

**CITY OF HUDSON
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1998

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

111 2nd Street, NW, 4th Floor
Canton, Ohio 44702

Telephone 330-438-0617
800-443-9272

Facsimile 330-471-0001

REPORT OF INDEPENDENT ACCOUNTANTS

City of Hudson
Summit County
27 East Main Street
Hudson, Ohio 44236

To the members of City Council:

We have audited the accompanying general purpose financial statements of the City of Hudson, Summit County, (the City) as of and for the year ended December 31, 1998, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 3 to the general purpose financial statements, the City changed its method of accounting and reporting for a certain deferred compensation plan for the year ended December 31, 1998, as required by Governmental Accounting Standards Board Statement No. 32.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 1999 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

A handwritten signature in black ink that reads "Jim Petro".

JIM PETRO
Auditor of State

November 5, 1999
(except for Note 28, as to
which the date is December 6, 1999)

City of Hudson, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 1998

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Equity in Pooled Cash and Investments	\$10,589,485	\$3,501,017	\$249,347	\$6,849,280
Cash and Cash Equivalents in Segregated Accounts	1,738	86,587	0	0
Cash with Fiscal and Escrow Agents	0	0	31,275	0
Investments in Segregated Accounts	0	6,792	0	0
Investments in Common Stock	0	18,447	0	0
Receivables:				
Taxes	3,270,412	1,799,835	972,085	0
Accounts	635	37,533	0	0
Interfund	238,600	0	0	0
Special Assessments	0	0	4,076,602	97,589
Accrued Interest	0	1,868	0	0
Intergovernmental	309,482	28,606	0	10,703
Materials and Supplies Inventory	3,706	39,080	0	0
Notes Receivable	0	0	0	150,000
Investment in Joint Venture	0	0	0	0
Fixed Assets, (Net where applicable of Accumulated Depreciation)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0
Total Assets and Other Debits	\$14,414,058	\$5,519,765	\$5,329,309	\$7,107,572
Liabilities, Fund Equity and Other Credits				
Liabilities				
Accounts Payable	\$189,152	\$61,890	\$95	\$69,676
Contracts Payable	7,066	0	0	11,093
Interfund Payable	0	175,000	0	0
Accrued Wages and Benefits	43,539	28,759	0	0
Compensated Absences Payable	4,690	556	0	0
Intergovernmental Payable	248,390	97,685	0	72
Deferred Revenue	1,993,750	1,791,491	5,045,378	247,589
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	0	0	0
Matured Interest Payable	0	0	31,275	0
Accrued Interest Payable	0	0	0	0
Notes Payable	0	0	0	0
OWDA Loans Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
Total Liabilities	2,486,587	2,155,381	5,076,748	328,430
Fund Equity and Other Credits				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	288,651	712,914	0	333,204
Reserved for Inventory	3,706	39,080	0	0
Reserved for Debt Service	0	0	252,561	0
Reserved for Investments	0	6,792	0	0
Reserved for Common Stock	0	18,447	0	0
Unreserved:				
Undesignated	11,635,114	2,587,151	0	6,445,938
Total Fund Equity and Other Credits	11,927,471	3,364,384	252,561	6,779,142
Total Liabilities, Fund Equity and Other Credits	\$14,414,058	\$5,519,765	\$5,329,309	\$7,107,572

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$9,625,357	\$830,498	\$811,939	\$0	\$0	\$32,456,923
0	0	0	0	0	88,325
0	0	0	0	0	31,275
0	0	0	0	0	6,792
0	0	0	0	0	18,447
0	0	322,961	0	0	6,365,293
2,663,308	9,726	0	0	0	2,711,202
0	0	0	0	0	238,600
0	0	0	0	0	4,174,191
0	0	0	0	0	1,868
0	0	0	0	0	348,791
1,050,283	28,903	0	0	0	1,121,972
0	0	0	0	0	150,000
129,751	0	0	0	0	129,751
20,683,500	0	0	11,050,750	0	31,734,250
0	0	0	0	190,790	190,790
0	0	0	0	61,771	61,771
0	0	0	0	12,995,999	12,995,999
0	0	0	0	3,615,000	3,615,000
<u>\$34,152,199</u>	<u>\$869,127</u>	<u>\$1,134,900</u>	<u>\$11,050,750</u>	<u>\$16,863,560</u>	<u>\$96,441,240</u>
\$514,494	\$72,690	\$37,421	\$0	\$0	\$945,418
130,306	0	0	0	0	148,465
63,600	0	0	0	0	238,600
23,270	2,474	0	0	0	98,042
414,807	248,222	0	0	621,888	1,290,163
270,440	20,349	1,398	0	33,672	672,006
0	0	321,522	0	0	9,399,730
0	0	650,191	0	0	650,191
0	0	124,368	0	0	124,368
0	0	0	0	0	31,275
21,757	0	0	0	0	21,757
0	0	0	0	1,050,000	1,050,000
7,008,339	0	0	0	0	7,008,339
4,880,000	0	0	0	12,483,000	17,363,000
0	0	0	0	2,675,000	2,675,000
<u>13,327,013</u>	<u>343,735</u>	<u>1,134,900</u>	<u>0</u>	<u>16,863,560</u>	<u>41,716,354</u>
0	0	0	11,050,750	0	11,050,750
5,092,867	0	0	0	0	5,092,867
15,732,319	525,392	0	0	0	16,257,711
0	0	0	0	0	1,334,769
0	0	0	0	0	42,786
0	0	0	0	0	252,561
0	0	0	0	0	6,792
0	0	0	0	0	18,447
0	0	0	0	0	20,668,203
<u>20,825,186</u>	<u>525,392</u>	<u>0</u>	<u>11,050,750</u>	<u>0</u>	<u>54,724,886</u>
<u>\$34,152,199</u>	<u>\$869,127</u>	<u>\$1,134,900</u>	<u>\$11,050,750</u>	<u>\$16,863,560</u>	<u>\$96,441,240</u>

