u>(7,123)</u>	<u>64,014</u>	<u>219,614</u>	<u>(151,907)</u>
Net assets, December 31, 2007, restated	\$ <u>5,576,177</u>	\$ <u>2,380,972</u>	\$ <u>20,157,946</u>	\$ <u>1,110,411</u>
	<u>All other Enterprise Funds</u>	<u>Total</u>	<u>Government Activities Internal Service Funds</u>	
Net assets, December 31, 2007	\$ 1,833,968	\$ 30,934,876	\$ 1,600,905	
Restatement of capital assets	<u>160,543</u>	<u>285,141</u>	<u>(972,595)</u>	
Net assets, December 31, 2007, restated	\$ <u>1,994,511</u>	\$ <u>31,220,017</u>	\$ <u>628,310</u>	

The December 31, 2007 net assets have been restated due to a change in capital asset systems used in tracking.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

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	\$ 1,316,183	\$ (192,225)
Net Adjustment for Revenue Accruals	(28,197)	3,536
Fair Market Value Adjustment	(490,440)	-
Net Adjustment for Expenditure Accruals	131,416	30,331
Encumbrances	<u>(381,120)</u>	<u>(148,927)</u>
Budget Basis	\$ <u>547,842</u>	\$ <u>(307,285)</u>

Note 5: Deposits and Investments

State statutes classify monies held by the City into three categories:

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

Inactive deposits are public deposits that the 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.

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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 5: Deposits and Investments (continued)

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.
4. Investment grade obligations of state and local governments, and public authorities;
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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 5: Deposits and Investments (continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. In accordance with Chapter 135 of the Ohio Revised Code, any public depository receiving deposits pursuant to an award of City funds shall be required to pledge as security for repayment of all public moneys.

At year-end, the carrying amount of the City's deposits was \$30,782,796 and the bank balance was \$31,094,837. Of the bank balance \$3,149,636 was covered by Federal depository insurance and \$27,945,201 was uninsured. Of the remaining bank balance, \$20,023,653 was collateralized with securities held by the pledging institution's agent in the City's name and \$7,921,548 was collateralized with securities held by the pledging institution's trust department, not in the City's name. At year end, the City had \$1,450 in cash on hand.

Investments

Investments are reported at fair value. As of December 31, 2008, the city had the following investments:

	Fair Value	Maturities (in years)	
		Less than 1	1 - 4
Corporate Bonds	\$ 901,690	\$ 99,935	\$ 801,755
Federal Farm Credit Bank	402,000	-	402,000
Federal Home Loan Bank	6,607,243	154,359	6,452,884
Federal National Mortgage Association	5,487,564	302,439	5,185,125
Federal Home Loan Mortgage Corporation	3,561,112	-	3,561,112
Common Stock (donated)	12,313	12,313	-
Series E Bonds	<u>2,987</u>	<u>2,987</u>	<u>-</u>
Total Portfolio	\$ <u>16,974,909</u>	\$ <u>572,033</u>	\$ <u>16,402,876</u>

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature five years unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City must meet a set of prescribed standards and be periodically reviewed.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 5: Deposits and Investments (continued)

Investments (continued)

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. All investments of the city are registered and carry a rating AAA by Standard & Poor's.

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2008:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Corporate Bonds	5.31%
Federal Farm Credit Bank	2.37
Federal Home Loan Bank	38.92
Federal National Mortgage Association	32.33
Federal Home Loan Mortgage Corporation	20.98
Common Stock (donated)	0.07
Series E Bonds	0.02
Total	<u>100.00%</u>

Note 6: Receivables

Receivables at December 31, 2008, 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 7: 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 2008 are levied after October 1, 2007, on assessed value as of January 1, 2007, 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 2008 were intended to finance 2008 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 2008 became a lien December 31, 2007, are levied after October 1, 2007, and are collected in 2008 with real property taxes.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 7: Property Taxes (continued)

2008 tangible personal property taxes are levied after October 1, 2007, on the value as of December 31, 2007. Collections are made in 2008. In prior year, tangible personal property used in business (except for public utilities) was assessed at 25 percent of its true value. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent. This will be reduced to zero for 2009.

The full tax rate for all City operations for the year ended December 31, 2008, was \$7.28 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 733,265,930
Commercial/Industrial/Mineral	108,975,780
Public Utilities	89,500
Tangible Personal Property Valuation:	
General	16,238,528
Public Utilities	<u>4,422,300</u>
Total Valuation	\$ <u>862,992,038</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.

