City of Hudson, Ohio

Basic Financial Statements
For the Year Ended December 31, 2018

OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

Members of Council
City of Hudson
115 Executive Pkwy, Suite 400
Hudson, OH 44236

We have reviewed the *Independent Auditor's Report* of the City of Hudson, Summit County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2018 through December 31, 2018. 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.

Keith Faber
Auditor of State
Columbus, Ohio

August 13, 2019

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Ciuni & Panichi
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Independent Auditor's Report

Members of the City Council
City of Hudson, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson, Ohio (the "City"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

C&P Advisors, LLC
Ciuni & Panichi, Inc.
C&P Wealth Management, LLC

25201 Chagrin Boulevard
Cleveland, Ohio 44122.5683
p. 216.831.7171
f. 216.831.3020
www.cp-advisors.com
Independent Member of
Geneva Group International

Members of the City Council
City of Hudson, Ohio

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, 2018 and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Street Construction Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Implementation of New Accounting Standard

As described in Note 3 to the basic financial statements, in 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and as a result restated their December 31, 2017 net position of the governmental and business-type activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required schedules on pensions and other postemployment benefits as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2019, 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Ciuni + Panichi, Inc.

Cleveland, Ohio
June 26, 2019

The discussion and analysis of the City of Hudson, Ohio's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2018. 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 Position 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 Position and the Statement of Activities

These government-wide statements answer the question, "How did the City as a whole do financially during 2018?" They are prepared on the accrual basis of accounting, including all assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 position and the changes in net position. 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 will also need to be evaluated.

- *The Statement of Net Position.* This Statement (page 15) reports all assets and deferred outflows of resources and liabilities and deferred inflows of resources of the City as of December 31, 2018. The difference between all elements is reported as net position. Increases in net position generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.

- *The Statement of Activities.* This Statement (page 16) reports the results of all activities of the City for the year ended December 31, 2018. Changes in net position 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.

- In the Statement of Net Position 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, Wastewater Fund, Electric Fund, Storm Sewer Fund, and Golf Course Fund, which are reported as business-type activities.

    - ***Business-type activities:*** The City reports the activity of services (Water, Wastewater, Electric, Storm Sewer, 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 – Enterprise funds are used to account for operations that are financed and operated in a manner similar 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, Golf Course Fund, Electric Fund, and Storm Sewer Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 28 through 35.

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

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

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

  A Fiduciary Fund statement is on page 36 of this report.

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 position may serve over time as a useful indicator of the City's financial position. In the case of the City of Hudson, assets and deferred outflows exceed liabilities and deferred inflows by $85,197,571 in governmental activities and $28,680,259 in business-type activities as of December 31, 2018. The largest portion of net position reflects the City's investment 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. Table 1 provides a summary of the City's net position for 2018 compared to 2017 balances.

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	Restated 2017	2018	Restated 2017	2018	Restated 2017
Assets:						
Current assets	$ 34,389,241	$ 31,694,784	$ 19,237,504	$ 20,339,134	$ 53,626,745	$ 52,033,918
Investment in joint venture	-	-	170,011	202,634	170,011	202,634
Capital assets, net	114,260,434	109,465,918	29,366,624	27,044,639	143,627,058	136,510,557
Net pension asset	121,626	51,077	62,851	25,611	184,477	76,688
Total assets	148,771,301	141,211,779	48,836,990	47,612,018	197,608,291	188,823,797
Deferred outflows of resources:						
Deferred changes on refunding	253,031	372,704	695,198	747,580	948,229	1,120,284
Pension	3,237,200	5,724,902	1,213,198	2,354,162	4,450,398	8,079,064
OPEB	1,365,736	85,225	294,270	38,004	1,660,006	123,229
Total deferred outflows of resources	4,855,967	6,182,831	2,202,666	3,139,746	7,058,633	9,322,577
Liabilities:						
Current and other liabilities	10,551,636	9,522,943	2,552,819	3,231,913	13,104,455	12,754,856
Long-term liabilities:						
Due within one year	3,936,687	3,870,647	1,370,757	1,932,074	5,307,444	5,802,721
Due in more than one year	20,971,616	15,192,271	9,812,790	9,815,436	30,784,406	25,007,707
Net pension liability	14,498,047	17,768,843	4,307,581	5,896,573	18,805,628	23,665,416
Net OPEB liability	11,587,530	9,777,974	3,048,225	2,725,612	14,635,755	12,503,586
Total liabilities	61,545,516	56,132,678	21,092,172	23,601,608	82,637,688	79,734,286
Deferred inflows of resources:						
Property taxes	3,907,224	4,044,281	-	-	3,907,224	4,044,281
Pension	2,471,404	409,386	1,040,153	48,644	3,511,557	458,030
OPEB	505,553	-	227,072	-	732,625	-
Total deferred inflows of resources	6,884,181	4,453,667	1,267,225	48,644	8,151,406	4,502,311
Net position:						
Net investment in capital assets	91,446,980	91,113,187	21,292,746	19,543,453	112,739,726	110,656,640
Restricted	1,306,227	1,540,946	-	-	1,306,227	1,540,946
Unrestricted	(7,555,636)	(5,845,868)	7,387,513	7,558,059	(168,123)	1,712,191
Total net position	$ 85,197,571	$ 86,808,265	$ 28,680,259	$ 27,101,512	$ 113,877,830	$ 113,909,777

For the year ended December 31, 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this statement resulted in the restatement of net position as of December 31, 2017 for the governmental activities and business-type activities. See Note 3 for additional information regarding the restatement.

The net pension liability (NPL) is one of the larger liabilities reported by the City at December 31, 2018 and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For 2018, the City adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension/OPEB, the net pension/OPEB liability to the reported net position and subtracting deferred outflows related to pension/OPEB and the net pension asset.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension/OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension/OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension/OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability (asset) and the net OPEB liability to equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension/OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension/OPEB. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should, accordingly, be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liability. In Ohio, the employee shares the obligation of funding benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension/OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e., sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension/OPEB liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension/OPEB liability is satisfied, these liabilities are separately identified within the long-term liability section of the Statement of Net Position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on the accrual basis of accounting include an annual pension/OPEB expense for their proportionate share of each plan's change in net pension/OPEB liability and net pension asset not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred outflows/inflows of resources related to OPEB on the accrual basis of accounting. This implementation had the effect of restating net position at December 31, 2017, from $96,501,014 to $86,808,265 for governmental activities and from $29,789,120 to $27,101,512 for business-type activities.

An additional portion of the City's net position (1.1%) represents resources that are subject to external restrictions on how they may be used. At the end of the current year, the City is able to report a positive balance for the government as a whole.

For governmental activities, there was an increase of $2,694,457 in current assets. This was primarily due to the unspent proceeds from the issuance of bonds in the governmental funds and an increase in municipal income tax receivable. Capital assets increased $4,794,516 due to an increase in construction in progress, buildings, and roads. For governmental activities, the primary reason for the $1,326,864 decrease in deferred outflows of resources was due to the effects of GASB 68.

For governmental activities, there was a $1,028,693 increase in current liabilities. This was primarily due to an increase of $780,327 in accounts payable due to Downtown Phase II projects. For governmental activities, there was an increase of $4,384,145 in long-term liabilities primarily due to issuance of bonds. This increase was offset by a $3,270,796 decrease in net pension liabilities which was due to the effects of GASB 68. Deferred inflows increased $2,430,514 primarily due to the effects of GASB 68.

For governmental activities, net investment in capital assets increased $333,793 as a result of capital assets increasing. The restricted net position decreased $234,719 in 2018 compared to 2017. The net result of the changes in net position was a decrease of $1,610,694 in net position.

Within the business-type activities, total assets increased $1,224,972 primarily due to an increase in capital assets. Deferred outflows of resources for business-type activities decreased $937,080 as a result of recording the City's proportionate share of GASB 68. Long-term liabilities decreased $1,830,342 primarily due to the decrease in net pension liability, (down $1,588,992). Deferred inflows increased $1,218,581 primarily due to the effects of GASB 68. Net investment in capital assets increased $1,749,293. The balance of the unrestricted net position stayed consistent year-over-year as it only decreased 2.3% to $7,387,513.

Table 2 below, indicates the changes in net position for the years ended December 31, 2018 and 2017.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program Revenues:						
Charges for services and sales	$ 1,751,925	$ 1,282,949	$ 25,127,863	$ 24,389,009	$ 26,879,788	$ 25,671,958
Operating grants and contributions	1,244,028	1,202,612	1,972	34,801	1,246,000	1,237,413
Capital grants and contributions	37,089	2,121,353	-	10,500	37,089	2,131,853
General Revenues:						
Taxes	26,990,349	23,992,360	-	-	26,990,349	23,992,360
Grants and entitlements not restricted to specific programs	2,188,985	2,371,387	-	-	2,188,985	2,371,387
Investment income	317,166	179,443	-	32,623	317,166	212,066
Other/gain on sale of assets	266,409	433,288	14,510	-	280,919	433,288
Total revenues	32,795,951	31,583,392	25,144,345	24,466,933	57,940,296	56,050,325
Program Expenses:						
General government	8,213,900	7,296,624	-	-	8,213,900	7,296,624
Security of persons and property	8,929,661	8,830,804	-	-	8,929,661	8,830,804
Public health	1,074,423	1,208,354	-	-	1,074,423	1,208,354
Leisure time services	1,778,302	1,757,187	-	-	1,778,302	1,757,187
Community and economic development	1,363,145	1,533,753	-	-	1,363,145	1,533,753
Transportation	7,368,837	8,442,178	-	-	7,368,837	8,442,178
Interest and fiscal charges	909,993	675,668	-	-	909,993	675,668
Water System	-	-	1,729,840	1,796,656	1,729,840	1,796,656
Golf Course	-	-	1,371,205	1,828,306	1,371,205	1,828,306
Electric System	-	-	21,241,109	21,384,246	21,241,109	21,384,246
Storm Sewer System	-	-	1,365,166	1,421,253	1,365,166	1,421,253
Wastewater System	-	-	10,936	19,348	10,936	19,348
Total program expenses	29,638,261	29,744,568	25,718,256	26,449,809	55,356,517	56,194,377
Transfers	(2,152,658)	(2,686,327)	2,152,658	2,686,327	-	-
Change in net position before special item	1,005,032	(847,503)	1,578,747	703,451	2,583,779	(144,052)
Special item – construction of bus garage for Hudson City School District	(2,615,726)	-	-	-	(2,615,726)	-
Change in net position	(1,610,694)	(847,503)	1,578,747	703,451	(31,947)	(144,052)
Net position, beginning of the year, restated	86,808,265	n/a	27,101,512	n/a	113,909,777	n/a
Net position, end of the year	$ 85,197,571	$ 86,808,265	$ 28,680,259	$ 27,101,512	$ 113,877,830	$ 113,909,777

Effects of GASB 75

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $85,225 in the governmental activities and $38,004 in the business-type activities computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of $1,046,131 in the governmental activities and $293,419 in the business-type activities. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities	Business-type Activities
Total 2018 program expenses under GASB 75	$ 29,638,261	$ 25,718,256
OPEB expense under GASB 75	(1,046,131)	(293,419)
2018 Contractually required contribution	11,533	-
Adjusted 2018 program expenses	28,603,663	25,424,837
Total 2017 program expenses under GASB 45	29,744,568	26,449,809
Decrease in program expenses not related to OPEB	$ (1,140,905)	$ (1,024,972)

Governmental Activities

The City's income tax is the largest contributor of revenue sources in governmental activities accounting for 70.1% of total revenues. Property and other local taxes generate 12.2% and grants and entitlements generate 6.7% of total revenues.

General government, security of persons and property, and transportation costs represent 27.8%, 30.1%, 24.9% of governmental expenses, excluding transfers and special item, respectively. In 2018 the City entered into an agreement to build a new bus garage for Hudson City School District. At year end the City had incurred $2,615,726 related to this project and is shown as a special item throughout the financial statements.

Governmental activities decreased the City's net position by $1,610,694. Total revenues increased $1,212,559 primarily due to an increase in taxes. Expenses decreased $106,307 due to a decrease in transportation expense.

Business-Type Activities

The City's business-type activities are the Water, Golf Course, Electric, Storm Sewer, and Wastewater Funds. Charges for services generated 92.1% of all revenues and transfers in the business-type activities.

Business-type activities increased the City's net position by $1,578,747. Charges for services and sales increased $738,854 and expenses decreased $731,553 due primarily to golf system expenses.

Individual Funds Summary and Analysis

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $15,806,982, an increase of $619,041 in comparison with the prior year, primarily due to debt proceeds.

Approximately 14.4% of this total amount, or $2,273,821, which represents the *assigned* and *unassigned* classifications, is available for spending at the government's discretion. The remainder of fund balance, *nonspendable, restricted,* and *committed*, 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. At the end of the current year, the General Fund's unassigned balance was $10,223,241, while the total fund balance was $12,993,173. The fund balance for the General Fund increased by $1,331,167, or 11.4%, from the prior year due to an increase in income tax.

The other major governmental funds of the City are the Street Construction, Street Sidewalk Construction, Broadband Capital, City Acquisition and Downton Phase II Funds.

The fund balance for the Street Construction Fund was consistent with the prior year with a small decrease of $75,072.

The fund balance of the Street Sidewalk Construction Fund increased $2,462,549. The increase is due to the issuance of bonds.

The fund balance of the Broadband Capital Fund decreased $208,369. The decrease is due to the City continuing to use debt proceeds to fund capital projects.

The fund balance of the City Acquisition Fund increased $1,807,838. The increase is due to the issuance of bonds.

The fund balance of the Downtown Phase II Fund decreased $4,857,726. The decrease is due funds being utilized for capital projects.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide and business-type activity financial statements, but in more detail. Net position in the Water, Golf Course, Electric, Storm Sewer, and Wastewater increased by $389,311 or 6.5%, $57,005 or 4.4%, $419,841 or 2.3%, $109,489 or 6.0%, and $603,101 or 138.5%, respectively.

Budgetary Highlights

As required by State statute, City Council (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 increased by $2,056,030. The increase was primarily in municipal income tax due to higher than expected collections.

Actual General Fund expenditures compared to the budget were less than expected by $570,593. The security of persons and property activity accounted for most of that decrease as the actual expenditures were less than the final budget amount by $223,975.