City of Hudson, Ohio
**Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Year December 31, 1998**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Municipal Income Tax	\$7,042,933	\$0	\$0	\$0
Property and Other Taxes	1,854,979	1,668,252	689,398	0
Charges for Services	1,343,402	10,528	0	0
Licenses and Permits	129,753	209,888	0	0
Intergovernmental	2,201,066	915,719	78,845	175,556
Special Assessments	0	0	161,719	93,738
Investment Income	1,295,155	120,913	194,707	44,272
Donations	23,240	38,059	0	0
Rent	0	662	0	0
Other	244,445	91,250	0	0
Total Revenues	14,134,973	3,055,271	1,124,669	313,566
Expenditures:				
Current:				
General Government	3,336,246	9,295	18,982	13,007
Security of Persons and Property	2,523,481	908,546	0	0
Public Health and Welfare	249,643	69,214	0	0
Transportation	0	1,628,392	0	0
Community Environment	117,240	1,071	0	0
Leisure Time Activities	0	520,586	0	0
Capital Outlay	423,946	717,914	0	8,813,168
Debt Service:				
Principal Retirement	0	81,992	577,000	0
Interest and Fiscal Charges	0	5,388	574,637	57,769
Total Expenditures	6,650,556	3,942,398	1,170,619	8,883,944
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,484,417	(887,127)	(45,950)	(8,570,378)
Other Financing Sources (Uses):				
Proceeds of Bonds	0	0	0	13,495,000
Proceeds of Notes	0	0	1,293	1,050,000
Proceeds from Note Repayment	0	0	0	50,000
Operating Transfers - In	305,000	1,200,000	85,832	1,997,000
Operating Transfers - Out	(3,705,678)	0	(55,000)	(332,104)
Total Other Financing Sources (Uses)	(3,400,678)	1,200,000	32,125	16,259,896
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	4,083,739	312,873	(13,825)	7,689,518
Fund Balances (Deficit) at Beginning of Year As Restated - See Note 4	7,848,750	3,063,437	266,386	(910,376)
(Decrease) in Reserve for Inventory	(5,018)	(11,926)	0	0
Fund Balances at End of Year	\$11,927,471	\$3,364,384	\$252,561	\$6,779,142

See accompanying notes to the general purpose financial statements

Totals
(Memorandum Only)

\$7,042,933
4,212,629
1,353,930
339,641
3,371,186
255,457
1,655,047
61,299
662
335,695

18,628,479

3,377,530
3,432,027
318,857
1,628,392
118,311
520,586
9,955,028

658,992
637,794

20,647,517

(2,019,038)

13,495,000
1,051,293
50,000
3,587,832
(4,092,782)

14,091,343

12,072,305

10,268,197

(16,944)

\$22,323,558

City of Hudson, Ohio
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Year Ended December 31, 1998

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Municipal Income Tax	\$5,350,000	\$6,378,353	\$1,028,353
Property and Other Taxes	1,890,866	1,855,093	(35,773)
Charges for Services	1,334,500	1,330,792	(3,708)
Licenses and Permits	99,500	118,234	18,734
Intergovernmental	2,197,508	2,448,856	251,348
Special Assessments	0	0	0
Investment Income	1,190,000	1,194,976	4,976
Donations	0	23,240	23,240
Rent	0	0	0
Other	60,000	258,306	198,306
Total Revenues	12,122,374	13,607,850	1,485,476
Expenditures:			
Current:			
General Government	3,864,604	3,460,606	403,998
Security of Persons and Property	2,551,061	2,479,651	71,410
Public Health and Welfare	297,150	258,025	39,125
Transportation	0	0	0
Community Environment	165,732	144,329	21,403
Leisure Time Activities	0	0	0
Capital Outlay	1,420,989	465,865	955,124
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	8,299,536	6,808,476	1,491,060
Excess of Revenues Over (Under) Expenditures	3,822,838	6,799,374	2,976,536
Other Financing Sources (Uses):			
Proceeds of Bonds	0	0	0
Proceeds of Notes	0	0	0
Proceeds from Note Repayment	0	0	0
Advances - In	35,000	725,000	690,000
Advances - Out	(238,600)	(928,600)	(690,000)
Operating Transfers - In	342,603	605,300	262,697
Operating Transfers - Out	(4,695,978)	(4,005,978)	690,000
Total Other Sources (Uses)	(4,556,975)	(3,604,278)	952,697
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(734,137)	3,195,096	3,929,233
Fund Balances at Beginning of Year	6,456,543	6,456,543	0
Prior Year Encumbrances Appropriated	424,476	424,476	0
Fund Balances at End of Year	\$6,146,882	\$10,076,115	\$3,929,233