Note 8: Income Tax

The City levies a municipal income tax of 2% 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. The City of Hudson voters approved an increase in the income tax rate from 1% to 2% effective January 1, 2005, with fifteen percent (15%) of such additional one percent (1%) increase being designated for

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 8: Income Tax

funding of the Fire Department; with nine percent (9%) of such additional one percent (1%) increase being designated for funding of Emergency Medical Services; with fifteen percent (15%) of such additional one percent (1%) increase being designated for funding of the Park System; and with thirteen and one-half percent (13.5%) of such additional one percent (1%) increase being designated for community learning centers in the City, in cooperation with the Hudson City School District. For 2008, municipal income tax revenue was \$17,230,956.

Note 9: 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 water main and storm sewer improvements, traffic signals, and sidewalks 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, 2008

Note 10: Capital Assets

	Balance 12/31/07	Restatement	Restated 12/31/07	Additions	Disposals	Balance 12/31/08
Governmental activities:						
Capital assets, not being depreciated:						
Land	\$ 9,040,553	\$ (95,169)	\$ 8,945,384	\$ -	\$ -	\$ 8,945,384
Construction in progress	<u>3,468,168</u>	<u>(2,776,943)</u>	<u>691,225</u>	<u>2,552,447</u>	<u>(53,186)</u>	<u>3,190,486</u>
Total capital assets, not being depreciated	<u>12,508,721</u>	<u>(2,872,112)</u>	<u>9,636,609</u>	<u>2,552,447</u>	<u>(53,186)</u>	<u>12,135,870</u>
Capital assets, being depreciated:						
Buildings	7,601,854	7,341	7,609,195	127,616	(137,585)	7,599,226
Land improvements	435,894	3,645	439,539	32,905	(58,681)	413,763
Vehicles	5,349,423	(631,008)	4,718,415	213,326	(445,175)	4,486,566
Equipment, furniture and fixtures	4,115,248	(56,379)	4,058,869	279,568	(1,257,344)	3,081,093
Infrastructure						
Roads	106,958,604	3,193,317	110,151,921	238,686	(45,090)	110,345,517
Sidewalks	2,749,430	-	2,749,430	36,600	(20,893)	2,765,137
Traffic signals	<u>2,452,178</u>	<u>-</u>	<u>2,452,178</u>	<u>32,927</u>	<u>(4,400)</u>	<u>2,480,705</u>
Total capital assets, being depreciated	<u>129,662,631</u>	<u>2,516,916</u>	<u>132,179,547</u>	<u>961,628</u>	<u>(1,969,168)</u>	<u>131,172,007</u>
Less accumulated depreciation:						
Buildings	(1,547,679)	173,699	(1,373,980)	(164,024)	34,470	(1,503,534)
Land improvements	(133,169)	(19,062)	(152,231)	(19,916)	16,994	(155,153)
Vehicles	(3,769,175)	464,551	(3,304,624)	(306,957)	378,703	(3,232,878)
Equipment, furniture and fixtures	(2,665,129)	117,997	(2,547,132)	(267,503)	1,032,759	(1,781,876)
Infrastructure						
Roads	(30,581,776)	(589,324)	(31,171,100)	(3,752,471)	12,608	(34,910,963)
Sidewalks	(686,966)	8,632	(678,334)	(93,166)	4,717	(766,783)
Traffic signals	<u>(928,681)</u>	<u>(1,953)</u>	<u>(930,634)</u>	<u>(120,844)</u>	<u>493</u>	<u>(1,050,985)</u>
Total accumulated depreciation	<u>(40,312,575)</u>	<u>154,540</u>	<u>(40,158,035)</u>	<u>(4,724,881)</u>	<u>1,480,744</u>	<u>(43,402,172)</u>
Total capital assets, being depreciated, net	<u>89,350,056</u>	<u>2,671,456</u>	<u>92,021,512</u>	<u>(3,763,253)</u>	<u>(488,424)</u>	<u>87,769,835</u>
Governmental activities capital assets, net	\$ <u>101,858,777</u>	\$ <u>(200,656)</u>	\$ <u>101,658,121</u>	\$ <u>(1,210,806)</u>	\$ <u>(541,610)</u>	\$ <u>99,905,705</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 673,239
Security of persons and property	256,018
Public health and welfare	6,236
Transportation	3,685,268
Community environment	8,858
Leisure time activities	<u>95,262</u>
Total	\$ <u>4,724,881</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 10: Capital Assets (continued)