Capital Assets and Debt Administration

Capital Assets

The City's net book value of capital assets for its governmental and business-type activities as of December 31, 2018, amounts to $143,627,058. This investment in capital assets includes land; buildings; land improvements; vehicles; furniture, fixtures and equipment; infrastructure; and construction in progress. Table 3 shows fiscal 2018 balances of capital assets as compared to the 2017 balances:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 15,680,184	$ 15,357,234	$ 2,332,463	$ 2,332,463	$ 18,012,647	$ 17,689,697
Construction in progress	7,506,229	5,151,236	1,443,167	1,291,426	8,949,396	6,442,662
Buildings	13,510,415	9,684,979	5,697,204	5,697,204	19,207,619	15,382,183
Land improvements	5,418,355	4,830,595	2,254,010	2,254,010	7,672,365	7,084,605
Vehicles	7,950,114	7,866,786	1,328,447	1,824,218	9,278,561	9,691,004
Equipment, furniture and fixtures	5,134,912	4,369,074	4,109,954	4,025,030	9,244,866	8,394,104
Infrastructure:						
Roads	147,884,370	144,785,487	-	-	147,884,370	144,785,487
Sidewalks	3,759,521	3,752,625	-	-	3,759,521	3,752,625
Traffic signals	2,971,911	2,971,911	-	-	2,971,911	2,971,911
Broadband	1,700,201	1,682,336	-	-	1,700,201	1,682,336
Water main lines	-	-	16,047,832	15,487,462	16,047,832	15,487,462
Storm water lines	-	-	5,041,601	4,461,108	5,041,601	4,461,108
Electric	-	-	11,414,936	9,426,165	11,414,936	9,426,165
Less: accumulated depreciation	(97,255,778)	(90,986,345)	(20,302,990)	(19,754,447)	(117,558,768)	(110,740,792)
Total capital assets, net	$ 114,260,434	$ 109,465,918	$ 29,366,624	$ 27,044,639	$ 143,627,058	$ 136,510,557

Additional detailed information relating to the City's capital assets is contained in Note 11 of the notes to the basic financial statements.

Debt

At December 31, 2018, the City had $32,503,887 of long-term bonds, premium on those bonds, loans and other outstanding obligations, excluding AMP Ohio payable, capital leases, compensated absences, and net pension/OPEB liability. Details of the individual obligations can be found in Note 14.

The general obligation indebtedness of the City is subject to two statutory debt limitations referred to as the direct debt limitation: (Section 133.05 of the Ohio Revised Code). 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 $29,985,389 of net indebtedness as of December 31, 2018. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5% of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was $24,491,700 as of December 31, 2018. The total principal amount of voted and unvoted nonexempt net indebtedness of the City may not exceed 10.5% of its assessed value of real and personal property. Total net indebtedness for both voted and unvoted issues was $29,669,062 leaving the City's overall legal debt margin at $73,728,757 as of December 31, 2018.

Future Funding Considerations

Effective August 17, 2011, Standard & Poor's upgraded the City's rating to AAA. Additionally, the City maintained its bond rating of Aaa from Moody's Investors Service.

During 2018, the City completed its 2019-2023 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 reconstruction/resurfacing of streets, replacing various safety forces vehicles and equipment, along with several storm sewer 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 115 Executive Parkway, Suite 400, Hudson, Ohio 44236. Electronic copies of the City's 2019-2023 Five Year Financial Plan are available at the City's website – http://www.hudson.oh.us.

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City of Hudson, Ohio

Statement of Net Position

December 31, 2018

	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	$ 21,574,862	$ 13,039,932	$ 34,614,794
Investment in common stock	25,758	-	25,758
Investments in segregated accounts	2,987	-	2,987
Accounts receivable	214,077	3,731,184	3,945,261
Accrued interest receivable	85,530	-	85,530
Intergovernmental receivable	1,400,727	1,652,820	3,053,547
Property taxes receivable	4,019,160	-	4,019,160
Municipal income taxes receivable	5,602,820	-	5,602,820
Special assessments receivable	-	8,226	8,226
Internal balances	885,556	(885,556)	-
Materials and supplies inventory	490,446	1,230,397	1,720,843
Prepaid expenses	87,318	37,082	124,400
Restricted assets:			
Cash in segregated accounts – customer deposits	-	423,419	423,419
Noncurrent assets:			
Investment in joint venture	-	170,011	170,011
Nondepreciable capital assets	23,186,413	3,775,630	26,962,043
Depreciable capital assets, net	91,074,021	25,590,994	116,665,015
Net pension asset	121,626	62,851	184,477
Total assets	148,771,301	48,836,990	197,608,291
Deferred outflows of resources:			
Deferred charges on refunding	253,031	695,198	948,229
Pension	3,237,200	1,213,198	4,450,398
OPEB	1,365,736	294,270	1,660,006
Total deferred outflows of resources	4,855,967	2,202,666	7,058,633
Liabilities:			
Current liabilities:			
Accounts payable	1,633,742	1,783,659	3,417,401
Accrued wages and benefits	543,164	163,453	706,617
Intergovernmental payable	328,777	85,303	414,080
Accrued interest payable	55,665	20,729	76,394
Payable from restricted assets – customer deposits	-	423,419	423,419
Retainage payable	399,463	-	399,463
Notes payable	7,590,825	-	7,590,825
Matured compensated absences	-	76,256	76,256
Long-term liabilities:			
Due within one year	3,936,687	1,370,757	5,307,444
Due in more than one year:			
Other amounts due in more than one year	20,971,616	9,812,790	30,784,406
Net pension liability	14,498,047	4,307,581	18,805,628
Net OPEB liability	11,587,530	3,048,225	14,635,755
Total liabilities	61,545,516	21,092,172	82,637,688
Deferred inflows of resources:			
Property taxes	3,907,224	-	3,907,224
Pension	2,471,404	1,040,153	3,511,557
OPEB	505,553	227,072	732,625
Total deferred inflows of resources	6,884,181	1,267,225	8,151,406
Net position:			
Net investment in capital assets	91,446,980	21,292,746	112,739,726
Restricted for:			
Capital projects	230,691	-	230,691
Debt service	316,327	-	316,327
Street improvements	545,915	-	545,915
Permanent fund	6,473	-	6,473
Other purposes	206,821	-	206,821
Unrestricted	(7,555,636)	7,387,513	(168,123)
Total net position	$ 85,197,571	$ 28,680,259	$ 113,877,830

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

City of Hudson, Ohio

Statement of Activities

For the Year Ended December 31, 2018

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Governmental activities:				
General government	$ 8,213,900	$ 784,573	$ 54,524	$ -
Security of persons and property	8,929,661	639,433	49,168	3,000
Public health	1,074,423	104,416	-	-
Leisure time services	1,778,302	23,326	-	-
Community and economic development	1,363,145	200,177	-	-
Transportation	7,368,837	-	1,140,336	34,089
Interest and fiscal charges	909,993	-	-	-
Total governmental activities	29,638,261	1,751,925	1,244,028	37,089
Business-type activities:				
Water System	1,729,840	2,113,448	-	-
Golf Course	1,371,205	1,281,630	-	-
Electric System	21,241,109	21,650,171	1,972	-
Storm Sewer System	1,365,166	74,655	-	-
Wastewater System	10,936	7,959	-	-
Total business-type activities	25,718,256	25,127,863	1,972	-
Totals	$ 55,356,517	$ 26,879,788	$ 1,246,000	$ 37,089

General revenues:
Property and other local taxes
Municipal income tax
Grants and entitlements not restricted to specific programs
Investment income
Other
Gain on sale of assets
Total general revenues

Transfers

Total general revenues and transfers

Change in net position before special item

Special item – construction of bus garage for Hudson City School District

Change in net position

Net position, beginning of year, restated

Net position, end of year

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

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
$ (7,374,803)	$ -	$ (7,374,803)
(8,238,060)	-	(8,238,060)
(970,007)	-	(970,007)
(1,754,976)	-	(1,754,976)
(1,162,968)	-	(1,162,968)
(6,194,412)	-	(6,194,412)
(909,993)	-	(909,993)
(26,605,219)	-	(26,605,219)
-	383,608	383,608
-	(89,575)	(89,575)
-	411,034	411,034
-	(1,290,511)	(1,290,511)
-	(2,977)	(2,977)
-	(588,421)	(588,421)
(26,605,219)	(588,421)	(27,193,640)
3,998,091	-	3,998,091
22,992,258	-	22,992,258
2,188,985	-	2,188,985
317,166	-	317,166
261,196	-	261,196
5,213	14,510	19,723
29,762,909	14,510	29,777,419
(2,152,658)	2,152,658	-
27,610,251	2,167,168	29,777,419
1,005,032	1,578,747	2,583,779
(2,615,726)	-	(2,615,726)
(1,610,694)	1,578,747	(31,947)
86,808,265	27,101,512	113,909,777
$ 85,197,571	$ 28,680,259	$ 113,877,830

City of Hudson, Ohio

Balance Sheet
Governmental Funds

December 31, 2018

	General Fund	Street Construction Fund	Street Sidewalk Construction Fund	Broadband Capital Fund
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	$ 4,304,635	$ 475,264	$ 1,691,119	$ 580,813
Investment in common stock	-	-	-	-
Investments in segregated accounts	-	-	-	-
Accounts receivable	-	-	-	-
Accrued interest receivable	72,136	-	-	1,599
Interfund receivable	4,328,341	-	-	-
Intergovernmental receivable	411,377	423,368	-	-
Property taxes receivable	2,846,382	-	-	-
Municipal income taxes receivable	4,431,185	-	-	-
Materials and supplies inventory	18,227	132,901	-	-
Prepaid expenses	49,415	13,325	-	-
Noncurrent assets:				
Advances to other funds	1,669,278	-	-	-
Total assets	$ 18,130,976	$ 1,044,858	$ 1,691,119	$ 582,412
Liabilities, deferred inflows of resources, and fund balances:				
Liabilities:				
Current liabilities:				
Accounts payable	$ 185,747	$ 111,211	$ 251,190	$ 9,379
Accrued wages and benefits	358,060	52,560	-	-
Accrued interest payable	-	-	-	-
Intergovernmental payable	243,504	26,285	-	-
Interfund payable	20,794	67,828	-	3,430,553
Retainage payable	-	-	186,505	-
Notes payable	-	-	-	-
Noncurrent liabilities:				
Advances from other funds	-	-	155,000	-
Total liabilities	808,105	257,884	592,695	3,439,932
Deferred inflows of resources:				
Property taxes	2,771,758	-	-	-
Unavailable revenue	1,557,940	291,790	-	835
Total deferred inflows of resources	4,329,698	291,790	-	835
Fund balances:				
Nonspendable	1,736,920	146,226	-	-
Restricted	-	348,958	-	-
Committed	-	-	1,098,424	-
Assigned	1,033,012	-	-	-
Unassigned	10,223,241	-	-	(2,858,355)
Total fund balances (deficit)	12,993,173	495,184	1,098,424	(2,858,355)
Total liabilities, deferred inflows of resources, and fund balances	$ 18,130,976	$ 1,044,858	$ 1,691,119	$ 582,412

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

City Acquisition Fund	Downtown Phase II	Nonmajor Governmental Funds	Total Governmental Funds
$ 1,824,618	$ 3,859,052	$ 7,829,398	$ 20,564,899
-	-	25,758	25,758
-	-	2,987	2,987
-	-	214,077	214,077
-	-	11,795	85,530
-	-	-	4,328,341
-	363,273	202,709	1,400,727
-	-	1,172,778	4,019,160
-	-	1,171,635	5,602,820
-	-	77,916	229,044
-	-	20,066	82,806
-	-	-	1,669,278
$ 1,824,618	$ 4,222,325	$ 10,729,119	$ 38,225,427
$ 16,780	$ 815,503	$ 178,018	$ 1,567,828
-	-	123,187	533,807
-	8,630	-	8,630
-	-	55,062	324,851
-	740,213	107,459	4,366,847
-	212,958	-	399,463
-	7,590,825	-	7,590,825
-	615,000	76,000	846,000
16,780	9,983,129	539,726	15,638,251
-	-	1,135,466	3,907,224
-	363,273	659,132	2,872,970
-	363,273	1,794,598	6,780,194
-	-	104,455	1,987,601
-	-	915,185	1,264,143
1,807,838	-	7,375,155	10,281,417
-	-	-	1,033,012
-	(6,124,077)	-	1,240,809
1,807,838	(6,124,077)	8,394,795	15,806,982
$ 1,824,618	$ 4,222,325	$ 10,729,119	$ 38,225,427

City of Hudson, Ohio

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

December 31, 2018

Total governmental funds balances		$ 15,806,982
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		112,177,298
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows of resources in the funds:		
Property and other taxes	$ 111,936	
Municipal income taxes	1,433,497	
Charges for services	145,843	
Interest	44,657	
Intergovernmental	1,137,037	
Total		2,872,970
In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(47,035)
Internal service funds are used by management to charge the costs of centralized services, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		2,914,502
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(22,485,389)	
Special assessment bonds	(35,000)	
Ohio Public Works Commission loan	(82,633)	
Deferred charges on refunding	253,031	
Capital lease	(119,115)	
Compensated absences	(2,118,873)	
Total		(24,587,979)
The net pension asset/liability is not due in the current period; therefore, the asset/liability and related deferred outflows/inflows are not reported in governmental funds:		
Net pension asset	118,121	
Deferred outflows	3,175,083	
Net pension liability	(14,257,826)	
Deferred inflows	(2,413,443)	
Total		(13,378,065)

(Continued)

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities (continued)

December 31, 2018

The net OPEB liability is not due in the current period; therefore, the liability and related deferred outflows/inflows are not reported in governmental funds:		
Deferred outflows	1,349,326	
Net OPEB liability	(11,417,538)	
Deferred inflows	(492,890)	
Total		(10,561,102)
Net position of governmental activities		$ 85,197,571