See accompanying notes to the general purpose financial statements

Governmental Fund Types					
Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
1,714,207	1,668,321	(45,886)	705,411	687,133	(18,278)
9,000	10,528	1,528	0	0	0
174,500	206,338	31,838	0	0	0
735,916	962,290	226,374	75,257	78,845	3,588
0	0	0	150,000	161,719	11,719
36,577	121,740	85,163	146,110	179,085	32,975
14,150	38,159	24,009	0	0	0
0	1,153	1,153	0	0	0
30,700	99,484	68,784	0	0	0
<u>2,715,050</u>	<u>3,108,013</u>	<u>392,963</u>	<u>1,076,778</u>	<u>1,106,782</u>	<u>30,004</u>
35,469	11,059	24,410	23,597	18,887	4,710
1,125,605	928,884	196,721	0	0	0
134,917	123,496	11,421	0	0	0
1,831,525	1,693,609	137,916	0	0	0
4,402	1,289	3,113	0	0	0
719,694	558,706	160,988	0	0	0
1,604,893	1,262,487	342,406	0	0	0
81,992	81,992	0	577,000	577,000	0
5,388	5,388	0	575,610	574,637	973
<u>5,543,885</u>	<u>4,666,910</u>	<u>876,975</u>	<u>1,176,207</u>	<u>1,170,524</u>	<u>5,683</u>
<u>(2,828,835)</u>	<u>(1,558,897)</u>	<u>1,269,938</u>	<u>(99,429)</u>	<u>(63,742)</u>	<u>35,687</u>
0	0	0	0	0	0
0	0	0	650	1,293	643
0	0	0	0	0	0
175,000	175,000	0	0	0	0
(35,000)	(35,000)	0	0	0	0
1,200,000	1,200,000	0	87,681	85,832	(1,849)
0	0	0	(56,155)	(55,000)	1,155
<u>1,340,000</u>	<u>1,340,000</u>	<u>0</u>	<u>32,176</u>	<u>32,125</u>	<u>(51)</u>
(1,488,835)	(218,897)	1,269,938	(67,253)	(31,617)	35,636
2,797,419	2,797,419	0	265,342	265,342	0
229,048	229,048	0	0	0	0
<u>\$1,537,632</u>	<u>\$2,807,570</u>	<u>\$1,269,938</u>	<u>\$198,089</u>	<u>\$233,725</u>	<u>\$35,636</u>

(continued)

City of Hudson, Ohio
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types (Continued)
 For the Year Ended December 31, 1998

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	0	0	0
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Intergovernmental	171,500	171,850	350
Special Assessments	46,000	93,738	47,738
Investment Income	22,800	43,744	20,944
Donations	0	0	0
Rent	0	0	0
Other	0	0	0
Total Revenues	240,300	309,332	69,032
Expenditures:			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	13,893,434	8,670,699	5,222,735
Debt Service:			
Principal Retirement	2,430,000	2,430,000	0
Interest and Fiscal Charges	69,549	69,548	1
Total Expenditures	16,392,983	11,170,247	5,222,736
Excess of Revenues Over (Under) Expenditures	(16,152,683)	(10,860,915)	5,291,768
Other Financing Sources (Uses):			
Proceeds of Bonds	12,947,000	12,950,000	3,000
Proceeds of Notes	0	0	0
Proceeds from Note Repayment	50,000	50,000	0
Advances - In	0	0	0
Advances - Out	0	0	0
Operating Transfers - In	1,997,000	1,997,000	0
Operating Transfers - Out	(332,104)	(332,104)	0
Total Other Sources (Uses)	14,661,896	14,664,896	3,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,490,787)	3,803,981	5,294,768
Fund Balances at Beginning of Year	1,518,462	1,518,462	0
Prior Year Encumbrances Appropriated	379,359	379,359	0
Fund Balances at End of Year	\$407,034	\$5,701,802	\$5,294,768

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$5,350,000	\$6,378,353	\$1,028,353
4,310,484	4,210,547	(99,937)
1,343,500	1,341,320	(2,180)
274,000	324,572	50,572
3,180,181	3,661,841	481,660
196,000	255,457	59,457
1,395,487	1,539,545	144,058
14,150	61,399	47,249
0	1,153	1,153
90,700	357,790	267,090
<u>16,154,502</u>	<u>18,131,977</u>	<u>1,977,475</u>
3,923,670	3,490,552	433,118
3,676,666	3,408,535	268,131
432,067	381,521	50,546
1,831,525	1,693,609	137,916
170,134	145,618	24,516
719,694	558,706	160,988
16,919,316	10,399,051	6,520,265
3,088,992	3,088,992	0
650,547	649,573	974
<u>31,412,611</u>	<u>23,816,157</u>	<u>7,596,454</u>
<u>(15,258,109)</u>	<u>(5,684,180)</u>	<u>9,573,929</u>
12,947,000	12,950,000	3,000
650	1,293	643
50,000	50,000	0
210,000	900,000	690,000
(273,600)	(963,600)	(690,000)
3,627,284	3,888,132	260,848
<u>(5,084,237)</u>	<u>(4,393,082)</u>	<u>691,155</u>
<u>11,477,097</u>	<u>12,432,743</u>	<u>955,646</u>
<u>(3,781,012)</u>	<u>6,748,563</u>	<u>10,529,575</u>
11,037,766	11,037,766	0
1,032,883	1,032,883	0
<u>\$8,289,637</u>	<u>\$18,819,212</u>	<u>\$10,529,575</u>

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City of Hudson, Ohio
Combined Statement of Revenues,
Expenses and Changes in Fund Equity
All Proprietary Fund Types
For the Year Ended December 31, 1998