	Balance 12/31/07	Restatement	Restated 12/31/07	Additions	Disposals	Balance 12/31/08
Business-type activities:						
Capital assets, not being depreciated:						
Land	\$ 2,269,866	\$ -	\$ 2,269,866	\$ 27,000	\$ -	\$ 2,296,866
Construction in progress	<u>1,052,631</u>	<u>(2,868)</u>	<u>1,049,763</u>	<u>394,174</u>	<u>(1,011,223)</u>	<u>432,714</u>
Total capital assets, not being depreciated	<u>3,322,497</u>	<u>(2,868)</u>	<u>3,319,629</u>	<u>421,174</u>	<u>(1,011,223)</u>	<u>2,729,580</u>
Capital assets being depreciated:						
Buildings	4,199,662	611,506	4,811,168	514,794	(43,657)	5,282,305
Land improvements	2,078,858	2,867	2,081,725	59,291	(17,404)	2,123,612
Vehicles	1,625,398	336,967	1,962,365	84,477	(139,573)	1,907,269
Equipment, furniture and fixtures	5,715,156	(1,623,195)	4,091,961	147,216	(389,077)	3,850,100
Infrastructure						
Water main lines	14,115,811	(95,152)	14,020,659	539,530	(180,549)	14,379,640
Sewer lines	7,630,294	1,278,772	8,909,066	78,304	(119,289)	8,868,081
Storm water lines	962,604	(4,558)	958,046	500,019	(131,080)	1,326,985
Electric	<u>5,574,791</u>	<u>(7,612)</u>	<u>5,567,179</u>	<u>20,214</u>	<u>(171,450)</u>	<u>5,415,943</u>
Total capital assets, being depreciated	<u>41,902,574</u>	<u>499,595</u>	<u>42,402,169</u>	<u>1,943,845</u>	<u>(1,192,079)</u>	<u>43,153,935</u>
Less accumulated depreciation:						
Buildings	(1,479,500)	(40,974)	(1,520,474)	(110,802)	8,954	(1,622,322)
Land improvements	(496,786)	81,800	(414,986)	(105,082)	7,812	(512,256)
Vehicles	(615,686)	(274,831)	(890,517)	(167,616)	121,832	(936,301)
Equipment, furniture and fixtures	(3,223,950)	977,971	(2,245,979)	(163,309)	222,215	(2,187,073)
Infrastructure						
Water main lines	(4,543,049)	(413,716)	(4,956,765)	(294,462)	52,466	(5,198,761)
Sewer lines	(1,557,047)	(667,402)	(2,224,449)	(189,589)	32,076	(2,381,962)
Storm sewer	(92,725)	(4,878)	(97,603)	(39,750)	18,160	(119,193)
Electric	<u>(1,138,972)</u>	<u>130,444</u>	<u>(1,008,528)</u>	<u>(200,833)</u>	<u>53,669</u>	<u>(1,155,692)</u>
Total accumulated depreciation	<u>(13,147,715)</u>	<u>(211,586)</u>	<u>(13,359,301)</u>	<u>(1,271,443)</u>	<u>517,184</u>	<u>(14,113,560)</u>
Total capital assets, being depreciated, net	<u>28,754,859</u>	<u>288,009</u>	<u>29,042,868</u>	<u>672,402</u>	<u>(674,895)</u>	<u>29,040,375</u>
Business-type activities capital assets, net	\$ <u>32,077,356</u>	\$ <u>285,141</u>	\$ <u>32,362,497</u>	\$ <u>1,093,576</u>	\$ <u>(1,686,118)</u>	\$ <u>31,769,955</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 11: 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 \$12,617 reported in the fund at December 31, 2008, 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>
2007	\$ 21,292	\$ 212,905	\$ 218,437	\$ 15,760
2008	15,760	225,283	228,426	12,617

Note 12: Note Debt

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

	<u>Balance 12/31/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/08</u>
Governmental Activities:				
Various Purpose Notes, Series 2008, Due 10/2009, 3.1%	\$ -	\$ 2,850,000	\$ -	\$ 2,850,000
Business-Type Activities:				
Various Purpose Notes, Series 2008, Due 10/2009, 3.1%	-	3,200,000	-	3,200,000
Total notes	\$ -	\$ 6,050,000	\$ -	\$ 6,050,000

All notes are backed by the full faith and credit of the City. 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, 2008

Note 13: Long – Term Obligations

The original issue date, interest rates, and original issuance amount for each of the City's bond follows:

<u>Debt Issue</u>	<u>Original Issue</u>	<u>Date Interest Rate</u>	<u>Issue Amount</u>
General Obligation Bonds:			
1992 Safety Center G.O. Bonds	1992	2.900% - 6.350%	\$ 1,395,000
1998 Golf Course Improvement G.O. Bonds	1998	4.300% - 5.000%	690,000
1998 Park Acquisition G.O. Bonds	1998	4.500% - 5.000%	7,335,000
1998 Village South G.O. Bonds	1998	4.500% - 5.000%	3,500,000
1998 Water System Improvement G.O. Bonds	1998	4.500% - 5.000%	2,245,000
1999 Park Improvement G.O. Bonds	1999	4.500% - 4.900%	1,095,000
2000 Library Improvement G.O. Bonds	2000	4.400% - 6.350%	9,925,000
2000 Park Improvement G.O. Bonds	2000	4.500% - 6.125%	1,100,000
2002 Community Center Expansion G.O. Bonds	2002	2.800% - 6.500%	330,000
2002 Golf Course Improvement G.O. Bonds	2002	2.800% - 6.500%	1,645,000
2002 Police Facility Construction G.O. Bonds	2002	2.800% - 6.500%	3,985,000
2002 Road Improvement G.O. Bonds	2002	2.800% - 6.500%	1,200,000
2002 Storm Water Improvement G.O. Bond	2002	2.800% - 6.500%	1,090,000
2002 Substation Construction G.O. Bonds	2002	2.800% - 6.500%	2,230,000
2002 Water System Improvement G.O. Bonds	2002	2.800% - 6.500%	4,035,000
2004 Downtown TIF G.O. Bond	2004	3.000% - 5.000%	7,000,000
2004 Electric Issue G.O. Bonds	2004	3.000% - 5.000%	1,000,000
2004 Milford/RT 91 Construction G.O. Bond	2004	3.000% - 5.000%	4,200,000
2004 Sewer Improvement G.O. Bonds	2004	3.000% - 5.000%	855,000
2005 Sewer Improvement G.O. Bonds	2005	3.000% - 5.000%	1,230,000
2005 Storm Water Improvement G.O. Bond	2005	3.000% - 5.000%	2,410,000
2005 Water System Improvement G.O. Bonds	2005	3.000% - 5.000%	665,000
2008 Safety Center G.O. Bonds Refunded	2008	3.625% - 5.000%	370,000
2008 Park Improvement G.O. Bonds Refunded	2008	3.250% - 5.000%	4,248,000
2008 Recreation G.O. Bonds Refunded	2008	3.250% - 5.000%	1,947,000
2008 Library Improvement G.O. Bonds Refunded	2008	3.250% - 5.000%	5,580,000
2008 Park Improvement G.O. Bonds Refunded	2008	3.000% - 4.000%	710,000
2008 Water System Improvement G.O. Bond Refunded	2008	3.000% - 3.750%	1,240,000
2008 Library Improvement C.A.B. Bonds Refunded	2008	19.920%	95,000
Special Assessment Bonds:			
1998 Executive Parkway S.A. Bonds	1998	4.300% - 5.000%	1,060,000
1998 Sewer Improvement S.A. Bonds	1998	4.500% - 5.000%	1,600,000
1999 Water Main Construction S.A. Bonds	1999	3.900% - 5.625%	420,000
2008 Sewer Improvements S.A. Bonds Refunded	2008	3.000% - 3.750%	840,000
OWDA Loan	1999	4.040%	8,266,307

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 13: Long-Term Obligations (continued)