City of Hudson, Ohio

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

For the Year Ended December 31, 2018

	General Fund	Street Construction Fund	Street Sidewalk Construction Fund	Broadband Capital Fund
Revenues:				
Property and other local taxes	$ 2,709,283	$ -	$ -	$ -
Municipal income tax	17,573,164	-	-	-
Intergovernmental	1,566,027	865,970	34,089	-
Charges for services	865,987	-	-	-
Fines and forfeitures	117,757	-	-	-
Special assessments	30,850	-	-	-
Interest	267,828	-	-	3,208
Other	134,398	16,091	-	-
Total revenues	23,265,294	882,061	34,089	3,208
Expenditures:				
Current:				
General government	6,412,895	-	-	72,112
Security of persons and property	4,204,454	-	-	-
Public health	821,406	-	-	-
Leisure time services	-	-	-	-
Community and economic development	1,267,542	-	-	-
Transportation	-	3,351,179	17,140	-
Capital outlay	256,216	256,114	2,694,608	66,412
Debt service:				
Principal retirement	-	33,420	-	-
Interest and fiscal charges	-	-	44,793	73,053
Issuance costs	-	-	52,473	-
Total expenditures	12,962,513	3,640,713	2,809,014	211,577
Excess of revenues over (under) expenditures	10,302,781	(2,758,652)	(2,774,925)	(208,369)
Other financing sources (uses):				
Proceeds from sale of assets	299	6,045	-	-
Inception of capital lease	-	152,535	-	-
Issuance of bonds	-	-	2,575,000	-
Premium on issuance of bonds	-	-	12,474	-
Transfers - in	-	2,525,000	2,650,000	-
Transfers - out	(8,971,913)	-	-	-
Total other financing sources (uses)	(8,971,614)	2,683,580	5,237,474	-
Net change in fund balances before special item	1,331,167	(75,072)	2,462,549	(208,369)
Special item – construction of bus garage for Hudson City School District	-	-	-	-
Net change in fund balance	1,331,167	(75,072)	2,462,549	(208,369)
Fund balance (deficit) at beginning of year	11,662,006	570,256	(1,364,125)	(2,649,986)
Fund balance (deficit) at end of year	$ 12,993,173	$ 495,184	$ 1,098,424	$ (2,858,355)

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

City Acquisition Fund	Downtown Phase II	Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ -	$ 1,356,145	$ 4,065,428
-	-	4,624,061	22,197,225
-	-	622,992	3,089,078
-	-	1,031,848	1,897,835
-	-	4,641	122,398
-	-	34,524	65,374
-	2,731	54,597	328,364
-	-	111,907	262,396
-	2,731	7,840,715	32,028,098
3,612,647	1,961,288	16,461	12,075,403
-	-	2,953,984	7,158,438
-	-	248,035	1,069,441
-	-	1,274,631	1,274,631
-	-	10,619	1,278,161
-	-	-	3,368,319
-	243,565	1,684,868	5,201,783
-	-	2,792,186	2,825,606
79,515	39,878	428,496	665,735
113,710	-	-	166,183
3,805,872	2,244,731	9,409,280	35,083,700
(3,805,872)	(2,242,000)	(1,568,565)	(3,055,602)
-	-	2,349	8,693
-	-	-	152,535
5,580,000	-	-	8,155,000
33,710	-	62,519	108,703
-	-	1,990,835	7,165,835
-	-	(328,484)	(9,300,397)
5,613,710	-	1,727,219	6,290,369
1,807,838	(2,242,000)	158,654	3,234,767
-	(2,615,726)	-	(2,615,726)
1,807,838	(4,857,726)	158,654	619,041
-	(1,266,351)	8,236,141	15,187,941
$ 1,807,838	$ (6,124,077)	$ 8,394,795	$ 15,806,982

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, 2018

Net change in fund balances - total governmental funds		$ 619,041
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 differ from depreciation in the current period:		
Capital outlay	$ 10,644,153	
Depreciation	(6,117,119)	
Total		4,527,034
In the Statement of Activities, a gain or loss is reported for each disposal, whereas, the governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale.		(3,480)
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	(67,337)	
Municipal income taxes	795,033	
Special assessments	(34,093)	
Charges for services	56,465	
Interest	(11,198)	
Intergovernmental	387,043	
Total		1,125,913
Other financing sources in governmental funds that increase long-term liabilities in the Statement of Net Position:		
General obligation bonds	(8,155,000)	
Premium on issuance of bonds	(108,703)	
Capital lease	(152,535)	
Total		(8,416,238)
Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
General obligation bonds	2,675,000	
Special assessment bonds	110,000	
Capital lease	33,420	
Ohio Public Works Commission loan	7,186	
Total		2,825,606

(Continued)

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, 2018

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:		
Accretion on capital appreciation bonds	(62,532)	
Accrued interest on debt	(12,723)	
Amortization of loss on refunding	(119,673)	
Amortization of premiums	116,853	
Compensated absences	(313,479)	
Total		(391,554)
Internal service funds are used by management to charge costs of certain activities, such as insurance to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities.		303,182
Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows:		
OPERS Traditional pension	945,522	
OPERS Combined pension	48,462	
OP&F pension	438,255	
OP&F OPEB	11,533	
Total		1,443,772
Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension/OPEB expense in the Statement of Activities:		
OPERS Traditional pension	(1,874,927)	
OPERS Combined pension	(19,852)	
OP&F pension	(719,423)	
OPERS OPEB	(551,441)	
OP&F OPEB	(478,327)	
Total		(3,643,970)
Change in net position of governmental activities		$ (1,610,694)

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

City of Hudson, Ohio

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

For the Year Ended December 31, 2018

	Budgeted Amounts			Variance with final budget favorable
	Original	Final	Actual	(unfavorable)
Revenues:				
Property and other local taxes	$ 2,471,189	$ 2,709,283	$ 2,709,283	$ -
Municipal income tax	15,942,119	17,478,109	17,484,509	6,400
Intergovernmental	1,432,275	1,570,271	1,568,664	(1,607)
Charges for services	781,668	856,980	865,987	9,007
Fines and forfeitures	105,806	116,000	114,174	(1,826)
Special assessment	28,139	30,850	30,850	-
Interest	447,557	490,678	530,372	39,694
Other	130,888	143,500	143,198	(302)
Total revenues	21,339,641	23,395,671	23,447,037	51,366
Expenditures:				
Current:				
General government	6,491,722	6,872,135	6,663,075	209,060
Security of persons and property	4,577,649	4,487,452	4,263,477	223,975
Public health	850,027	867,063	845,258	21,805
Community and economic development	1,380,661	1,365,121	1,252,918	112,203
Capital outlay	256,469	393,096	389,546	3,550
Total expenditures	13,556,528	13,984,867	13,414,274	570,593
Excess of revenues over expenditures	7,783,113	9,410,804	10,032,763	621,959
Other financing sources (uses):				
Proceeds from sale of assets	20	22	299	277
Transfers - out	(7,777,913)	(8,971,913)	(8,971,913)	-
Advances - out	-	(400,000)	(400,000)	-
Advances - in	37,397	41,000	41,000	-
Total other financing sources (uses)	(7,740,496)	(9,330,891)	(9,330,614)	277
Net change in fund balance	42,617	79,913	702,149	622,236
Fund balance at beginning of fiscal year	7,274,063	7,274,063	7,274,063	-
Prior fiscal year encumbrances appropriated	416,076	416,076	416,076	-
Fund balance at end of fiscal year	$ 7,732,756	$ 7,770,052	$ 8,392,288	$ 622,236

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

City of Hudson, Ohio

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

For the Year Ended December 31, 2018

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with final budget favorable (unfavorable)
Revenues:				
Intergovernmental	$ 813,591	$ 873,000	$ 879,353	$ 6,353
Other	22,600	24,250	24,209	(41)
Total revenues	836,191	897,250	903,562	6,312
Expenditures:				
Current:				
Transportation	3,292,887	3,708,386	3,402,992	305,394
Capital outlay	142,137	145,837	138,137	7,700
Total Expenditures	3,435,024	3,854,223	3,541,129	313,094
Excess of revenues (under) over expenditures	(2,598,833)	(2,956,973)	(2,637,567)	319,406
Other financing sources:				
Proceeds from sale of assets	5,638	6,050	6,045	(5)
Transfers - in	2,353,171	2,525,000	2,525,000	-
Total other financing sources	2,358,809	2,531,050	2,531,045	(5)
Net change in fund balance	(240,024)	(425,923)	(106,522)	319,401
Fund balance at beginning of fiscal year	300,986	300,986	300,986	-
Prior fiscal year encumbrances appropriated	208,110	208,110	208,110	-
Fund balance at end of fiscal year	$ 269,072	$ 83,173	$ 402,574	$ 319,401

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

City of Hudson, Ohio

Statement of Fund Net Position
Proprietary Funds

December 31, 2018

	Water	Golf Course	Electric
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	$ 1,470,383	$ 166,641	$ 10,547,668
Accounts receivable	420,655	-	3,305,875
Intergovernmental receivable	-	-	71
Interfund receivable	-	-	-
Special assessments receivable	8,226	-	-
Materials and supplies inventory	261,041	34,437	887,472
Prepaid assets	4,928	5,257	21,725
Restricted assets:			
Cash in segregated accounts	-	-	423,419
Total current assets	2,165,233	206,335	15,186,230
Noncurrent assets:			
Investment in joint venture	-	-	170,011
Nondepreciable capital assets	943,517	2,008,225	758,241
Depreciable capital assets, net	8,368,850	1,356,346	11,543,484
Net pension asset	7,249	8,026	37,707
Total noncurrent assets	9,319,616	3,372,597	12,509,443
Total assets	11,484,849	3,578,932	27,695,673
Deferred outflows of resources:			
Deferred charges on refunding	202,523	22,319	99,243
Pension	140,326	148,484	754,673
OPEB	33,944	37,572	176,545
Total deferred outflows of resources	376,793	208,375	1,030,461
Liabilities:			
Current liabilities:			
Accounts payable	18,191	42,076	1,694,305
Accrued wages and benefits	20,572	19,378	107,632
Intergovernmental payable	10,477	9,426	46,275
Interfund payable	1,456	53	60,769
Accrued interest payable	9,749	1,139	2,574
Matured compensated absences payable	38,128	-	38,128
Payable from restricted assets – customer deposits	-	-	423,419
AMP Ohio payable	-	-	4,639
Compensated absences payable	133,921	38,153	431,464
General obligation bonds payable	206,000	135,000	175,000
Total current liabilities	438,494	245,225	2,984,205
Long-term liabilities (net of current portion):			
Advances from other funds	-	599,108	43,820
Compensated absences payable	164,164	49,438	455,355
General obligation bonds payable	3,884,918	449,412	1,218,117
Net pension liability	496,884	549,986	2,584,294
Net OPEB liability	351,614	389,193	1,828,756
Total long-term liabilities	4,897,580	2,037,137	6,130,342
Total liabilities	5,336,074	2,282,362	9,114,547
Deferred inflows of resources:			
Pension	119,988	132,754	624,248
OPEB	26,193	28,992	136,230
Total deferred inflows of resources	146,181	161,746	760,478
Net position:			
Net investment in capital assets	5,423,972	2,802,478	10,715,172
Unrestricted (deficit)	955,415	(1,459,279)	8,135,937
Total net position	$ 6,379,387	$ 1,343,199	$ 18,851,109

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

Storm Sewer	Nonmajor - Wastewater	Totals	Governmental Activities – Internal Service Funds
$ 817,545	$ 37,695	$ 13,039,932	$ 1,009,963
-	4,654	3,731,184	-
-	1,652,749	1,652,820	-
-	-	-	100,784
-	-	8,226	-
47,447	-	1,230,397	261,402
5,172	-	37,082	4,512
-	-	423,419	-
870,164	1,695,098	20,123,060	1,376,661
-	-	170,011	-
65,647	-	3,775,630	11,967
4,322,314	-	25,590,994	2,071,169
9,869	-	62,851	3,505
4,397,830	-	29,599,486	2,086,641
5,267,994	1,695,098	49,722,546	3,463,302
250,595	120,518	695,198	-
169,715	-	1,213,198	62,117
46,209	-	294,270	16,410
466,519	120,518	2,202,666	78,527
29,087	-	1,783,659	65,914
15,871	-	163,453	9,357
19,125	-	85,303	3,926
-	-	62,278	-
4,336	2,931	20,729	-
-	-	76,256	-
-	-	423,419	-
-	-	4,639	-
2,580	-	606,118	67,293
165,000	79,000	760,000	-
235,999	81,931	3,985,854	146,490
80,350	100,000	823,278	-
2,968	-	671,925	-
2,122,432	1,465,986	9,140,865	-
676,417	-	4,307,581	240,221
478,662	-	3,048,225	169,992
3,360,829	1,565,986	17,991,874	410,213
3,596,828	1,647,917	21,977,728	556,703
163,163	-	1,040,153	57,961
35,657	-	227,072	12,663
198,820	-	1,267,225	70,624
2,351,124	-	21,292,746	2,083,136
(412,259)	167,699	7,387,513	831,366
$ 1,938,865	$ 167,699	$ 28,680,259	$ 2,914,502

City of Hudson, Ohio

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

For the Year Ended December 31, 2018

	Water	Golf Course	Electric
Operating revenues:			
Charges for services	$ 2,029,210	$ 1,267,861	$ 21,093,133
Other	84,238	13,769	557,038
Total operating revenues	2,113,448	1,281,630	21,650,171
Operating expenses:			
Personal services	769,982	774,185	3,898,307
Materials and supplies	158,123	283,671	176,016
Contractual services	313,395	137,887	16,651,891
Claims	-	-	-
Other	-	33,824	29,858
Depreciation	347,963	129,849	442,178
Total operating expenses	1,589,463	1,359,416	21,198,250
Operating income (loss)	523,985	(77,786)	451,921
Non-operating (expenses) revenues:			
Issuance costs	(16,710)	-	-
Intergovernmental	-	-	1,972
Interest and fiscal charges	(123,667)	(11,789)	(42,859)
Gain on disposal of assets	5,703	-	8,807
Total non-operating (expenses) revenues	(134,674)	(11,789)	(32,080)
Income (loss) before transfers and capital contributions	389,311	(89,575)	419,841
Transfers - in	-	128,484	-
Capital Contributions	-	18,096	-
Change in net position	389,311	57,005	419,841
Net position at beginning of year, restated	5,990,076	1,286,194	18,431,268
Net position at end of year	$ 6,379,387	$ 1,343,199	$ 18,851,109