	Proprietary Fund Types		
	Enterprise	Internal Service	Totals
<u>Operating Revenues:</u>			
Charges for Services	\$14,592,481	\$953,398	\$15,545,879
Rent	67,476	0	67,476
Other Operating Revenues	126,792	19,501	146,293
Total Operating Revenues	14,786,749	972,899	15,759,648
<u>Operating Expenses:</u>			
Personal Services	2,016,429	387,332	2,403,761
Contractual Services	9,684,866	60,943	9,745,809
Materials and Supplies	144,878	180,676	325,554
Other Operating Expenses	8,291	0	8,291
Depreciation	569,356	0	569,356
Capital Outlay	734,721	582,378	1,317,099
Total Operating Expenses	13,158,541	1,211,329	14,369,870
Operating Income (Loss)	1,628,208	(238,430)	1,389,778
<u>Non-Operating Revenues (Expenses):</u>			
Special Assessments	34,960	0	34,960
Equity Interest in Joint Venture Operating Losses	(109,732)	0	(109,732)
Interest Income	71,043	0	71,043
Interest and Fiscal Charges	(258,100)	0	(258,100)
Total Non-Operating Revenues (Expenses)	(261,829)	0	(261,829)
Income (Loss) Before Operating Transfers	1,366,379	(238,430)	1,127,949
Operating Transfers - In	805,250	0	805,250
Operating Transfers - Out	(300,300)	0	(300,300)
Net Income (Loss)	1,871,329	(238,430)	1,632,899
Retained Earnings at Beginning of Year As Restated - See Note 4	13,860,990	763,822	14,624,812
Retained Earnings at End of Year	15,732,319	525,392	16,257,711
Contributed Capital at Beginning of Year	172,281	0	172,281
Other Contributions:			
Special Assessments	545,000	0	545,000
Golf Course	4,375,586	0	4,375,586
Contributed Capital at End of Year	5,092,867	0	5,092,867
Total Fund Equity at End of Year	\$20,825,186	\$525,392	\$21,350,578

See accompanying notes to the general purpose financial statements

City of Hudson, Ohio
 Combined Statement of Revenues, Expenses, and
 Changes in Fund Equity - Budget and Actual (Budget Basis)
 All Proprietary Funds
 For the Year Ended December 31, 1998

	Proprietary Fund Types		
	Enterprise		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<u>Revenues:</u>			
Charges for Services	\$12,705,636	\$13,699,566	\$993,930
Rent	49,000	67,092	18,092
Other Operating Revenues	104,000	127,336	23,336
Total Revenues	<u>12,858,636</u>	<u>13,893,994</u>	<u>1,035,358</u>
<u>Expenditures:</u>			
Current:			
Personal Services	2,130,893	2,033,215	97,678
Contractual Services	10,820,312	10,377,683	442,629
Materials and Supplies	395,896	283,339	112,557
Other Non-Operating Expenses	48,586	8,291	40,295
Capital Outlay	4,947,812	3,653,550	1,294,262
Debt Service:			
Principal Retirement	3,406,600	2,760,000	646,600
Interest and Fiscal Charges	290,960	276,697	14,263
Total Expenditures	<u>22,041,059</u>	<u>19,392,775</u>	<u>2,648,284</u>
Excess of Revenues (Under) Expenditures	<u>(9,182,423)</u>	<u>(5,498,781)</u>	<u>3,683,642</u>
<u>Other Financing Sources (Uses):</u>			
Interest Income	89,600	64,940	(24,660)
Advances - In	63,600	753,600	690,000
Advances - Out	0	(690,000)	(690,000)
Special Assessments	34,960	34,960	0
Proceeds of Bonds	3,480,000	3,480,000	0
Proceeds of Notes	1,050,000	1,133,240	83,240
Operating Transfers - In	1,953,606	1,263,606	(690,000)
Operating Transfers - Out	(1,448,656)	(758,656)	690,000
Total Other Sources (Uses)	<u>5,223,110</u>	<u>5,281,690</u>	<u>58,580</u>
Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses	<u>(3,959,313)</u>	<u>(217,091)</u>	<u>3,742,222</u>
Fund Equity at Beginning of Year	7,630,405	7,630,405	0
Prior Year Encumbrances Appropriated	<u>1,579,599</u>	<u>1,579,599</u>	<u>0</u>
Fund Equity at End of Year	<u>\$5,250,691</u>	<u>\$8,992,913</u>	<u>\$3,742,222</u>

See accompanying notes to the general purpose financial statements

Internal Service			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$953,389	\$953,398	\$9	\$13,659,025	\$14,652,964	\$993,939
0	0	0	49,000	67,092	18,092
0	9,775	9,775	104,000	137,111	33,111
953,389	963,173	9,784	13,812,025	14,857,167	1,045,142
186,297	183,275	3,022	2,317,190	2,216,490	100,700
93,730	69,268	24,462	10,914,042	10,446,951	467,091
215,136	148,816	66,320	611,032	432,155	178,877
0	0	0	48,586	8,291	40,295
1,060,299	834,255	226,044	6,008,111	4,487,805	1,520,306
0	0	0	3,406,600	2,760,000	646,600
0	0	0	290,960	276,697	14,263
1,555,462	1,235,614	319,848	23,596,521	20,628,389	2,968,132
(602,073)	(272,441)	329,632	(9,784,496)	(5,771,222)	4,013,274
0	0	0	89,600	64,940	(24,660)
0	0	0	63,600	753,600	690,000
0	0	0	0	(690,000)	(690,000)
0	0	0	34,960	34,960	0
0	0	0	3,480,000	3,480,000	0
0	0	0	1,050,000	1,133,240	83,240
0	0	0	1,953,606	1,263,606	(690,000)
0	0	0	(1,448,656)	(758,656)	690,000
0	0	0	5,223,110	5,281,690	58,580
(602,073)	(272,441)	329,632	(4,561,386)	(489,532)	4,071,854
431,806	431,806	0	8,062,211	8,062,211	0
340,184	340,184	0	1,919,783	1,919,783	0
\$169,917	\$499,549	\$329,632	\$5,420,608	\$9,492,462	\$4,071,854