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

	Balance 12/31/07	Additions	Deletions	Balance 12/31/08	Amount Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1992 Safety Center					
2.9% to 6.35 %, due through 2012	\$ 370,000	\$ -	\$ (370,000)	\$ -	\$ -
1998 Park Acquisition					
4.5% to 5.0%, due through 2007	4,440,000	-	(4,440,000)	-	-
1998 Village South					
4.5% to 5.5%, due through 2018	2,280,000	-	(2,280,000)	-	-
1999 Park Improvement					
4.5% to 4.9%, due through 2018	710,000	-	(50,000)	660,000	55,000
2000 Park Improvement					
4.5% to 6.125%, due through 2019	775,000	-	(675,000)	100,000	50,000
2000 Library Construction					
4.4% to 6.35%, due through 2019	6,995,000	-	(6,090,000)	905,000	440,000
2002 Community Center Expansion					
1.65% to 4.65%, due through 2023	285,000	-	(15,000)	270,000	15,000
2002 Police Facility Construction					
1.65% to 4.65%, due through 2023	3,405,000	-	(155,000)	3,250,000	160,000
2002 Road Improvement					
1.75%, due through 2023	1,020,000	-	(45,000)	975,000	50,000
2004 Milford/Rt. 91 Construction					
3.00% to 5.00%, due through 2024	3,725,000	-	(165,000)	3,560,000	170,000
2004 Downtown TIF					
3.00% to 4.50%, due through 2015	5,075,000	-	(665,000)	4,410,000	680,000
2008 Safety Center Refunded					
3.625% to 5.0%, due through 2012	-	370,000	(75,000)	295,000	75,000
2008 Park Acquisition Refunded					
3.25% to 5.0%, due through 2018	-	4,248,000	(65,143)	4,182,857	377,143
2008 Village South Refunded					
3.25% to 5.0%, due through 2018	-	1,947,000	(29,857)	1,917,143	172,857
2008 Park Improvement Refunded					
3.00% to 4.00%, due through 2019	-	710,000	(15,000)	695,000	10,000
2008 Library Construction Refunded					
3.25% to 5.00%, due through 2019	-	5,580,000	(115,000)	5,465,000	90,000
2008 Library Construction Refunded					
Capital Appreciation Bonds due 2019	-	95,000	-	95,000	-
Appreciation on Bonds	-	17,370	-	17,370	-
Premium on general obligation bonds	-	1,138,735	(99,556)	1,039,179	-
Loss on refunding	-	(981,804)	84,784	(897,020)	-
Total General Obligation Bonds	<u>29,080,000</u>	<u>13,124,301</u>	<u>(15,264,772)</u>	<u>26,939,529</u>	<u>2,345,000</u>
Special Assessment Bonds:					
1998 Sewer Improvement					
4.5% to 5.0%, due through 2016	930,000	-	(930,000)	-	-
1998 Executive Parkway					
4.3% to 5.0%, due through 2018	690,000	-	(50,000)	640,000	50,000
1999 Water Main Construction					
3.9% to 5.625%, due through 2019	305,000	-	(20,000)	285,000	20,000
2008 Sewer Improvement Refunded					
3.00% to 3.75%, due through 2016	-	840,000	(15,366)	824,634	91,654
Premium on special assessment bonds	-	12,794	(1,422)	11,372	-
Loss on refunding	-	(1,013)	113	(900)	-
Total Special Assessment Bonds	<u>1,925,000</u>	<u>851,781</u>	<u>(1,016,675)</u>	<u>1,760,106</u>	<u>161,654</u>
Other Long-Term Obligations:					
Capital lease	384,766	-	(116,456)	268,310	121,131
Compensated absences	<u>1,512,317</u>	<u>895,422</u>	<u>(666,714)</u>	<u>1,741,025</u>	<u>812,208</u>
Total Governmental Activities - Long-Term Obligations	\$ <u>32,902,083</u>	\$ <u>14,871,504</u>	\$ <u>(17,064,617)</u>	\$ <u>30,708,970</u>	\$ <u>3,439,993</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 13: Long-Term Obligations (continued)

	Balance 12/31/07	Additions	Deletions	Balance 12/31/08	Amount Due in One Year
Business-Type Activities:					
General Obligation Bonds:					
1998 Water System Improvement 4.5% to 5.0%, due through 2016	\$ 1,270,000	\$ -	\$ (1,270,000)	\$ -	\$ -
2002 Substation Construction 1.75%, due through 2023	1,910,000	-	(85,000)	1,825,000	90,000
2002 Water System Improvement 1.75%, due through 2033	3,735,000	-	(80,000)	3,655,000	85,000
2002 Storm Water Improvement 1.75%, due through 2023	930,000	-	(45,000)	885,000	45,000
Golf Course Improvement 4.3% to 5.1%, due through 2019	345,000	-	(50,000)	295,000	55,000
2002 Golf Course Improvement 1.75%, due 11/02	1,405,000	-	(65,000)	1,340,000	65,000
2004 Electric Issue 3.00% to 5.00%, due through 2034	940,000	-	(20,000)	920,000	20,000
2004 Sewer Improvement 3.00% to 5.00%, due through 2034	810,000	-	(15,000)	795,000	20,000
2005 Storm Water Improvement 3.00% to 5.00%, due through 2035	2,355,000	-	(45,000)	2,310,000	45,000
2005 Water System Improvement 3.00% to 5.00%, due through 2035	1,540,000	-	(105,000)	1,435,000	110,000
2005 Sewer Improvement 3.00% to 5.00%, due through 2035	1,200,000	-	(20,000)	1,180,000	20,000
2008 Water System Improvement Refunded 3.00% to 3.75%, due through 2016	-	1,240,000	(19,634)	1,220,366	138,346
Premium on general obligation bonds	-	18,887	(2,099)	16,788	-
Loss on refunding	-	(81,791)	9,088	(72,703)	-
Total General Obligation Bonds	16,440,000	1,177,096	(1,812,645)	15,804,451	693,346
OWDA Loan:					
OWDA Loan 4.04%, due through 2018	5,343,438	-	(394,554)	4,948,884	410,655
Other Long-Term Obligations:					
Capital lease	413,476	-	(99,263)	314,213	103,567
Compensated absences	788,625	317,592	(185,295)	920,922	386,001
Total Business-Type Activities	\$ 22,985,539	\$ 1,494,688	\$ (2,491,757)	\$ 21,988,470	\$ 1,593,569