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

Storm Sewer	Nonmajor - Wastewater	Totals	Governmental Activities – Internal Service Funds
$ 74,655	$ 7,804	$ 24,472,663	$ 2,037,688
-	155	655,200	38,774
74,655	7,959	25,127,863	2,076,462
822,144	-	6,264,618	402,030
82,804	-	700,614	377,885
253,127	-	17,356,300	190,164
-	-	-	337,870
-	-	63,682	-
136,519	-	1,056,509	484,932
1,294,594	-	25,441,723	1,792,881
(1,219,939)	7,959	(313,860)	283,581
-	-	(16,710)	-
-	-	1,972	-
(70,572)	(10,936)	(259,823)	-
-	-	14,510	19,601
(70,572)	(10,936)	(260,051)	19,601
(1,290,511)	(2,977)	(573,911)	303,182
1,400,000	606,078	2,134,562	-
-	-	18,096	-
109,489	603,101	1,578,747	303,182
1,829,376	(435,402)	27,101,512	2,611,320
$ 1,938,865	$ 167,699	$ 28,680,259	$ 2,914,502

City of Hudson, Ohio

Statement of Cash Flows
Proprietary Funds

For the Year Ended December 31, 2018

	Water	Golf Course	Electric
Cash flows from operating activities:			
Cash received from customers	$ 2,054,035	$ 1,267,861	$ 21,450,996
Cash received from interfund services provided	-	-	-
Cash payments to employees for services	(670,267)	(707,941)	(3,355,197)
Cash payments for goods and services	(524,498)	(461,293)	(16,327,587)
Cash payments for claims	-	-	-
Other operating revenues	84,284	13,769	589,370
Other operating expenses	-	(32,955)	(161,239)
Net cash provided (used) by operating activities	943,554	79,441	2,196,343
Cash flows from noncapital financing activities:			
Transfers - in	-	128,484	-
Intergovernmental	-	-	1,972
Net cash provided by noncapital financing activities	-	128,484	1,972
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(617,378)	-	(2,434,468)
Proceeds from sale of capital assets	5,703	-	8,807
Proceeds from issuance of bonds	820,000	-	-
Premium from issuance of bonds	10,686	-	-
Issuance costs	(16,710)	-	-
Proceeds from Summit County for debt payments	-	-	-
Principal payments	(946,000)	(120,000)	(165,000)
Interest payments	(120,250)	(8,484)	(34,186)
Net cash used by capital and related financing activities	(863,949)	(128,484)	(2,624,847)
Net increase (decrease) cash and cash equivalents	79,605	79,441	(426,532)
Cash and cash equivalents at beginning of year	1,390,778	87,200	11,397,619
Cash and cash equivalents at end of year	$ 1,470,383	$ 166,641	$ 10,971,087

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

Storm Sewer	Nonmajor - Wastewater	Totals	Governmental Activities – Internal Service Funds
$ 74,655	$ 12,442	$ 24,859,989	$ -
-	-	-	2,009,824
(792,491)	-	(5,525,896)	(298,684)
(316,904)	-	(17,630,282)	(708,434)
-	-	-	(339,708)
-	155	687,578	38,774
-	-	(194,194)	-
(1,034,740)	12,597	2,197,195	701,772
1,400,000	606,078	2,134,562	-
-	-	1,972	-
1,400,000	606,078	2,136,534	-
(580,493)	-	(3,632,339)	(765,874)
-	-	14,510	29,581
-	-	820,000	-
-	-	10,686	-
-	-	(16,710)	-
-	113,879	113,879	-
(160,000)	(667,590)	(2,058,590)	-
(55,234)	(50,036)	(268,190)	-
(795,727)	(603,747)	(5,016,754)	(736,293)
(430,467)	14,928	(683,025)	(34,521)
1,248,012	22,767	14,146,376	1,044,484
$ 817,545	$ 37,695	$ 13,463,351	$ 1,009,963

(Continued)

City of Hudson, Ohio

Statement of Cash Flows
Proprietary Funds (continued)

For the Year Ended December 31, 2018

	Water	Golf Course	Electric
Reconciliation of operating income (loss) to net cash from operating activities:			
Operating income (loss)	$ 523,985	$ (77,786)	$ 451,921
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	347,963	129,849	442,178
(Increase) decrease in operating assets and deferred outflows of resources:			
Accounts receivable	22,083	-	270,143
Intergovernmental receivable	1,060	-	18,118
Materials and supplies inventory	(17,139)	(11,321)	52,439
Due from other fund	-	-	-
Special assessments receivable	2,742	-	-
Prepaid expenses	160	(311)	(1,186)
Investment in joint venture	-	-	32,623
Net pension asset	(4,299)	(4,695)	(22,596)
Deferred outflows – pension	130,894	157,681	634,306
Deferred outflows – OPEB	(29,560)	(32,720)	(153,745)
Increase (decrease) in operating liabilities and deferred inflows of resources:			
Accounts payable	(39,027)	(28,416)	446,253
Accrued wages and benefits	(8,484)	6,882	24,446
Intergovernmental payable	2,432	3,231	(93,522)
Due to other funds	(1,593)	53	146
Net pension liability	(182,455)	(216,881)	(894,742)
Net OPEB liability	37,213	41,191	193,549
Matured compensated absences payable	35,515	-	19,841
Claims payable	-	-	-
Customer deposits	-	-	35,508
AMP Ohio Payable	-	-	232
Compensated absences payable	(18,511)	(42,735)	8,653
Deferred inflows – pension	114,382	126,427	595,548
Deferred inflows – OPEB	26,193	28,992	136,230
Total adjustments	419,569	157,227	1,744,422
Net cash provided (used) by operating activities	$ 943,554	$ 79,441	$ 2,196,343
Non-cash capital financing activities:			
Amortization of premium on general obligation bonds	$ (11,966)	$ (883)	$ (1,425)
Amortization of loss on refunding	13,642	4,463	10,372
Capital assets contributed from the governmental activities	-	18,096	-
Capital assets purchased on account	-	-	288,040

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

Storm Sewer	Nonmajor - Wastewater	Totals	Governmental Activities – Internal Service Funds
$ (1,219,939)	$ 7,959	$ (313,860)	$ 283,581
136,519	-	1,056,509	484,932
-	4,638	296,864	-
-	-	19,178	-
1,190	-	25,169	(115,069)
-	-	-	(27,864)
-	-	2,742	-
253	-	(1,084)	(68)
-	-	32,623	-
(5,650)	-	(37,240)	(2,024)
218,083	-	1,140,964	73,999
(40,241)	-	(256,266)	(14,291)
8,777	-	387,587	(25,290)
(8,720)	-	14,124	9,357
11,093	-	(76,766)	1,300
-	-	(1,394)	-
(294,914)	-	(1,588,992)	(100,712)
50,660	-	322,613	17,991
-	-	55,356	-
-	-	-	(1,838)
-	-	35,508	-
-	-	232	-
(82,660)	-	(135,253)	49,956
155,152	-	991,509	55,149
35,657	-	227,072	12,663
185,199	4,638	2,511,055	418,191
$ (1,034,740)	$ 12,597	$ 2,197,195	$ 701,772
$ (1,211)	$ (479)	$ (15,964)	$ -
16,816	7,089	52,382	-
-	-	18,096	-
-	-	288,040	-

City of Hudson, Ohio

Statement of Fiduciary Net Position
Fiduciary Funds

December 31, 2018

		Agency
Assets:		
Equity in pooled cash and cash equivalents	$	889,081
Property taxes receivable		2,409,840
Municipal income taxes receivable		405,566
Intergovernmental receivable		114,864
Total assets	$	3,819,351
Liabilities and deferred inflows of resources:		
Liabilities:		
Due to others	$	1,469,883
Deferred inflows of resources:		
Property taxes		2,349,468
Total liabilities and deferred inflows of resources	$	3,819,351

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

Note 1: Description of the City and Reporting Entity

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; or (3) the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

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

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 most significant of the City's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

Government-wide Financial Statements

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

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Governmental Funds (continued)

Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 Fund – The Street Construction Special Revenue Fund accounts for proceeds of specific revenue sources that are legally restricted to expenditures for street maintenance and repair.

Street Sidewalk Construction Fund **–** The Street Sidewalk Construction Capital Projects Fund accounts for the costs of the City's annual street and sidewalk maintenance and construction program.

Broadband Capital Fund **–** The Broadband Capital Fund accounts for the costs of the City's buildout of its broadband capacity

City Acquisition Fund – The City Acquisition Capital Projects Fund accounts for the costs for the City to acquire property.

Downtown Phase II Fund **–** The Downtown Phase II Fund accounts for activity related to redevelop and downtown expansion.

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 position, 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 enterprise funds:

Water Fund **–** The Water Fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Golf Course Fund **–** The Golf Course Fund accounts for the cost of operating the City's golf course.

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Proprietary Funds (continued)

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

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

Wastewater Fund **–** The Wastewater Fund accounted for the costs of operating the municipally-owned wastewater system and the related revenues from charges for services. In a prior year the waste water lines were transferred to Summit County. This fund currently accounts for the debt service requirements still outstanding from when the City operated the wastewater system. The Wastewater Fund is a nonmajor enterprise fund.

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 equipment and reserve and fleet management, a self-insurance program for employee medical benefits, and information services.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The agency funds account for flexible benefits, 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position.

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 deferred outflows of resources and current liabilities and deferred inflows of resources are generally included on the Balance Sheet.

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

Fund Financial Statements (continued)

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 reconciliations 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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 inflows/outflows of resources 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 60 days of year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues – Exchange and Non-Exchange Transactions (continued)

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, and fees.

Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements may report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. At December 31, 2018, the City had deferred outflows of resources for deferred losses on refunding, pension and other postemployment benefits (OPEB) plans reported in the government-wide Statement of Net Position and the proprietary funds Statement of Fund Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB plans are explained in Note 16 and Note 17.

In addition to liabilities, the financial statements may report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be a recognized as inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes, unavailable revenue and amounts for pension and OPEB plans. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Unavailable revenue is reported only on the governmental funds Balance Sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, interest, and intergovernmental revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide Statement of Net Position and in the proprietary funds Statement of Fund Net Position.

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.

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process

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 (or the alternative tax budget, as permitted by law), the certificate of estimated resources, and the annual appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the annual appropriation ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Any budgetary modifications at this level may only be made by resolution of the Council.

Tax Budget

At the first Council meeting in July, the City Manager presents the annual tax budget for the following year to Council for consideration and passage. The adopted budget is submitted to the Fiscal Officer, 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 (the "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 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 2018.

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 Commission, and the total of expenditures and encumbrances may not exceed the appropriations at the legal level of control. Any revisions that alter the appropriations among departments within a fund must first be approved by Council.

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Appropriations (continued)

Council may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent certificate of estimated resources.

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 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. 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 re-appropriated.

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 financial statements.

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during the year 2018 amounted to $267,828, which includes $230,194 assigned from other City funds.

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

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 on the financial statements as "Cash in segregated accounts" and "Investments in segregated accounts" since they are not required to be deposited into the City treasury.

The City has donated stock. The account is presented on the financial statements as "Investment in common stock" since they are not required to be deposited into the City treasury. See Note 6, Deposits and Investments.

Investments of the cash pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents.

G. Interfund Balances

On the 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 as part of nonspendable fund balance 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 Position, 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 types when used.

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2018, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

J. Capital Assets

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

Note 2: Summary of Significant Accounting Policies (continued)

J. Capital Assets (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value 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 capitalized. Interest incurred during the construction of capital assets is also capitalized.

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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	10 to 100 years	10 to 50 years
Land improvements	15 to 40 years	10 to 50 years
Vehicles	5 to 12 years	8 to 30 years
Equipment, furniture and fixtures	5 to 20 years	5 to 30 years
Infrastructure	5 to 65 years	30 to 100 years

K. 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 reported as a liability using the vesting method. An accrual for sick leave is made for those employees who are currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such 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 "matured compensated absences" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported.

Note 2: Summary of Significant Accounting Policies (continued)

L. Payables, Accrued Liabilities and Long-Term Obligations

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

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

M. Fund Balance

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

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Note 2: Summary of Significant Accounting Policies (continued)

M. Fund Balance (continued)

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of Council. Those committed amounts cannot be used for any other purpose unless the Council removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be re-deployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Council or a City official delegated that authority by the Council. For the City, this individual is the Finance Director.

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

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

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is 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 first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Note 2: Summary of Significant Accounting Policies (continued)

O. 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 water, electric, storm sewer, and wastewater fees, golf course fees 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 non-operating.

P. Contributions of Capital

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

Q. 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 non-operating 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.

R. Deferred Charge on Refunding

The difference between the reacquisition price (funds required to refund the old debt) of various refunding bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt whichever is shorter and is presented as deferred outflows of resources on the Statement of Net Position.

S. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension liability/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension/OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

Note 2: Summary of Significant Accounting Policies (continued)

T. Bond Premiums and Discounts

On the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are receipted in the year the bonds are issued.

U. 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.

V. Reclassification

Prior year data presented in the Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations.

W. Special Item

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. In 2018, the City reported a special item related to the construction of a bus garage for Hudson City School District. The City incurred $2,615,726 worth of expenses in 2018.

Note 3: Changes in Accounting Principles

In 2018, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 86, *Certain Debt Extinguishment Issues*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and OPEB). These changes were incorporated in the City's 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 86, seeks to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions involved in the extinguishment of debt including, prepaid insurance and note disclosures for in-substance defeasance of debt. Implementation of this standard has had no effect on the City's financial statements or disclosures.

Note 3: Changes in Accounting Principles (continued)

For the year ended December 31, 2018, the City implemented the Governmental Accounting Standards Board, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense.

The implementation of this pronouncement had the following effect on beginning net position as reported as of December 31, 2017:

	Governmental Activities	Business-Type Activities	Total
Net position at December 31, 2017, as previously reported	$ 96,501,014	$ 29,789,120	$ 126,290,134
Deferred outflow – payments subsequent to measurement date	85,225	38,004	123,229
Net OPEB liability	(9,777,974)	(2,725,612)	(12,503,586)
Restated net position at December 31, 2017	$ 86,808,265	$ 27,101,512	$ 113,909,777

	Water	Golf	Electric
Net position at December 31, 2017, as previous reported	$ 6,300,093	$ 1,629,344	$ 20,043,675
Deferred outflow – payments subsequent to measurement date	4,384	4,852	22,800
Net OPEB liability	(314,401)	(348,002)	(1,635,207)
Restated net position at December 31, 2017	$ 5,990,076	$ 1,286,194	$ 18,431,268

	Storm Sewer	Wastewater	Total Enterprise
Net position at December 31, 2017, as previous reported	$ 2,251,410	$ (435,402)	$ 29,789,120
Deferred outflow – payments subsequent to measurement date	5,968	-	38,004
Net OPEB liability	(428,002)	-	(2,725,612)
Restated net position at December 31, 2017	$ 1,829,376	$ (435,402)	$ 27,101,512

Note 3: Changes in Accounting Principles (continued)

		Internal Service
Net position at December 31, 2017, as previous reported	$	2,761,202
Deferred outflow – payments subsequent to measurement date		2,119
Net OPEB liability		(152,001)
Restated net position at December 31, 2017	$	2,611,320

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

GASB Statements and guidance to be implemented in future reporting periods include GASB Statement No. 83, *Certain Asset Retirement Obligations,* GASB Statement No. 84, *Fiduciary Activities,* GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period, and* GASB Statement No. 87, *Leases.* The City is currently evaluating the impact that these Statements will have on its financial statements and disclosures.