City of Hudson, Ohio
Combined Statement of Cash Flows
All Proprietary Funds
For the Year Ended December 31, 1998

	Enterprise	Internal Service	Totals
<i>Increase (Decrease) in Cash and Cash Equivalents</i>			
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$13,699,566	\$953,398	\$14,652,964
Cash Received from Rent	67,092	0	67,092
Cash Payments to Suppliers for Goods and Services	(10,616,257)	(721,390)	(11,337,647)
Cash Payments to Employees for Services and Benefits	(2,033,215)	(183,275)	(2,216,490)
Other Operating Revenues	127,336	9,775	137,111
Net Cash Provided by Operating Activities	1,244,522	58,508	1,303,030
<u>Cash Flows from Noncapital Financing Activities:</u>			
Operating Transfers In	1,263,606	0	1,263,606
Operating Transfers Out	(758,656)	0	(758,656)
Advances In	753,600	0	753,600
Advances Out	(690,000)	0	(690,000)
Net Cash Provided by Noncapital Financing Activities	568,550	0	568,550
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Proceeds From Sale of Bonds	3,480,000	0	3,480,000
Proceeds From Special Assessments	34,960	0	34,960
Proceeds From Sale of Notes	1,133,240	0	1,133,240
Payments for Capital Acquisitions	(3,074,163)	0	(3,074,163)
Principal Payments	(2,760,000)	0	(2,760,000)
Interest Payments	(276,697)	0	(276,697)
Net Cash (Used for) Capital and Related Financing Activities	(1,462,660)	0	(1,462,660)
<u>Cash Flows from Investing Activities:</u>			
Interest on Investments	64,940	0	64,940
Net Cash Provided by Investing Activities	64,940	0	64,940
Net Increase in Cash and Cash Equivalents	415,352	58,508	473,860
Cash and Cash Equivalents at Beginning of Year	9,210,005	771,990	9,981,995
Cash and Cash Equivalents at End of Year	\$9,625,357	\$830,498	\$10,455,855

City of Hudson, Ohio
 Combined Statement of Cash Flows
 All Proprietary Funds
 For the Year Ended December 31, 1998

	Enterprise	Internal Service	Totals
<i>Reconciliation of Operating Income (Loss) to Net Cash</i>			
<u>Provided by Operating Activities:</u>			
Operating Income (Loss)	\$1,628,208	(\$238,430)	\$1,389,778
 <i>Adjustments to Reconcile Operating Income (Loss) to Net Cash</i>			
<u>Provided by (Used for) Operating Activities:</u>			
Depreciation	569,356	0	569,356
<i>Changes in Assets and Liabilities:</i>			
(Increase)/Decrease in Accounts Receivable	(891,536)	(9,726)	(901,262)
(Increase)/Decrease in Materials and Supplies Inventory	(73,284)	35,493	(37,791)
Increase/(Decrease) in Accounts Payable	(103,596)	67,249	(36,347)
Increase/(Decrease) in Accrued Wages and Benefits	(45,335)	(3,950)	(49,285)
Increase/(Decrease) in Compensated Absences Payable	(42,625)	193,842	151,217
Increase/(Decrease) in Contracts Payable	10,826	0	10,826
Increase/(Decrease) in Intergovernmental Payable	199,566	14,030	213,596
Increase/(Decrease) in Accrued Interest Payable	(5,839)	0	(5,839)
Increase/(Decrease) in Deferred Revenue	(1,219)	0	(1,219)
 Total Adjustments	 (383,686)	 296,938	 (86,748)
 Net Cash Provided by Operating Activities	 <u>\$1,244,522</u>	 <u>\$58,508</u>	 <u>\$1,303,030</u>

Non-Cash Transactions:

During the year, the General Fixed Assets Account Group contributed fixed assets to the proprietary fund types. The contribution of the related assets totaled \$2,500,000.

The Enterprise Funds also received donated fixed assets that will be repaid by special assessments in the amount of \$545,000.

See accompanying notes to the general purpose financial statements

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City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 1 - Description of the City and Reporting Entity

The City of Hudson (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 March 20, 1991. The City merged with Hudson township 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 Treasurer is appointed by the City Manager, upon recommendation by the Finance Director.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the 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; the City is legally obligated or has otherwise assumed the responsibility to finance the 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 their 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 (JV5). The Northern Ohio Risk Management Association (NORMA) is the shared risk pool. These organizations are presented in Notes 23 and 24.

Note 2 - Summary of Significant Accounting Policies

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis Of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

General Fund This fund is the operating fund of the City and is used to account 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 general laws of Ohio.

Special Revenue Funds These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds These funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal, interest and related costs.

Capital Projects Funds These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

Proprietary Fund Types Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Fund This fund is used to 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.

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. The City does not have any trust funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group This account group accounts for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of the proprietary funds, including special assessment debt for which the City is obligated in some manner.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the Combined Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

The proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Combined Balance Sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

All governmental fund types and agency funds are accounted for using the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, State-levied locally shared taxes (including gasoline tax), charges for current services and income tax withheld by employers. Major revenue sources not susceptible to accrual include licenses and permits, fines and forfeitures, which are not considered measurable until received.