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 13: Long-Term Obligations (continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2008, including interest payments of \$22,248,137, are as follows:

Year ending December 31,	Governmental Activities				Business-Type Activities			
	General Obligation		Special Assessments		General Obligation		OWDA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 2,345,000	\$ 1,534,139	\$ 161,654	\$ 74,885	\$ 693,346	\$ 698,463	\$ 410,655	\$ 195,828
2010	2,440,000	1,426,344	169,904	68,660	685,096	676,243	427,413	179,071
2011	2,520,000	942,601	173,942	62,048	706,058	653,581	444,856	161,628
2012	2,610,000	837,376	185,962	55,303	734,038	629,438	463,009	143,475
2013	2,620,000	739,566	190,000	47,964	750,000	601,511	481,903	124,581
2014-2018	10,730,000	2,936,480	833,172	115,262	3,526,828	2,542,366	2,721,048	311,371
2019-2023	3,220,000	539,338	35,000	1,969	3,345,000	1,815,910	-	-
2024-2028	295,000	14,750	-	-	2,100,000	1,134,495	-	-
2029-2033	-	-	-	-	2,685,000	566,938	-	-
2034-thereafter	-	-	-	-	635,000	45,000	-	-
Total	\$ <u>26,780,000</u>	\$ <u>8,970,594</u>	\$ <u>1,749,634</u>	\$ <u>426,091</u>	\$ <u>15,860,366</u>	\$ <u>9,363,945</u>	\$ <u>4,948,884</u>	\$ <u>1,115,954</u>

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.

On September 23, 2008, the City issued \$12,950,000 in general obligation bonds for the purpose of refunding a various general obligation bonds in order to take advantage of lower interest rates. An analysis of the information follows:

	1992 Safety Center	1998 Park Acquisition	1998 Village South	2000 Library Improvement	2000 Park Improvement
Outstanding at December 31, 2007	\$ 370,000	\$ 4,440,000	\$ 2,280,000	\$ 6,995,000	\$ 775,000
Amount refunded	(370,000)	(4,080,000)	(2,115,000)	(5,675,000)	(630,000)
Principal payment on non-refunded portion	-	(360,000)	(165,000)	(415,000)	(45,000)
Outstanding at December 31, 2008	\$ -	\$ -	\$ -	\$ 905,000	\$ 100,000

The bonds were sold at a premium of \$1,138,735. Proceeds of \$13,851,805 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. As a result, \$12,870,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 13: Long-Term Obligations (continued)

The City decreased its total debt service payments by \$669,564 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$624,954.

On September 23, 2008, the City issued \$840,000 in general obligation bonds for the purpose of refunding a 1998 sewer improvement special assessment bond in order to take advantage of lower interest rates. An analysis of the information follows:

	1998 Sewer <u>Improvement</u>
Outstanding at December 31, 2007	\$ 930,000
Amount refunded	(840,000)
Principal payment on non-refunded portion	<u>(90,000)</u>
Outstanding at December 31, 2008	\$ <u><u>-</u></u>

The bonds were sold at a premium of \$12,794. Proceeds of \$841,013 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. As a result, \$840,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

The City decreased its total debt service payments by \$41,036 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$37,832.

On September 23, 2008, the City issued \$1,240,000 in general obligation bonds for the purpose of refunding a 1998 water improvement general obligation bond in order to take advantage of lower interest rates. An analysis of the information follows:

	1998 Water <u>Improvement</u>
Outstanding at December 31, 2007	\$ 1,270,000
Amount refunded	(1,155,000)
Principal payment on non-refunded portion	<u>(115,000)</u>
Outstanding at December 31, 2008	\$ <u><u>-</u></u>

The bonds were sold at a premium of \$18,887. Proceeds of \$1,236,791 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. As a result, \$1,155,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

The City decreased its total debt service payments by \$60,576 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$55,847.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 14: Lease Obligations

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 \$1,105,299 equal to the present value of the future minimum lease payments in the government-wide financial statements. Principal payments in the current year totaled \$116,456 in the Governmental Activities and \$99,263 for Business-Type Activities.