Note 4: Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. A Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual is presented for the General Fund and Street Construction Special Revenue Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute.

The major difference between the budgetary basis and the GAAP basis are:

1) Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2) Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
3) Encumbrances are treated as expenditures (budgetary) rather than as restricted, committed, or assigned fund balance (GAAP).
4) Short-term note proceeds, short-term note principal retirements, advances-in, and advances-out for governmental funds are operating transactions (budgetary) as opposed to balance sheet transactions (GAAP).
5) Investments are reported at fair value (GAAP) rather than cost (budgetary).

Note 4: Budgetary Basis of Accounting (continued)

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

Net Change In Fund Balance

	General Fund	Street Construction
GAAP basis	$ 1,331,167	$ (75,072)
Net adjustment for revenue accruals	479,368	(131,034)
Net fair market value adjustment	(297,625)	-
Net adjustment for expenditure accruals	138,630	172,273
Advance - in	41,000	-
Advance - out	(400,000)	-
Encumbrances	(590,391)	(72,689)
Budgetary basis	$ 702,149	$ (106,522)

Note 5: Fund Balances

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

	General Fund	Street Construction	Street Sidewalk Construction	Broadband Capital
Nonspendable:				
Inventory	$ 18,227	$ 132,901	$ -	$ -
Prepaid expenses	49,415	13,325	-	-
Interfund loan receivable	1,669,278	-	-	-
Principal trust	-	-	-	-
Total nonspendable	1,736,920	146,226	-	-
Restricted for:				
Streets and highways	-	348,958	-	-
Cemetery	-	-	-	-
Law enforcement and education	-	-	-	-
Debt service	-	-	-	-
Capital improvements	-	-	-	-
Total restricted	-	348,958	-	-
Committed to:				
Community and economic development	-	-	-	-
Fire District and EMS	-	-	-	-
Cemetery improvement	-	-	-	-
Storm sewer assessment	-	-	-	-
Tree trust	-	-	-	-
Playground trust	-	-	-	-
Poor endowment trust	-	-	-	-
Veterans memorial	-	-	-	-
Other purposes	-	-	-	-
Debt service	-	-	-	-
Street sidewalk construction	-	-	1,098,424	-
Capital improvements	-	-	-	-
Total committed	-	-	1,098,424	-
Assigned to:				
Purchases on order	448,418	-	-	-
Year 2019 appropriations	584,594	-	-	-
Total assigned	1,033,012	-	-	-
Unassigned (deficit)	10,223,241	-	-	(2,858,355)
Total fund balances	$ 12,993,173	$ 495,184	$ 1,098,424	$ (2,858,355)

Note 5: Fund Balances (continued)

	City Acquisition	Downtown Phase II	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	$ -	$ -	$ 77,916	$ 229,044
Prepaid expenses	-	-	20,066	82,806
Interfund loan receivable	-	-	-	1,669,278
Principal trust	-	-	6,473	6,473
Total nonspendable	-	-	104,455	1,987,601
Restricted for:				
Streets and highways	-	-	103,892	452,850
Cemetery	-	-	150,842	150,842
Law enforcement and education	-	-	92,400	92,400
Debt service	-	-	337,360	337,360
Capital improvements	-	-	230,691	230,691
Total restricted	-	-	915,185	1,264,143
Committed to:				
Community and economic development	-	-	1,925,460	1,925,460
Fire District and EMS	-	-	3,544,316	3,544,316
Cemetery improvement	-	-	4,163	4,163
Storm sewer assessment	-	-	278,490	278,490
Tree trust	-	-	41,042	41,042
Playground trust	-	-	12,992	12,992
Poor endowment trust	-	-	37,609	37,609
Veterans memorial	-	-	16,479	16,479
Other purposes	-	-	8,330	8,330
Debt service	-	-	593,765	593,765
Street sidewalk construction	-	-	-	1,098,424
Capital improvements	1,807,838	-	912,509	2,720,347
Total committed	1,807,838	-	7,375,155	10,281,417
Assigned to:				
Purchases on order	-	-	-	448,418
Year 2019 appropriations	-	-	-	584,594
Total assigned	-	-	-	1,033,012
Unassigned (deficit)	-	(6,124,077)	-	1,240,809
Total fund balances	$ 1,807,838	$ (6,124,077)	$ 8,394,795	$ 15,806,982

Note 6: 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.

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; and

6. The State Treasurer’s investment pool (STAR Ohio).

Note 6: Deposits and Investments (continued)

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 Ohio 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 eighty days after purchase; and

2. Bankers acceptances of banks that are insured by the FDIC and to which the obligations are eligible for purchase by the Federal Reserve System and the obligations mature no later than 180 (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.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it.

The City has no deposit policy for custodial risk beyond the requirements of state statute. Ohio law requires that deposits be either insured be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by establishing and pledging to the treasurer of state a single pool of collateral for the benefit of every public depositor. The total market value of the securities pledged must meet either of the following:

One hundred two percent of the total amount of all uninsured public deposits; or

An amount determined by rules adopted by the treasurer of state that set forth the criteria for determining the aggregate market value of the pool of eligible securities pledged by a public depository.

At year-end, the carrying amount of the City's deposits was $9,742,931 and the bank balance was $9,967,451. Of the bank balance, $747,039 was covered by FDIC and $9,220,412 was uninsured and was collateralized through the Ohio Pooled Collateral System. At year-end, the City had $1,383 in cash on hand.

Note 6: Deposits and Investments (continued)

Investments

Investments are reported at fair value. As of December 31, 2018, the City had the following investments:

		Maturities (in years)	
	Fair Value	Less than 1	1 - 5
Common stock (donated)	$ 25,758	$ 25,758	$ -
Government agency obligations:			
Federal Farm Credit Bank	769,445	542,776	226,669
Federal Home Loan Mortgage Corporation	1,189,241	-	1,189,241
Federal National Mortgage Association	486,692	-	486,692
Federal Home Loan Banks	493,305	246,978	246,327
MBS negotiable certifications of deposit	23,244,297	2,321,320	20,922,977
Series E bonds	2,987	2,987	-
Total portfolio	$ 26,211,725	$ 3,139,819	$ 23,071,906

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2018:

- Common stock is measured based on Level 1 inputs, using quoted prices in active markets.
- Government agency obligations, negotiable CD's and Series E bonds are measured based on Level 2 inputs, using a matrix or model pricing method.

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's investment policy also limits security purchases to those that mature not later than five years from purchase unless specifically matched to a specific cash flow. To date, no investments have been purchased with a life greater than five years.

Note 6: Deposits and Investments (continued)

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.

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. The government agency obligations carry a rating of AA+ by Standard & Poor's. The negotiable certificates of deposit are unrated.

Concentration of Credit Risk is defined by the GASB 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, 2018:

Investment Issuer	Percentage of Investments
Common Stock (donated)	0.10%
Federal Farm Credit Bank	2.94
Federal Home Loan Mortgage Corporation	4.54
Federal National Mortgage Association	1.86
Federal Home Loan Banks	1.88
MBS Negotiable CD's	88.68
Series E Bonds	<0.01
Total	100.00%

Note 7: Receivables

Receivables at December 31, 2018, consisted of taxes, accounts (billings for user charged services, and fees), 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.

A summary of intergovernmental receivables follows:

Governmental activities:	
Homestead and rollback	$ 248,737
Local government	203,312
Grants	27,879
Franchise fees	74,050
Auto registration, licenses, and gasoline tax	470,945
Hudson City School District	363,273
Miscellaneous	12,531
Total governmental activities	1,400,727

Note 7: Receivables (continued)

Business-type activities:		
Summit County		1,652,749
Miscellaneous		71
Total business-type activities		1,652,820
Total	$	3,053,547

Note 8: Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Real property taxes collected in 2018 are levied after October 1, 2017, on assessed value as of January 1, 2017, 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 2018 were intended to finance 2018 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at varying percentages of true value. Public utility property taxes paid in 2018 that became a lien on December 31, 2017, are levied after October 1, 2017, and are collected in 2018 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2018, was $7.55 per $1,000 of assessed value. The assessed values of real and tangible personal property upon which 2018 property tax receipts were based are as follows:

		Total Assessed Value
Real Property Valuation:		
Residential/Agriculture	$	861,551,890
Commercial/Industrial/Mineral		111,548,460
Public Utilities		126,070
Tangible Personal Property Valuation:		
Public Utilities		11,514,710
Total Valuation	$	984,741,130

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.

Note 9: Income Tax

The City levies a municipal income tax of two percent 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 Income Tax Agency (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 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 one percent to two percent effective January 1, 2005, with 15% of such additional one percent increase being designated for funding of the Fire Department; with nine percent of such additional one percent increase being designated for funding of Emergency Medical Services; with 15% of such additional one percent increase being designated for funding of the Park System; and with 13.5% of such additional one percent increase being designated for community learning centers in the City, in cooperation with the Hudson City School District. For 2018, municipal income tax revenue was $22,992,258, which represents the City’s portion net of amount due to Hudson City School District.

Note 10: Special Assessments

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

The City’s special assessments include water main and storm sewer improvements which are billed and collected by the County Fiscal Officer. The County Fiscal Officer periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year.

Note 11: Capital Assets

	Balance 12/31/17	Additions	Disposals	Balance 12/31/18
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 15,357,234	$ 322,950	$ -	$ 15,680,184
Construction in progress	5,151,236	4,598,100	(2,243,107)	7,506,229
Total capital assets, not being depreciated	20,508,470	4,921,050	(2,243,107)	23,186,413
Capital assets, being depreciated:				
Buildings	9,684,979	3,825,436	-	13,510,415
Land improvements	4,830,595	587,760	-	5,418,355
Vehicles	7,866,786	372,289	(288,961)	7,950,114
Equipment, furniture and fixtures	4,369,074	822,955	(57,117)	5,134,912
Infrastructure:				
Roads	144,785,487	3,098,883	-	147,884,370
Sidewalks	3,752,625	6,896	-	3,759,521
Traffic signals	2,971,911	-	-	2,971,911
Broadband	1,682,336	17,865	-	1,700,201
Total capital assets, being depreciated	179,943,793	8,732,084	(346,078)	188,329,799
Less accumulated depreciation:				
Buildings	(3,613,134)	(324,358)	-	(3,937,492)
Land improvements	(1,626,068)	(274,259)	-	(1,900,327)
Vehicles	(5,547,061)	(615,060)	278,981	(5,883,140)
Equipment, furniture and fixtures	(2,774,603)	(242,350)	53,637	(2,963,316)
Infrastructure:				
Roads	(73,388,405)	(4,854,668)	-	(78,243,073)
Sidewalks	(1,799,703)	(115,996)	-	(1,915,699)
Traffic signals	(2,069,514)	(90,350)	-	(2,159,864)
Broadband	(167,857)	(85,010)	-	(252,867)
Total accumulated depreciation	(90,986,345)	(6,602,051)	332,618	(97,255,778)
Total capital assets, being depreciated, net	88,957,448	2,130,033	(13,460)	91,074,021
Governmental activities capital assets, net	$ 109,465,918	$ 7,051,083	$ (2,256,567)	$ 114,260,434

Depreciation expense was charged to governmental functions as follows:

General government	$ 538,327
Security of persons and property	440,705
Public health	33,086
Leisure time services	266,908
Community and economic development	9,699
Transportation	5,313,326
Total	$ 6,602,051

Note 11: Capital Assets (continued)

	Balance 12/31/17	Additions	Disposals	Balance 12/31/18
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 2,332,463	$ -	$ -	$ 2,332,463
Construction in progress	1,291,426	151,741	-	1,443,167
Total capital assets, not being depreciated	3,623,889	151,741	-	3,775,630
Capital assets being depreciated:				
Buildings	5,697,204	-	-	5,697,204
Land improvements	2,254,010	-	-	2,254,010
Vehicles	1,824,218	6,445	(502,216)	1,328,447
Equipment, furniture and fixtures	4,025,030	90,674	(5,750)	4,109,954
Infrastructure:				
Water main lines	15,487,462	560,370	-	16,047,832
Storm water lines	4,461,108	580,493	-	5,041,601
Electric	9,426,165	1,988,771	-	11,414,936
Total capital assets, being depreciated	43,175,197	3,226,753	(507,966)	45,893,984
Less accumulated depreciation:				
Buildings	(1,475,230)	(105,105)	-	(1,580,335)
Land improvements	(1,425,626)	(94,133)	-	(1,519,759)
Vehicles	(1,799,735)	(3,736)	502,216	(1,301,255)
Equipment, furniture and fixtures	(2,873,319)	(141,152)	5,750	(3,008,721)
Infrastructure:				
Water main lines	(7,868,722)	(321,102)	-	(8,189,824)
Storm sewer	(703,429)	(127,256)	-	(830,685)
Electric	(3,608,386)	(264,025)	-	(3,872,411)
Total accumulated depreciation	(19,754,447)	(1,056,509)	507,966	(20,302,990)
Total capital assets, being depreciated, net	23,420,750	2,170,244	-	25,590,994
Business-type activities capital assets, net	$ 27,044,639	$ 2,321,985	$ -	$ 29,366,624

Note 12: Risk Management

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

During 2018, the City contracted its medical insurance through a fully insured plan offered by Medical Mutual.

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 third-party administrator evaluates and settles all claims from the City and administers the plans. As December 31, 2018, management believes any liability related to these claims to be insignificant.