The City reports deferred revenues on its Combined Balance Sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 1998, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable, and have been recorded as a receivable. Since all assessments are due outside of the available period, the entire amount has been deferred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. Principal and interest on general long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund types. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year end.

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

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews 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 Measure. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the final amended official Certificate of Estimated Resources issued during 1998.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the object level within each department. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the proprietary funds.

Lapsing of Appropriations At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, cash received by 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 Investments" on the Combined Balance Sheet.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the year 1998. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 1998.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. The following funds received more interest earnings during the year 1998 than they would have received based on their average share of investments:

Fund	Actual Interest Credited	Amount Allocated From Other City Funds
General	\$1,295,155	\$798,964
Special Revenue:		
Hudson Parks	70,129	4,095
Fire District	30,170	5,825
Emergency Medical Services	18,413	2,952
Debt Service:		
Land and Recreation Debt	2,940	2,202
General Obligation Bond	15,825	15,488
Park Acquisition Debt	33,314	30,657
Capital Projects:		
Permissive Capital	405	91
Industrial Water Expansion Project	18,977	12,094
Executive Parkway	24,891	11,928

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

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

The City utilizes a fiscal agent to hold a bond and coupon for retainage on construction contracts. The balances in these accounts are presented on the Combined Balance Sheet as "Cash and Cash Equivalents With Fiscal Agent" and represent deposits or short-term investments.

The City has donated stock. The account is presented in the Combined Balance Sheet as "Investments in Common Stock" since they are not required to be deposited into the City treasury. See Note 7, Deposits and Investments.

E. *Interfund Assets and Liabilities*

Short-term interfund loans are classified as "Interfund Receivables/Payables".

F. *Intergovernmental Revenues*

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues and entitlements are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements or shared revenues received for proprietary fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Such resources restricted for the construction of capital assets are recorded as contributed capital.

G. *Inventory*

Inventories of governmental funds are stated at cost while the inventory of the proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental fund which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

H. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group at historical cost or estimated historical cost. Assets in the general fixed assets account group are not depreciated.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems are not capitalized or reported, as these assets are immovable and of value only to the City.

Proprietary Fund Fixed Assets

Fixed assets reflected in the enterprise funds are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	50 years
Substations, Metering and Transformers	30 years
Machine and Equipment	5 to 30 years
Vehicles	8 years
Underground and Overhead Construction	50 to 65 years

The City's policy is to capitalize interest on proprietary fund construction projects until substantial completion of the project. During 1998, the City recorded \$219,976 of capitalized interest.

Valuation

The City's fixed asset values were determined using original acquisition costs when such information was available. In cases when original costs were not practicable determinable, estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

I. *Compensated Absences*

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

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

J. *Reserves of Fund Equity*

The City records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balances are reserved for encumbrances, investments, common stock, debt service and inventory.

K. *Interfund Transactions*

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 2 - Summary of Significant Accounting Policies (continued)

L. *Accrued and Long-Term Obligations*

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are considered not to have been made with current available financial resources. Bonds are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in appropriate proprietary funds.

M. *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 could differ from those estimates.

N. *Total Columns on General Purpose Financial Statements*

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 3 - Changes in Accounting Principles

For 1998, the City has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". The Statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value. The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the City at December 31, 1997.

The City has also implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation plan through the Ohio Public Employees Deferred Compensation Plan.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 3 - Changes in Accounting Principles (continued)

On September 1, 1998, the Ohio Public Employees Deferred Compensation Plan created a trust for the assets of the plan for which the City has no fiduciary responsibility. Therefore, the balance of the Ohio Public Employees Deferred Compensation Plan of \$1,583,761 has been removed from the Deferred Compensation Agency Fund, and is no longer presented as part of the City's general purpose financial statements.

Note 4 - Restatement of Prior Year Equity

The restatement to the beginning fund balance/retained earnings is as follows:

	Capital Projects	Enterprise	Internal Service
Fund Equity as Stated at December 31, 1997	\$(554,480)	\$ 6,775,231	\$1,138,280
Notes Payable and Accrued Interest Payable	(355,896)	355,896	-0-
Fixed Assets (Net of Accumulated Depreciation)	<u>-0-</u>	<u>6,729,863</u>	<u>(374,458)</u>
Fund Equity as Restated at December 31, 1997	<u>\$(910,376)</u>	<u>\$13,860,990</u>	<u>\$ 763,822</u>

In the prior period, the City accounted for bond anticipation notes in the enterprise fund that will be refinanced by bonds and will be repaid with special assessment collections. The liability was reclassified to a capital projects fund since the enterprise fund is not obligated to make any debt payments.

In prior periods, the City only recorded fixed asset additions in the proprietary funds and did not account for depreciation expense. The City has adjusted fixed asset values to properly reflect their balances as of December 31, 1997. Fund equity at December 31, 1997 was restated to reflect these adjusted fixed asset values.