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

Year	Capital Lease		Operating Leases	
	Governmental Lease Payments	Business-Type Lease Payments	Governmental Lease Payments	Business-Type Lease Payments
2009	\$ 132,015	\$ 116,646	\$ 253,594	\$ 60,900
2010	78,134	116,646	17,026	-
2011	78,134	106,776	10,156	-
Total minimum lease payments	288,283	340,068	280,776	60,900
Less: amount representing interest	(19,973)	(25,855)	-	-
Present value of minimum lease payments	\$ 268,310	\$ 314,213	\$ 280,776	\$ 60,900

Rental expense related to operating leases for equipment totaled \$246,706 for governmental funds and \$60,900 for business-type funds for the year ended December 31, 2008.

Note 15: 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 15: Pension Plans (continued)

A. Ohio Public Employees Retirement System (continued)

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 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601.

For 2008, the members and employer contribution rates were consistent across all three plans. For the year ended, December 31 2008, the members of all three plans were required to contribute 10.0 percent of their annual covered salary to fund pension obligations. The City contributed 14.0 percent of covered payroll, of which 7.0 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, excluding healthcare, to the traditional and combined plans for the years ended December 31, 2008, 2007, and 2006 were \$656,954, \$733,252, and \$794,612, respectively; 90.9% has been contributed for 2008 and 100 percent for 2006 and 2007. Contributions to the member-directed plan for 2008 were \$28,935 made by the City of Hudson and \$20,668 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.

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's contributions, excluding healthcare, for the years ended December 31, 2008, 2007, and 2006 for police officers and firefighters were \$254,976, \$244,739, and \$225,484, respectively, equal to the required contributions for each year. The full amount has been contributed for years 2006 and 2007, and 73.8% has been contributed for 2008.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 16: Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) – a defined contribution plan; and the combined plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

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 meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained in writing to OPERS, 227 E. Town St., Columbus, OH, 43215-4642, or by calling (614)222-5601.

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, the City contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. For 2008, the employer contribution allocated to the health care plan was 7.0 percent of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions for health care for the years ended December 31, 2008, 2007, and 2006 were \$656,954, \$491,634, and \$390,824, respectively; 90.9 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 16: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

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

The Ohio Revised Code provides for contribution requirements of the participating employers and of the plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. The Ohio revised Code states that the employer contribution may not exceed 19.5 percent of the covered payroll for police employer units and 24.0 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 16: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

The City's total contributions to OP&F for police and fire for the years ending December 31, 2008, 2007, and 2006 were \$364,043, \$349,141, and \$348,303 and \$23,580, \$22,893 and \$23,054, respectively, of which \$125,959, \$120,803, and \$138,276 and \$6,626, \$6,433 and \$7,447, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2007 and 2006. For 2008, 73.9 percent for police and 73.1 percent for firefighters has been contributed, with the remainder being reported as a liability.

Note 17: 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. Individuals who were regular full-time employees as of December 31, 2000, accrue sick leave at a one-for-one cash-out rate up to the next 500, 1000, or 1440 hour level – based on their respective aggregate sick leave levels at December 31, 2000. All remaining sick leave hours will be accrued subject to one-for-three cash-out rate, up to an aggregate maximum of 1,440 hours. Employees who dip below their maximum one-for-one cash-out levels can replenish those one-for-one levels with earned sick leave. All regular full-time employees hired after January 1, 2001, will accrue all sick leave up to a maximum of 1,440 hours subject to a one-for-three cash-out rate.

As of December 31, 2008, the total liability for unpaid compensated absences was \$2,661,947.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 18: 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, 2008.

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, 2008.

Note 19: Interfund Transactions

Interfund Receivable/Payable for the year ended December 31, 2008 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	66,000
General Fund	Storm Sewer Fund	80,350
General Fund	Non-Major Enterprise Funds	599,108
		<u>\$ 900,458</u>

Long-term interfund loans are classified as "advances to/from other funds" and consist of the following at December 31, 2008:

<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, 2008 are classified as "due to/from other funds" and consisted of the following:

<u>Advance from</u>	<u>Advance to</u>	<u>Amount</u>
General Fund	Non-Major Enterprise Funds	\$ 40,000
Street Improvements	General Fund	400,000
Internal Service Funds	General Fund	5,533
		<u>\$ 445,533</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 19: Interfund Transactions (continued)

As of December 31, 2008, interfund transfers were as follows:

	Transfer In:						
	<u>Street Construction</u>	<u>Street Improvements</u>	<u>Non-Major Governmental</u>	<u>Wastewater</u>	<u>Storm Water</u>	<u>Non-Major Enterprise</u>	<u>Total</u>
Transfer out:							
General Fund	\$ 2,022,000	\$ 3,527,500	\$ 1,037,953	\$ 2,587,500	\$ 1,350,000	\$ 100,000	\$ 10,624,953
Non-Major Governmental	-	-	317,781	-	-	-	317,781
	<u>\$ 2,022,000</u>	<u>\$ 3,527,500</u>	<u>\$ 1,355,734</u>	<u>\$ 2,587,500</u>	<u>\$ 1,350,000</u>	<u>\$ 100,000</u>	<u>\$ 10,942,734</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. One part of the \$317,781 transfer from Non-Major Governmental to Non-Major Governmental was a \$235,000 transfer from the Fire District Special Revenue Fund to the Fire Capital Replacement Capital Projects Fund was proper in accordance with Ohio Revised Code 5705.13(C). The remaining \$82,781 was from the City Acquisition Construction Fund to the Downtown TIF Fund was proper in accordance with Ohio Revised Code Sections 5705.14 as the transfer was used to pay off debt related to the City Acquisition Construction Fund and to close the fund to its related bond retirement fund.

Note 20: 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 20: Joint Venture (continued)

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

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, 2008, 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.

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 \$509,763 at December 31, 2008. 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 21: 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 21: Shared Risk Pool (continued)

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 2008, the City paid \$126,492 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.

Note 22: Outstanding Contractual Commitments

The City has the following outstanding contractual commitments for various construction projects at December 31, 2008:

<u>Contractor</u>	<u>Contract and Contingency</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>
Ake Laboratory, Inc.	\$ 42,469	\$ -	\$ 42,469
City of Stow	140,000	46,786	93,214
City of Stow	89,937	67,487	22,450
City of Stow	55,000	53,306	1,694
City of Stow	325,000	24,212	300,788
Hysong Paving Company	584,300	479,953	104,347
Norfolk Southern Railway	66,140	-	66,140
Ohio Farmers Insurance Company	1,032,185	741,903	290,282
Ohio Farmers Insurance Company	486,933	247,546	239,387
Ohio Farmers Insurance Company	100,000	96,000	4,000
Ronyak Paving Company	2,206,048	2,119,858	86,190
Rootstown Excavating	169,970	163,171	6,799
Rootstown Excavating	67,383	55,385	11,998
The Shelly Company	170,000	-	170,000
Signal Service Company	129,882	33,327	96,555
Twinsburg Township	140,000	-	140,000
Vito Girona Construction Co.	513,681	478,270	35,412

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 23: Accountability

There was a deficit in the Information Service Internal Service Fund of \$12,397 and a \$2,179,410 deficit in the Seasons Road Interchange Capital Projects Fund caused by the application of accounting principles generally accepted in the United State of America to these funds. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Note 24: Fair Value Measurements

SFAS 157 defines fair value as the exit price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a framework for measuring fair value by creating a hierarchy of valuation inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly; and Level 3 inputs are unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own valuation assumptions. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset and are based on the best available information, which has been internally developed.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the City believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

In accordance with FASB Staff Position (FSP) 157-2 the City has elected to not apply the provisions of SFAS 157 to non-financial assets and liabilities, except for those items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis.

Financial assets consisted of the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>12/31/2008</u>
Certificates of deposit	\$ 10,590,516	\$ -	\$ -	\$ 10,590,516
Corporate stock	453,691	-	-	453,691
U.S. Government Obligations	8,079,639	-	-	8,079,639
Sweep/Money Market Accounts	<u>4,846,520</u>	<u>-</u>	<u>-</u>	<u>4,846,520</u>
	\$ <u>23,970,366</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23,970,366</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2008

Note 25: Subsequent Events

On April 28, 2009 the Service Department garage was completely destroyed by fire including several vehicles and other pieces of equipment. The facility and its contents, including the vehicles and equipment were covered by fire insurance. Damage estimates are still being prepared and it is not currently known how much of the loss will be covered by insurance. The amount not covered by insurance will be absorbed by the City.

**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, 2008, which collectively comprise the City’s basic financial statements and have issued our report thereon dated June 22, 2009, wherein we noted the City implemented *GASB Statements No. 45, 49, 50, and SFAS 157*. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City’s financial statements that is more than inconsequential will not be prevented or detected by the City’s internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City’s internal control.

Members of the City Council
Hudson, Ohio

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

We noted certain matters that we reported to management of the City in a separate letter dated June 22, 2009.

This report is intended solely for the information and use of the management, City Council, and the Auditor of the State's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Parichi, Inc.

Cleveland, Ohio
June 22, 2009



Mary Taylor, CPA
Auditor of State

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
JULY 16, 2009**