Note 13: Short-Term Obligations

Changes in the City's note activity for the year ended December 31, 2018, were as follows:

	Balance 12/31/17	Additions	Reductions	Balance 12/31/18
Governmental activities:				
2017 Various purpose bond anticipation notes – 3.00%	$ 7,535,000	$ -	$ (7,535,000)	$ -
Premium on 2017 notes	92,907	-	(92,907)	-
2018 Capital facilities bond anticipation notes – 3.50%	-	7,500,000	-	7,500,000
Premium on 2018 notes	-	90,825	-	90,825
Total governmental activities – short-term obligations	$ 7,627,907	$ 7,590,825	$ (7,627,907)	$ 7,590,825

Note 13: Short-Term Obligations (continued)

	Balance 12/31/17	Additions	Reductions	Balance 12/31/18
Business-type activities:				
2017 Various purpose bond anticipation notes – 3.00%	$ 805,000	$ -	$ (805,000)	$ -
Premium on notes	9,926	-	(9,926)	-
Total business-type activities – short-term obligations	$ 814,926	$ -	$ (814,926)	$ -

On December 28, 2017, the City issued $8,340,000 in various purpose bond anticipation notes at an annual interest rate of 3.00%. These notes were paid in full in 2018. The proceeds were used to retire the outstanding 2016 various purpose bond anticipation notes and to improve city streets, the City's water system, acquire and improve property and a building, and improving City-owned property.

On December 19, 2018, the City issued $7,500,000 in capital facilities bond anticipation notes at an annual interest rate of 3.50% that will mature on December 19, 2019. The proceeds were used to improve City owned property located at 5810 Hudson Drive.

The notes are backed by the full faith and credit of the City and mature within one year. The liability is reflected in the funds which received the proceeds. By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50% of anticipated revenue collections. There are limitations on the number of times a note can be renewed.

Note 14: Long-term Obligations

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

Debt Issue	Original Issuance Year	Maturity Year	Original Interest Rates	Original Issuance Amount
Governmental Activities:				
General Obligation Bonds:				
2008 Park Improvement G.O. Bonds Refunded	2008	2018	3.250% - 5.000%	4,248,000
2008 Village South G.O. Bonds Refunded	2008	2018	3.250% - 5.000%	1,947,000
2008 Library Improvement G.O. Bonds Refunded	2008	2018	3.250% - 5.000%	5,580,000
2008 Park Improvement G.O. Bonds Refunded	2008	2019	3.000% - 4.000%	710,000
2008 Library Improvement C.A.B. Bonds Refunded	2008	2019	19.920%	95,000
2011 Park Improvement G.O. Bond Refunded	2011	2018	2.000%	510,000
2011 Community Center Expansion G.O. Bond Refunded	2011	2023	2.000%	175,000
2011 Police Facility Construction G.O. Bond Refunded	2011	2023	2.000%	2,120,000
2011 Road Improvement G.O. Bond Refunded	2011	2023	2.000%	640,000
2011 Street Improvement – Seasons Road G.O. Bond	2011	2031	1.250% - 4.000%	1,175,000
2011 Street Improvement – Atterbury Boulevard G.O. Bond	2011	2031	1.250% - 4.000%	3,770,000
2012 Milford/RT 91 Construction G.O. Bond Refunded	2012	2024	1.500% - 2.000%	2,305,000
2012 Capital Facilities G.O. Bond	2012	2032	1.500% - 2.500%	4,735,000
2013 Street Improvement G.O. Bond	2013	2023	2.000% - 3.000%	5,000,000
2018 Various Purpose G.O. Bond	2018	2038	3.000% - 3.250%	8,155,000

Note 14: Long-term Obligations (continued)

	Original Issuance Year	Maturity Year	Original Interest Rates	Original Issuance Amount
Governmental Activities (continued):				
Special Assessment Bonds:				
1998 Executive Parkway S.A. Bonds	1998	2018	4.300% - 5.000%	1,060,000
1999 Water Main Construction S.A. Bonds	1999	2019	3.900% - 5.625%	420,000
OPWC Loan	2009	2030	0.000%	143,714
Business Type Activities:				
General Obligation Bonds:				
1998 Golf Course Improvement G.O. Bonds	1998	2019	4.300% - 5.000%	$ 690,000
2011 Golf Course Improvement G.O. Bond Refunded	2011	2023	2.000%	875,000
2011 Storm Water Improvement G.O. Bond Refunded	2011	2023	2.000%	580,000
2011 Substation Construction G.O. Bond Refunded	2011	2023	2.000%	1,190,000
2011 Water System Improvement G.O. Bond Refunded	2011	2033	2.000%	3,210,000
2012 Water System Improvement G.O. Bond Refunded	2012	2035	2.000% - 3.000%	604,000
2012 Sewer Improvement Refunded	2012	2034	2.000% - 3.000%	623,000
2012 Sewer Improvement Refunded	2012	2035	2.000% - 3.000%	1,114,000
2012 Electric Issue Refunded	2012	2034	2.000% - 3.000%	722,000
2012 Storm Water Improvement Refunded	2012	2035	2.000% - 3.000%	2,182,000
2018 Various Purpose G.O. Bond	2018	2038	3.000% - 3.250%	820,000
OWDA Loan	1999	2018	4.040%	8,266,307

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

	Balance 12/31/17	Additions	Retirements	Balance 12/31/18	Amount Due in One Year
Governmental activities:					
General Obligation Bonds:					
2008 Park Improvement Refunded	$ 171,429	$ -	$ (171,429)	$ -	$ -
2008 Village South Refunded	78,571	-	(78,571)	-	-
2008 Park Improvement Refunded	165,000	-	(80,000)	85,000	85,000
2008 Library Improvement Refunded	760,000	-	(760,000)	-	-
2011 Park Improvement Refunded	70,000	-	(70,000)	-	-
2011 Community Center Expansion Refunded	125,000	-	(15,000)	110,000	20,000
2011 Police Facility Construction Refunded	1,545,000	-	(225,000)	1,320,000	250,000
2011 Road Improvement Refunded	460,000	-	(70,000)	390,000	75,000
2011 Street Improvement – Seasons Road	880,000	-	(50,000)	830,000	55,000
2011 Street Improvement – Atterbury Boulevard	2,830,000	-	(165,000)	2,665,000	170,000
2012 Milford/Rt. 91 Construction Refunded	2,020,000	-	(280,000)	1,740,000	280,000
2012 Capital Facilities	3,695,000	-	(215,000)	3,480,000	215,000
2013 Street Improvement	3,120,000	-	(495,000)	2,625,000	505,000
2018 Various Purpose	-	8,155,000	-	8,155,000	335,000
2008 Library Improvement Refunded Capital Appreciation Bonds	95,000	-	-	95,000	95,000
Appreciation on Bonds	580,158	62,532	-	642,690	642,690
Premium on General Obligation Bonds	355,849	108,703	(116,853)	347,699	-
Total General Obligation Bonds	16,951,007	8,326,235	(2,791,853)	22,485,389	2,727,690

Note 14: Long-term Obligations (continued)

	Balance 12/31/17	Additions	Retirements	Balance 12/31/18	Amount Due in One Year
Governmental activities:					
Special Assessment Bonds:					
1998 Executive Parkway	80,000	-	(80,000)	-	-
1999 Water Main Construction	65,000	-	(30,000)	35,000	35,000
Total Special Assessment Bonds	145,000	-	(110,000)	35,000	35,000
Ohio Public Works Commission Loan:					
2009 Atterbury Boulevard Renovations	89,819	-	(7,186)	82,633	7,186
Other Long-Term Obligations:					
Compensated absences	1,877,092	1,385,988	(1,076,914)	2,186,166	1,139,084
Capital lease	-	152,535	(33,420)	119,115	27,727
Net pension liability	17,768,843	-	(3,270,796)	14,498,047	-
Net OPEB liability	9,777,974	1,809,556	-	11,587,530	-
Total governmental activities – long-term obligations	$ 46,609,735	$ 11,674,314	$ (7,290,169)	$ 50,993,880	$ 3,936,687
Business-type activities:					
General Obligation Bonds:					
1998 Golf Course Improvement	$ 60,000	$ -	$ (30,000)	$ 30,000	$ 30,000
2011 Substation Construction Refunded	860,000	-	(130,000)	730,000	140,000
2011 Water System Improvement Refunded	2,815,000	-	(115,000)	2,700,000	145,000
2011 Storm Water Improvement Refunded	425,000	-	(65,000)	360,000	70,000
2011 Golf Course Improvement Refunded	640,000	-	(90,000)	550,000	105,000
2012 Water System Improvement Refunded	556,000	-	(26,000)	530,000	26,000
2012 Sewer Improvement Refunded	591,000	-	(30,000)	561,000	30,000
2012 Sewer Improvement Refunded	1,025,000	-	(49,000)	976,000	49,000
2012 Electric Issue Refunded	689,000	-	(35,000)	654,000	35,000
2012 Storm Water Improvement Refunded	2,009,000	-	(95,000)	1,914,000	95,000
2018 Various Purpose	-	820,000	-	820,000	35,000
Premium on General Obligation Bonds	71,217	10,686	(6,038)	75,865	-
Total General Obligation Bonds	9,741,217	830,686	(671,038)	9,900,865	760,000
OWDA Loan:					
OWDA loan	588,590	-	(588,590)	-	-
Other Long-Term Obligations:					
AMP Ohio payable	4,407	232	-	4,639	4,639
Compensated absences	1,413,296	540,626	(675,879)	1,278,043	606,118
Net pension liability	5,896,573	-	(1,588,992)	4,307,581	-
Net OPEB liability	2,725,612	322,613	-	3,048,225	-
Total business-type activities long-term obligations	$ 20,369,695	$ 1,694,157	$ (3,524,499)	$ 18,539,353	$ 1,370,757

Note 14: Long-term Obligations (continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2018 are as follows:

Governmental Activities

Year ending December 31,	General Obligation Principal	General Obligation Interest*	Special Assessments Principal	Special Assessments Interest	OPWC Principal
2019	$ 2,085,000	$ 1,251,068	$ 35,000	$ 1,969	$ 7,186
2020	1,930,000	524,248	-	-	7,186
2021	1,974,000	483,603	-	-	7,186
2022	2,018,000	440,613	-	-	7,186
2023	2,057,000	394,798	-	-	7,186
2024-2028	4,821,000	1,450,745	-	-	35,930
2029-2033	4,235,000	746,888	-	-	10,773
2034-2038	2,375,000	225,550	-	-	-
Total	$ 21,495,000	$ 5,517,513	$ 35,000	$ 1,969	$ 82,633

Business-Type Activities

Year ending December 31,	General Obligation Principal	General Obligation Interest
2019	$ 760,000	$ 248,751
2020	725,000	235,293
2021	756,000	221,643
2022	777,000	206,178
2023	793,000	189,643
2024-2028	2,419,000	736,413
2029-2033	2,830,000	379,910
2034-2038	765,000	45,425
Total	$ 9,825,000	$ 2,263,256

*The accretion on the capital appreciation bonds is reported with future interest payments in the table above.

The business-type activities general obligation bonds will be paid with electric, wastewater, and water service charges, and golf course revenues. The AMP Ohio payable will be paid from the Electric Fund, see Note 21. Governmental activities general obligation bonds will be paid from property taxes receipted 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 will be paid from the funds from which the employees' salaries are paid.

During 2009, the City entered into an agreement with Ohio Public Works Commission (OPWC) for a loan in the amount of $143,714, payable in semi-annual payments of $3,593 at zero percent interest for 20 years. This loan will be repaid from income tax monies.

Note 15: Lease Obligations

The City entered into a lease agreement for equipment. The City's lease obligations meet the criteria of a capital lease and has been recorded on the government-wide statements. The capital lease is secured by the related equipment. Capital lease payments for governmental fund-type capital lease has been reclassified and is reflected as debt service expenses in the fund financial statements for the Street Construction and Maintenance Fund. The expenditure is reflected as capital outlay expenditure on a budgetary basis.

The original amount capitalized for the capital lease and the book value as of December 31, 2018 follows:

	Governmental Activities
Asset:	
Equipment	$ 152,535
Less: accumulated depreciation	(10,169)
Current book value	$ 142,366

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2018:

Year	Governmental Activities
2019	$ 33,420
2020	33,420
2021	33,420
2022	33,420
Total minimum lease payments	133,680
Less: amount representing interest	(14,565)
Present value of minimum lease payments	$ 119,115

The City entered into leases for certain equipment and office space. These leases do not meet the criteria of a capital lease in accordance with the "Leases" topic of Finance Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

The following is a schedule of the future minimum lease payments required under operating leases as of December 31, 2018:

Year	Governmental Activities	Business Type Activities
2019	$ 354,674	$ 57,750
2020	277,634	57,750
2021	277,218	57,750
2022	270,154	-
Total minimum lease payments	$ 1,179,680	$ 173,250

Rental expense related to operating leases for office space and equipment totaled $366,412 and $57,750 in the governmental and business-type activities, respectively, for the year ended December 31, 2018.

Note 16: Defined Benefit Pension Plans

A. Net Pension/OPEB Liability

The net pension/OPEB liability reported on the Statement of Net Position represents a liability to employees for pensions/OPEB. Pensions/OPEB are a component of exchange transactions – between an employer and its employees – of salaries and benefits for employee services. Pensions/OPEB are provided to an employee – on a deferred-payment basis – as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions/OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liabilities represents the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68 and 75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) state statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for OPEB benefits including primarily health care. In most cases, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium.

State statute requires the retirement systems to amortize unfunded pension/OPEB liabilities within 30 years. If the pension/OPEB amortization period exceeds 30 years, each retirement system's board must propose corrective action to the state legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension/OPEB liability on the accrual basis of accounting. Any liability for the contractually-required contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 17 for the required OPEB disclosures.

Note 16: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan and the Combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g., City employees) may elect the Member-Directed plan, substantially all employee members are in OPERS' Traditional or Combined plans; therefore, the following disclosure focuses on the Traditional and Combined plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional and Combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Final average salary (FAS) represents the average of the three highest years of earnings over the member's career for Groups A and B. Group C is based on the average of the five highest years of earning over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

The Traditional plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and FAS. Pension benefits are funded by both member and employer contributions and investment earnings on those contributions.

The following table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Traditional plan (see OPERS CAFR referenced above for additional information):

Group A	**Group B**	**Group C**
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Note 16: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient retiring under the Traditional pension plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided on the member's base benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, a death benefit of $500-$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional pension plan.

The Combined plan is a defined benefit plan with elements of a defined contribution plan. Members earn a formula benefit similar to, but at a factor less than the Traditional pension plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement, the member may choose a defined contribution distribution that is equal to the member's contributions to the plan and investment earnings (or losses). Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Benefits in the Combined plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional pension plan.

Members retiring under the Combined plan receive a 3% COLA on the defined benefit portion of their benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

Additionally, a death benefit of $500 – $2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Combined plan.

Note 16: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

The subsequent table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Combined plan (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	**Formula:** 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	**Formula:** 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Both Member-Directed plan and Combined plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the purchase of a monthly defined benefit annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10% of covered payroll for members in the state and local classifications.

Note 16: Defined Benefit Pension Plans (continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0% for 2018. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2018, the City's contractually required contribution, net of postemployment health care benefits, was $1,552,372 Of this amount, $201,595 is reported as intergovernmental payable at December 31, 2018.

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – the City's full-time police participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Note 16: Defined Benefit Pension Plans (continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (continued)

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 19.5% of covered payroll for police employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 12.25% of covered payroll for police. The portion of employer contributions used to fund pension benefits is net of postemployment health care benefits. The portion of the employer's contribution allocated to health care was 0.5% for 2018. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

In 2018, the City's contractually required contribution, net of postemployment health care benefits, was \$438,255. Of this amount, \$64,912 is reported as intergovernmental payable at December 31, 2018.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional	OPERS Combined	OP&F	Total
Proportion of the net pension liability/asset prior measurement date	0.077752%	0.137788%	0.094876%	
Proportion of the net pension liability/asset current measurement date	0.080592%	0.135515%	0.100405%	
Change in Proportionate Share	0.002840%	(0.002273%)	0.005529%	
Proportionate share of the net pension liability	$ 12,643,320	$ -	$ 6,162,308	$ 18,805,628
Proportionate share of the net pension asset	$ -	$ 184,477	$ -	$ 184,477
Pension expense	$ 2,955,588	$ 30,232	$ 719,423	$ 3,705,243

Note 16: Defined Benefit Pension Plans (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	OPERS Traditional	OPERS Combined	OP&F	Total
Deferred outflow of resources				
City contributions subsequent to the measurement date	$ 1,476,686	$ 75,686	$ 438,255	$ 1,990,627
Differences in employer contributions and change in proportionate share	301,719	7,021	248,993	557,733
Difference between expected and actual experience	12,912	-	93,517	106,429
Change in assumptions	1,510,962	16,123	268,524	1,795,609
Total deferred outflow of resources	$ 3,302,279	$ 98,830	$ 1,049,289	$ 4,450,398
Deferred inflow of resources				
Differences in employer contributions and change in proportionate share	$ -	$ 4,108	$ 235,553	$ 239,661
Net difference between projected and actual earnings on pension plan investments	2,714,355	29,106	213,169	2,956,630
Difference between expected and actual experience	249,160	54,959	11,147	315,266
Total deferred inflow of resources	$ 2,963,515	$ 88,173	$ 459,869	$ 3,511,557

The $1,990,627 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional	OPERS Combined	OP&F	Total
Fiscal Year Ending December 31:				
2019	$ 1,307,147	$ (8,803)	$ 139,589	$ 1,437,933
2020	(134,443)	(9,599)	83,545	(60,497)
2021	(1,195,258)	(16,120)	(137,246)	(1,348,624)
2022	(1,115,368)	(15,432)	(75,207)	(1,206,007)
2023	-	(5,212)	112,565	107,353
2024-2027	-	(9,863)	27,919	18,056
	$ (1,137,922)	$ (65,029)	$ 151,165	$ (1,051,786)

Note 16: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The active member population which consists of members in the Traditional and Combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS Traditional plan	OPERS Combined plan
Valuation Date	December 31, 2017	December 31, 2017
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3% Simple	3% Simple
Post-Jan 7, 2013 Retirees	3% Simple through 2018 then 2.15% Simple	3% Simple though 2018 then 2.15% Simple

OPERS conducts an experience study every five years in accordance with Ohio Revised Code Section 145.22. The study for the five-year period ended December 31, 2015 and methods and assumptions were approved and adopted by the OPERS Board of Trustees.

Mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010.

Note 16: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 Mortality Improvement Scale to the above described tables.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets of the Traditional plan, the defined benefit component of the Combined plan and the annuitized accounts of the Member-Directed plan. The money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for changing amounts actually invested for the Defined Benefit portfolio was 16.82% for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other Investments	18.00	5.26
Total	100.00%	5.66%

Note 16: Defined Benefit Pension Plans (continued)

E. Actuarial Assumptions – OPERS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability – Traditional	$ 22,451,319	$ 12,643,320	$ 4,466,409
City's proportionate share of the net pension asset – Combined	$ 100,281	$ 184,477	$ 242,572

Changes between Measurement Date and Report Date In October 2018, the OPERS Board voted to lower the investment return assumption for its defined benefit fund from 7.5% to 7.2%.

F. Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Note 16: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2017, are presented below:

Actuarial cost method	Entry age normal
Investment rate of return	8.00%
Salary increases	3.75% - 10.50%
Payroll growth	Inflation rate of 2.75% plus productivity increase rate of 0.5%
Cost of living adjustments	3.00% simple; 2.2% simple for increases based on the lesser of the increase in CPI and 3.00%

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

Age	Police
67 or less	77%
68-77	105%
78 and up	115%

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police
59 or less	35%
60-69	60%
70-79	75%
80 and up	100%

The most recent experience study was completed for the five-year period ended December 31, 2016.

Note 16: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in OP&F's Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017 are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36

*Levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.00%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Note 16: Defined Benefit Pension Plans (continued)

F. Actuarial Assumptions – OP&F (continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00%), or one percentage point higher (9.00%) than the current rate.

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	$ 8,542,575	$ 6,162,308	$ 4,220,983

Note 17: Postemployment Benefits

A. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – the Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed plan, a defined contribution plan; and the Combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. While members (e.g., City employees) may elect the Member-Directed plan, substantially all employee members are in OPERS' Traditional or Combined plans; therefore, the following disclosure focuses on the Traditional and Combined plans.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional pension and the Combined plans.

In order to qualify for postemployment health care coverage, age and service retirees under the Traditional pension and Combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an OPEB as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Note 17: Postemployment Benefits (continued)

A. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional pension plan and Combined plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0% percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. In 2018, the City did not make any contributions to the health care plans.

B. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description – the City's full-time police participate in the OP&F sponsored healthcare program, a cost-sharing, multiple-employer defined postemployment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an OPEB as described in GASB Statement No. 75.

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.

Note 17: Postemployment Benefits (continued)

B. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (continued)

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5% of covered payroll for police. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer unit. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

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 2018, the portion of employer contributions allocated to health care was 0.5% 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 115 and 401(h).

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

The City's contractually required contribution to OP&F was $11,533 for 2018. Of this amount, $1,664 is reported as intergovernmental payable at December 31, 2018.

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017.

Note 17: Postemployment Benefits (continued)

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS	OP&F	Total
Proportion of the net OPEB liability prior measurement date	0.079206%	0.094876%	
Proportion of the net OPEB liability current measurement date	0.082390%	0.100405%	
Change in Proportionate Share	0.003184%	0.005529%	
Proportionate share of the net OPEB liability	$ 8,946,948	$ 5,688,807	$ 14,635,755
OPEB expense	$ 861,223	$ 478,327	$ 1,339,550

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OP&F	Total
Deferred outflow of resources			
City contributions subsequent to the measurement date	$ -	$ 11,533	$ 11,533
Difference between expected and actual experience	6,970	-	6,970
Change in assumptions	651,432	555,107	1,206,539
Differences in employer contributions and change in proportionate share	205,321	229,643	434,964
Total deferred outflow of resources	$ 863,723	$ 796,283	$ 1,660,006
Deferred inflow of resources			
Difference between expected and actual experience	$ -	$ 28,692	$ 28,692
Net difference between projected and actual earnings on OPEB plan investments	666,487	37,446	703,933
Total deferred inflow of resources	$ 666,487	$ 66,138	$ 732,625

Note 17: Postemployment Benefits (continued)

C. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

The $11,533 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	OP&F	Total
Fiscal Year Ending December 31:			
2019	$ 246,326	$ 101,173	$ 347,499
2020	246,326	101,173	347,499
2021	(128,795)	101,173	(27,622)
2022	(166,621)	101,173	(65,448)
2023	-	110,534	110,534
2024-2025	-	203,386	203,386
	$ 197,236	$ 718,612	$ 915,848

D. Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Health Care Costs Trend Rate	7.5%, initial 3.25%, ultimate in 2028
Actuarial Cost Method	Individual Entry Age
Investment Rate of Return	6.50%
Municipal Bond Rate	3.31%
Wage Inflation	3.25%
Projected Salary Increases, including 3.25% inflation	3.25% to 10.75%
Single Discount Rate:	
Current measurement date	3.85%
Prior measurement date	4.23%

Note 17: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Postretirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Postretirement mortality rates for disabled retirees are based on the RP-2014 disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional pension plan, Combined plan and Member-Directed plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2% for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit.

Note 17: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00%	1.88%
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other Investments	17.00	5.39
Total	100.00%	4.98%

Discount Rate A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23% was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85%, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85%) or one-percentage-point higher (4.85%) than the current rate:

	1% Decrease (2.85%)	Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	$ 11,886,405	$ 8,946,948	$ 6,568,955

Note 17: Postemployment Benefits (continued)

D. Actuarial Assumptions – OPERS (continued)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0% lower or 1.0% higher than the current rate.

	1% Decrease	Cost Trend Rate	1% Increase
City's proportionate share of the net OPEB liability	$ 8,560,321	$ 8,946,948	$ 9,346,322

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

Changes between Measurement Date and Report Date In October 2018, the OPERS Board voted to lower the investment return assumption for its health care investment portfolio from 6.5% to 6.0%.

E. Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Note 17: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Actuarial cost method	Entry age normal
Single discount rate:	
Current measurement date	3.24%
Prior measurement date	3.79%
Investment rate of return	8.00%
Salary increases	3.75% - 10.50%
Payroll growth	Inflation rate of 2.75% plus productivity increase rate of 0.5%
Cost of living adjustments	3.00% simple; 2.2% simple for increases based on the lesser of the increase in CPI and 3.00%

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120%.

Age	Police
67 or less	77%
68-77	105%
78 and up	115%

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police
59 or less	35%
60-69	60%
70-79	75%
80 and up	100%

The most recent experience study was completed for the five-year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

Note 17: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36

*Levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total OPEB liability was calculated using the discount rate of 3.24%. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8.00%. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16% at December 31, 2017 and 3.71% at December 31, 2016, was blended with the long-term rate of 8.00%, which resulted in a blended discount rate of 3.24%. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Note 17: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24%), or one percentage point higher (4.24%) than the current rate.

	1% Decrease (2.24%)	Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	$ 7,111,077	$ 5,688,807	$ 4,594,432

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rate	1% Increase
City's proportionate share of the net OPEB liability	$ 4,419,167	$ 5,688,807	$ 7,399,851

Note 17: Postemployment Benefits (continued)

E. Actuarial Assumptions – OP&F (continued)

Changes between Measurement Date and Report Date In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's net OPEB liability is not known.

Note 18: Compensated Absences

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

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

1. In 40 sick leave hour increments, to have that time converted to vacation at the ratio of 40 hours of sick leave to eight hours of vacation; or

2. To be paid for the excess 40 hours accumulated at the employee's current rate of pay. This may be paid only once each year and no further sick leave will be accumulated during that year, unless the total number of hours accumulated is less than 1,440 hours.

Upon resignation, retirement or death, an employee with 10 or more years of service with the City is eligible for a severance payment for his/her accumulated but unused sick leave, but the maximum payment shall not exceed 1,440 hours. Such payment shall be based on the employee's rate of pay at the time of resignation, retirement or death. 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, 1,000, or 1,440 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.

Note 19: Contingencies

A. Grants

The City has received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2018.

B. Litigation

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, 2018.

C. Contingent Liabilities

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 6,000 kilowatts of a total 771,281 kilowatts, giving the City a 0.78% share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them.

As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs was $1,038,626. The City received a credit of $378,804 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of $271,349 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of $388,473. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its Electric Fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's liability. These amounts will be recorded as they become estimable. Since March 31, 2014 the City has made payments of $400,137 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City's allocation of additional costs incurred by the project is $12,461 and interest expense incurred on AMP's line-of-credit of $3,842, resulting in a net impaired cost estimate at December 31, 2018 of $4,639.

Note 20: Interfund Transactions

Interfund receivable/payable for the year ended December 31, 2018, consisted of the following:

	Receivable		
	General Fund	Internal Service Funds	Total
Payable:			
General Fund	$ -	$ 20,794	$ 20,794
Street Construction	-	67,828	67,828
Broadband Capital Fund	3,430,553	-	3,430,553
Downtown Phase II Fund	740,213	-	740,213
Nonmajor Governmental	104,603	2,856	107,459
Water Fund	-	1,456	1,456
Golf Course Fund	-	53	53
Electric Fund	52,972	7,797	60,769
Total	$ 4,328,341	$ 100,784	$ 4,429,125

The amount owed to the internal service funds is for funds not yet transferred between funds for payments made by the internal service funds.

From the amounts above, the following are in the form of internal debt owed to the General Fund:

Broadband Capital Fund	$ 3,400,000
Downtown Phase II	740,000
Nonmajor Governmental	103,671
Total	$ 4,243,671

The internal debt noted above matures July 19, 2019 ($3,503,671) and December 19, 2019 ($740,000) and carries an interest rate of 2.0% and 3.5%. respectively.

Note 20: Interfund Transactions (continued)

Long-term interfund loans are classified as "Advances to/from other funds" and consist of the following at December 31, 2018:

	Receivable General Fund
Payable:	
Street Sidewalk Construction	$ 155,000
Downtown Phase II Fund	615,000
Nonmajor Governmental	76,000
Golf Course Fund	599,108
Electric Fund	43,820
Strom Sewer Fund	80,350
Wastewater Fund	100,000
Total	$ 1,669,278

As of December 31, 2018, interfund transfers were as follows:

	Transfers - out		
	General	Nonmajor Governmental	Total
Transfers - in:			
Street Construction	$ 2,525,000	$ -	$ 2,525,000
Street Sidewalk Construction	2,650,000	-	2,650,000
Nonmajor governmental	1,790,835	200,000	1,990,835
Golf Course	-	128,484	128,484
Storm Sewer	1,400,000	-	1,400,000
Wastewater	606,078	-	606,078
Total	$ 8,971,913	$ 328,484	$ 9,300,397

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; and to provide additional resources for current operations or debt service. There were two transfers from the nonmajor governmental funds. The first transfer from nonmajor governmental funds for $200,000 was a transfer from the Fire District Special Revenue Fund to the Fire Capital Replacement Capital Projects Fund, which was proper in accordance with Ohio Revised Code (ORC) 5705.13(C). The second transfer is to provide resources for debt payments.

During 2018, contribution of capital assets of $18,096 from the governmental activities to the business-type activities are reported as transfers in the Statement of Activities.

Note 21: Joint Ventures

Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1)

The City's Electric Fund participated in a joint venture agreement with 20 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) for the purpose of providing electric power and energy to its participants on a cooperative basis. The electric generating facilities of OMEGA JV1, known as the Eagle Units, were located in the City of Cuyahoga Falls, Ohio. Title to these six diesel-powered generating units was transferred to the 21 municipal electric systems from American Municipal Power, Incorporated (AMP), a non-profit trade association and wholesale power supplier for 132 members in nine states. Each member had a contract, which provided for AMP-Ohio to purchase the right to each participant's share of power and energy that was made available through the joint venture contract.

OMEGA JV1 dissolved in the current year and the City's equity interest in OMEGA JV1 is $-0-at December 31, 2018. During 2018, the City received a final payout of $52,313 related to a net position distribution and a refund of rates collected in excess of expenses.

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

The City 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 (the "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.

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 the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Also pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (the "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, 2018, the City has met its debt coverage obligation.

Note 21: Joint Ventures (continued)

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

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, which acts as the joint venture's agent. During 1993 and 2001 AMP 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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was $65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates (the "2016 Certificates") in the amount of $49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to $49,243,377 at the time of refunding as compared to its value at December 31, 2015 of $49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's Electric Fund. The City's net investment to date in OMEGA JV5 was $170,011 at December 31, 2018. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

Note 22: Shared Risk Pool

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.

Note 22: 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 2018, the City paid $165,866 for premiums. Financial information can be obtained by contacting the fiscal agent at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

Note 23: Accountability

There were deficits in the following governmental funds: Downtown Phase II Fund of $6,124,077, and Broadband Capital Fund of $2,858,355. These deficits were caused by the application of accounting principles generally accepted in the United States 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: Significant Commitments

A. Contracts

The City has the following outstanding contractual commitments for various construction projects at December 31, 2018:

Contractor	Contract and Contingency	Amount Paid	Amount Remaining
Mr. Excavator	$ 1,661,333	$ 1,570,587	$ 90,746
Cavanaugh Building	5,808,687	3,699,389	2,109,298

Note 24: Significant Commitments (continued)

B. Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

Governmental funds:		
General	$	448,418
Street Construction		57,810
Street Sidewalk Construction		656,893
Broadband Capital		439,706
City Acquisition		34,320
Downtown Phase II		2,719,788
Nonmajor Governmental		365,839
Total governmental	$	4,722,774

Note 25: Tax Abatement Disclosures

As of December 31, 2018, the City provides tax incentives under two programs: The Community Reinvestment Area (CRA) and the Job Creation Grant Program.

Real Estate tax abatements

Pursuant to Ohio Revised Code Chapter 3735, the City established a Community Reinvestment Area, which included all land within the boundaries of the City. The City authorizes incentives through passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvement have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the CRA gave the City the ability to maintain and expand business located in the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate and includes major housing improvements. During 2018, the City had multiple agreements under the CRA outstanding with total abated property taxes of $471,549. The City's share of the abated taxes for 2018 was $39,086.

Income tax abatement programs

The City created the Job Creation Grant Program. The purpose of the program is to maintain the City's competitiveness as a site for location of new businesses and the expansion of existing businesses. Pursuant to Article XVIII, Section 3 and Article VIII, Section 13 of the Ohio Constitution (Resolution #05-39), the City provides an incentive to the company based upon the company's gross annual payroll, the amount of income tax generated annually and the number of jobs created or retained by the business. The abatement is administered as a refund based upon the company's payroll taxes. Also, the time period of the incentive in years, is determined by how many new jobs are to be created by the company. The total amount of taxes abated under this program for the year ended December 31, 2018 was $100,500.

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employee Retirement System – Traditional Plan

For the Last Five Years

	2018(1)	2017(1)	2016(1)	2015(1)	2014(1)
City's proportion of the net pension liability	0.080592%	0.077752%	0.076305%	0.074007%	0.074007%
City's proportionate share of the net pension liability	$ 12,643,320	$ 17,656,065	$ 13,217,039	$ 8,926,071	$ 8,724,461
City's covered payroll	$ 10,184,293	$ 9,366,862	$ 9,408,900	$ 9,174,175	$ 8,946,448
City's proportionate share of the net pension liability as a percentage of its covered payroll	124.15%	188.50%	140.47%	97.30%	97.52%
Plan fiduciary net position as a percentage of the total pension liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date, which is the prior year-end.

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Asset
Ohio Public Employee Retirement System – Combined Plan

For the Last Five Years

	2018(1)	2017(1)	2016(1)	2015(1)	2014(1)
City's proportion of the net pension asset	0.135515%	0.137788%	0.166580%	0.166437%	0.166437%
City's proportionate share of the net pension asset	$ 184,477	$ 76,688	$ 81,062	$ 64,084	$ 17,465
City's covered payroll	$ 524,274	501,613	$ 597,167	$ 585,375	$ 570,840
City's proportionate share of the net pension asset as a percentage of its covered payroll	35.19%	15.29%	13.57%	10.95%	3.06%
Plan fiduciary net position as a percentage of the total pension asset	137.28%	116.55%	116.90%	114.83%	n/a

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date, which is the prior year-end.

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund

For the Last Five Years

	2018(1)	2017(1)	2016(1)	2015(1)	2014(1)
City's proportion of the net pension liability	0.100405%	0.094876%	0.099193%	0.102264%	0.102264%
City's proportionate share of the net pension liability	$ 6,162,308	$ 6,009,351	$ 6,381,155	$ 5,297,686	$ 4,980,563
City's covered payroll	$ 2,336,446	$ 2,279,200	$ 2,228,026	$ 2,371,831	$ 2,162,499
City's proportionate share of the net pension liability as a percentage of its covered payroll	263.75%	263.66%	286.40%	223.36%	230.32%
Plan fiduciary net position as a percentage of the total pension liability	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date, which is the prior year-end.

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City Contributions
Ohio Public Employee Retirement System – Traditional Plan

For the Last Ten Years

	2018	2017	2016	2015	2014
Contractually-required contribution	$ 1,476,686	$ 1,323,958	$ 1,124,025	$ 1,129,068	$ 1,100,901
Contributions in relation to the contractually-required contribution	(1,476,686)	(1,323,958)	(1,124,025)	(1,129,068)	(1,100,901)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City covered payroll	$ 10,547,760	$10,184,293	$ 9,366,862	$ 9,408,900	$ 9,174,175
Contributions as a percentage of covered payroll	14.00%	13.00%	12.00%	12.00%	12.00%

	2013	2012	2011	2010	2009
Contractually-required contribution	$ 1,163,038	$ 903,521	$ 907,499	$ 823,073	$ 712,621
Contributions in relation to the contractually-required contribution	(1,163,038)	(903,521)	(907,499)	(823,073)	(712,621)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City covered payroll	$ 8,946,448	$ 9,035,205	$ 9,074,992	$ 9,145,257	$ 8,383,782
Contributions as a percentage of covered payroll	13.00%	10.00%	10.00%	9.00%	8.50%

Required Supplementary Information
Schedule of the City Contributions
Ohio Public Employee Retirement System – Combined Plan

For the Last Ten Years

	2018	2017	2016	2015	2014
Contractually-required contribution	$ 75,686	$ 68,156	$ 60,196	$ 71,660	$ 70,245
Contributions in relation to the contractually-required contribution	(75,686)	(68,156)	(60,196)	(71,660)	(70,245)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City covered payroll	$ 540,616	$ 524,274	$ 501,613	$ 597,167	$ 585,375
Contributions as a percentage of covered payroll	14.00%	13.00%	12.00%	12.00%	12.00%

	2013	2012	2011	2010	2009
Contractually-required contribution	$ 74,209	$ 57,650	$ 57,904	$ 52,517	$ 45,470
Contributions in relation to the contractually-required contribution	(74,209)	(57,650)	(57,904)	(52,517)	(45,470)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City covered payroll	$ 570,840	$ 576,504	$ 579,042	$ 583,526	$ 534,939
Contributions as a percentage of covered payroll	13.00%	10.00%	10.00%	9.00%	8.50%

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City Contributions
Ohio Police and Fire Pension Fund

For the Last Ten Years

	2018	2017	2016	2015	2014
Contractually-required contribution	$ 438,255	$ 443,925	$ 433,048	$ 423,325	$ 450,648
Contributions in relation to the contractually-required contribution	(438,255)	(443,925)	(433,048)	(423,325)	(450,648)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City covered payroll	$ 2,306,605	$ 2,336,446	$ 2,279,200	$ 2,228,026	$ 2,371,831
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	19.00%	19.00%

	2013	2012	2011	2010	2009
Contractually-required contribution	$ 343,477	279,529	$ 279,658	$ 279,646	$ 266,707
Contributions in relation to the contractually-required contribution	(343,477)	(279,529)	(279,658)	(279,646)	(266,707)
Contribution deficiency (excess)	-	$ -	$ -	$ -	$ -
City covered payroll	$ 2,162,499	$ 2,192,384	$ 2,193,396	$ 2,193,302	$ 2,091,820
Contributions as a percentage of covered payroll	15.88%	12.75%	12.75%	12.75%	12.75%

The accompanying notes are an integral part of the required supplementary information

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net OPEB Liability
Ohio Public Employee Retirement System

For the Last Two Years

	2018(1)	2017(1)
City's proportion of the net OPEB liability	0.082390%	0.079206%
City's proportionate share of the net OPEB liability	$ 8,946,948	$ 8,000,036
City's covered payroll	$ 11,154,757	$ 10,945,893
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	80.21%	73.09%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%	n/a

(1) Although this schedule is intended to show information for ten years, information prior to 2017 is not available. Amounts presented for each year were determined as of the City's measurement date, which is the prior year-end.

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City's Proportionate Share of the Net OPEB Liability
Ohio Police and Fire Pension Fund

For the Last Two Years

	2018(1)	2017(1)
City's proportion of the net OPEB liability	0.100405%	0.094876%
City's proportionate share of the net OPEB liability	$ 5,688,807	$ 4,503,550
City's covered payroll	$ 2,336,446	$ 2,279,200
City's proportionate share of the net OPEB liability as a percentage of its covered payroll	243.48%	197.59%
Plan fiduciary net position as a percentage of the total OPEB liability	14.13%	n/a

(1) Although this schedule is intended to show information for ten years, information prior to 2017 is not available. Amounts presented for each year were determined as of the City's measurement date, which is the prior year-end.

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City OPEB Contributions
Ohio Public Employee Retirement System

For the Last Three Years (1)

	2018	2017	2016
Contractually-required contribution	$ -	$ 111,548	$ 218,918
Contributions in relation to the contractually-required contribution	-	(111,548)	(218,918)
Contribution deficiency (excess)	$ -	$ -	$ -
City covered payroll	$ 11,502,464	$ 11,154,757	$ 10,945,893
Contributions as a percentage of covered payroll	0.00%	1.00%	2.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2016 is not available.

City of Hudson, Ohio

Required Supplementary Information
Schedule of the City OPEB Contributions
Ohio Police and Fire Pension Fund

For the Last Ten Years

	2018	2017	2016	2015	2014
Contractually-required contribution	$ 11,533	$ 11,682	$ 11,396	$ 11,140	$ 11,859
Contributions in relation to the contractually-required contribution	(11,533)	(11,682)	(11,396)	(11,140)	(11,859)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
City covered payroll	$ 2,306,605	$ 2,336,446	$ 2,279,200	$ 2,228,026	$ 2,371,831
Contributions as a percentage of covered payroll	0.50%	0.50%	0.50%	0.50%	0.50%

	2013	2012	2011	2010	2009
Contractually-required contribution	$ 78,282	$ 147,986	$ 148,054	$ 148,048	$ 141,198
Contributions in relation to the contractually-required contribution	(78,282)	(147,986)	(148,054)	(148,048)	(141,198)
Contribution deficiency (excess)	-	$ -	$ -	$ -	$ -
City covered payroll	$ 2,162,499	$ 2,192,384	$ 2,193,396	$ 2,193,302	$ 2,091,820
Contributions as a percentage of covered payroll	3.62%	6.75%	6.75%	6.75%	6.75%

Note 1: Change in Assumptions – OPERS Traditional and Combined Pension Plans

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	2017	2016 and Prior
Wage Inflation	3.25%	3.75%
Future Salary Increases,		
Including Inflation	3.25-10.75%	4.25-10.05%
	(including wage inflation at 3.25%)	(including wage inflation)
COLA or Ad Hoc COLA:		
Pre-Jan 7, 2013 Retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 Retirees	3.00% Simple through 2018	3.00% Simple through 2018
	then 2.15% Simple	then 2.8% Simple
Investment Rate of Return	7.50%	8.00%
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For the current valuation, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For the prior valuation, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120% of the disabled female mortality rates were used set forward two years. For females, 100% of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2015.

Note 2: Change in Assumptions – OP&F Pension Plan

Amounts reported in 2018 reflect changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.25% down to 8.00%, for the defined benefit investments.

Note 3: Change in Assumptions – OPERS OPEB Plan

For 2018, the single discount rate changed from 4.23% to 3.85%.

Note 4: Change in Assumptions – OP&F OPEB Plan

For 2018, the single discount rate changed from 3.79% to 3.24%.

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Independent Auditor's 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
City of Hudson, Ohio

We have audited, in accordance with the 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, 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, Ohio (the "City"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2019, wherein we noted that the City implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postretirement Benefits Other Than Pensions,* and as a result restated their December 31, 2017 net position of the governmental and business-type activities, as disclosed in Note 3.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

C&P Advisors, LLC
Ciuni & Panichi, Inc.
C&P Wealth Management, LLC

25201 Chagrin Boulevard
Cleveland, Ohio 44122.5683
p. 216.831.7171
f. 216.831.3020
www.cp-advisors.com
Independent Member of
Geneva Group International

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ciuni & Panichi, Inc.

Cleveland, Ohio
June 26, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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
AUGUST 27, 2019

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370
www.ohioauditor.gov