In addition, the City did not record fixed assets in the General Fixed Asset Account Group in prior periods. The General Fixed Asset Account Group was established to reflect the City's fixed asset balance of \$9,714,167 as of December 31, 1997. See Note 15 - Fixed Assets for the current year's fixed asset activity in the General Fixed Asset Account Group.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 5 - Budgetary Basis of Accounting

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

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year end encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund types (GAAP).
4. Proceeds from and principal payment on bond anticipation notes are reported on the operating statement (budget) rather than on the balance sheet (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$4,083,739	\$ 312,873	\$(13,825)	\$ 7,689,518
Net Adjustments for Revenue Accruals	(492,123)	227,742	(17,887)	(1,599,234)
Net Adjustments for Expenditure Accruals	16,623	9,452	95	(1,882,530)
Encumbrances	<u>(413,143)</u>	<u>(768,964)</u>	<u>-0-</u>	<u>(403,773)</u>
Budget Basis	<u>\$3,195,096</u>	<u>\$(218,897)</u>	<u>\$(31,617)</u>	<u>\$ 3,803,981</u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 6 - Accountability and Compliance

A. Fund Deficits

The following funds had deficit fund balances or retained earnings caused by the recognition of expenditures and/or nonrecognition of revenues on the modified accrual basis of accounting which substantially differ from those recognized on the cash basis:

Fund	Deficit Fund Balances/ Retained Earnings
Storm Water Utility	\$ 3,044
Golf Course	246,234
Fire District	75,970

B. Fiscal Officer Certification

Contrary to Ohio Revised Code Section 5705.41(D), the City did not certify all of their obligations during 1998.

Note 7 - Deposits and Investments

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

1. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.
2. Inactive deposits are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.
3. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 7 - Deposits and Investments (continued)

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution. Inactive monies can be deposited and invested in the following securities:

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

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.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 7 - Deposits and Investments (continued)

A. Deposits

At year-end, the carrying amount of the City's deposits was \$(1,304,447) and the bank balance was \$413,744. Of the bank balance:

1. \$264,226 was covered by federal depository insurance; and
2. \$149,518 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements by the financial institution could potentially subject the City to a successful claim by the FDIC.

B. Investments

GASB Statement No. 3 requires the use of three categories to classify investments as to custodial credit risk. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is unclassified since it is not evidenced by securities that exist in physical or book entry form.

	1	Category 2	3	Fair Value
Overnight Repurchase Agreements	\$ -0-	\$ -0-	\$ 2,795,000	\$ 2,795,000
Series "E" Bonds	6,792	-0-	-0-	6,792
Common Stocks	18,447	-0-	-0-	18,447
Investment in State Treasurer's Investment Pool (STAR Ohio)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>31,085,970</u>
Total Investments	<u>\$ 25,239</u>	<u>\$ -0-</u>	<u>\$ 2,795,000</u>	<u>\$33,906,209</u>

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 7 - Deposits and Investments (continued)

	Cash Equivalents and Investments	Investments
GASB Statement No. 9	\$ 32,576,523	\$ 25,239
Investments of Cash Management Pool:		
Overnight Repurchase Agreement	(2,795,000)	2,795,000
STAR Ohio	<u>(31,085,970)</u>	<u>31,085,970</u>
GASB Statement No. 3	<u>\$ (1,304,447)</u>	<u>\$33,906,209</u>

Note 8 - Receivables

Receivables at December 31, 1998, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements and shared revenues. Accounts, taxes, special assessments and intergovernmental receivables are deemed collectible in full.

Note 9 - Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semiannually. If paid annually, payment is due January 20; if paid semiannually, the first payment is due January 20, with the remainder payable June 20, unless extended.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Public utility, real, and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31, of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 9 - Property Taxes (continued)

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable as of December 31, 1998. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, 1998, and are not intended to finance 1998 operations. The receivable is therefore offset by a credit to deferred revenue.

The full tax rate for all County operations for the year ended December 31, 1998, was \$7.82 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1998 property tax receipts were based are as follows:

Category	Total Assessed Value	%
Real Property Valuation:		
Residential/Agricultural	\$533,801,690	78.67
Commercial/Industrial/Mineral	74,127,530	10.92
Public Utilities	57,800	0.01
Tangible Personal Property Valuation:		
General	51,742,148	7.63
Public Utilities	<u>18,811,940</u>	<u>2.77</u>
Total Valuation	<u>\$678,541,108</u>	<u>100.0%</u>

Note 10 - Income Tax

The City levies a municipal income tax of one percent on gross salaries, wages and other personal service compensation earned by 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 one hundred percent 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 Authority (RITA) either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, disbursement of the revenue received from income taxes is as follows: First, all expenses of collecting the tax and of administering and enforcing the income tax ordinance are paid. Then, the balance remaining after payment of the expenses is deposited in the general fund for street construction, maintenance and repair, capital improvements and general municipal operations, or is such other fund or funds as Council may from time to time establish or designate. For 1998, municipal income tax revenue was \$7,042,933.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 11 - Note Receivable

The City entered into a development agreement with Little Tikes Company whereby the City would provide funding for certain road and site improvements. Little Tikes Company then agreed to repay the City for a portion of the cost of the project not to exceed six equal payments of \$50,000 totaling \$300,000. Payments started in 1996. Since the payments were not received during the available period, the entire amount has been deferred.

Note 12 - Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables follows:

Fund	Amount
General Fund	<u>\$309,482</u>
Special Revenue Funds	
Street Construction	8,755
State Highway	710
Cemetery Board	489
Drug Law Enforcement (DARE)	12,452
County Permissive Tax	3,882
COPS Fast Grant	1,668
Law Enforcement and Education	185
Court Computerization	<u>465</u>
Total Special Revenue Funds	<u>28,606</u>
Capital Projects Fund	
Permissive Capital	7,765
Issue II	<u>2,938</u>
Total Capital Projects Funds	<u>10,703</u>
Grand Total	<u>\$348,791</u>

Note 13 - Special Assessments

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

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 14 - 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 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 the limits described in the agreement. This coverage is maintained through the general fund. There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

Note 15 - Fixed Assets

A summary of the changes in general fixed assets during 1998 follows:

	Balance 01/01/98	Additions	Deletions	Balance 12/31/98
Land	\$ 1,215,924	\$ 353,376	\$ -0-	\$ 1,569,300
Buildings	1,699,292	12,677	-0-	1,711,969
Equipment	5,231,713	619,459	-0-	5,851,172
Vehicles	<u>1,567,238</u>	<u>351,071</u>	<u>-0-</u>	<u>1,918,309</u>
Total	<u>\$ 9,714,167</u>	<u>\$1,336,583</u>	<u>\$ -0-</u>	<u>\$11,050,750</u>

A summary of the proprietary funds' fixed assets at December 31, 1998 follows:

	Enterprise Funds
Land and Improvements	\$ 2,072,316
Buildings	3,866,660
Infrastructure	14,108,520
Machine and Equipment	4,423,731
Vehicles	855,735
Construction in Progress	<u>1,105,370</u>
	26,432,332
Less: Accumulated Depreciation	<u>5,748,832</u>
Net Fixed Assets	<u>\$20,683,500</u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 16 - Note Debt

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

	Balance 01/01/98	Additions	Reductions	Balance 12/31/98
1997 Waterworks Improvement, 4.45%	\$1,700,000	\$ -0-	\$1,700,000	\$ -0-
Executive Parkway Project Fund, 4.13%	730,000	-0-	730,000	-0-
1998 Watermain Construction, 3.915%	-0-	610,000	-0-	610,000
1997 Waterworks Improvement, 4.45%	2,000,000	-0-	2,000,000	-0-
1997 Various Purpose Improvement, 4.15%	355,000	-0-	355,000	-0-
1998 Watermain Construction, 3.3473%	<u>-0-</u>	<u>440,000</u>	<u>-0-</u>	<u>440,000</u>
Total Notes	<u>\$4,785,000</u>	<u>\$1,050,000</u>	<u>\$4,785,000</u>	<u>\$1,050,000</u>

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 17 - Long-Term Obligations

Changes in the long-term obligations of the City during 1998 were as follows:

	Balance 01/01/98	Additions	Retirements	Balance 12/31/98
<u>GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP</u>				
<u>General Obligation Bonds:</u>				
1977 Land and Recreation 5.25%, Due through 1998	\$ 90,000	\$ -0-	\$ 90,000	\$ -0-
1977 Fire House 5.25%, Due through 1998	2,000	-0-	2,000	-0-
1992 Multipurpose 2.5% to 5.2%, Due through 2007	960,000	-0-	75,000	885,000
1992 Safety Center 2.9% to 6.35%, Due through 2012	1,070,000	-0-	70,000	1,000,000
1992 Cemetery Road Improvement 4.5%, Due through 1999	16,000	-0-	8,000	8,000
1998 Park Acquisition 4.5% to 5.0%, Due through 2017	-0-	7,335,000	245,000	7,090,000
1998 Village South 4.5% to 5.0%, Due through 2018	<u>-0-</u>	<u>3,500,000</u>	<u>-0-</u>	<u>3,500,000</u>
Total General Obligation Bonds	<u>2,138,000</u>	<u>10,835,000</u>	<u>490,000</u>	<u>12,483,000</u>
<u>Notes Payable:</u>				
1998 Watermain Construction 3.915%, Due 05/99	-0-	610,000	-0-	610,000
1998 Watermain Construction 3.3473%, Due 09/99	-0-	440,000	-0-	440,000
Fire Equipment 4.5%, Due through 1998	<u>73,992</u>	<u>-0-</u>	<u>73,992</u>	<u>-0-</u>
Total Notes Payable	<u>73,992</u>	<u>1,050,000</u>	<u>73,992</u>	<u>1,050,000</u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 17 - Long-Term Obligations (continued)

	Balance 01/01/98	Additions	Retirements	Balance 12/31/98
<u>Special Assessment Bonds:</u>				
1991 Off-Street Parking 6.375% to 6.5%, Due through 2000	110,000	-0-	35,000	75,000
1998 Sewer Improvement 4.5% to 5.0%, Due through 2016	-0-	1,600,000	60,000	1,540,000
1998 Executive Parkway 4.3% to 5.0%, Due through 2018	<u>-0-</u>	<u>1,060,000</u>	<u>-0-</u>	<u>1,060,000</u>
Total Special Assessment Bonds	<u>110,000</u>	<u>2,660,000</u>	<u>95,000</u>	<u>2,675,000</u>
Compensated Absences	881,817	-0-	259,929	621,888
Intergovernmental Payable	<u>191,629</u>	<u>33,672</u>	<u>191,629</u>	<u>33,672</u>
Total General Long-Term Obligations Account Group	<u>3,395,438</u>	<u>14,578,672</u>	<u>1,110,550</u>	<u>16,863,560</u>
<u>ENTERPRISE FUNDS</u>				
<u>General Obligation Bonds:</u>				
Electric Fund:				
1982 Electric System 8.5%, Due through 1998	40,000	-0-	40,000	-0-
1993 Electric Improvement 2.7% to 4.25%, Due through 2003	<u>1,305,000</u>	<u>-0-</u>	<u>190,000</u>	<u>1,115,000</u>
Total Electric Fund	<u>1,345,000</u>	<u>-0-</u>	<u>230,000</u>	<u>1,115,000</u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 17 - Long-Term Obligations (continued)

	Balance 01/01/98	Additions	Retirements	Balance 12/31/98
Wastewater Fund:				
1977 Sewer Improvement 8.5%, Due through 1998	35,000	-0-	35,000	-0-
1987 Sewer 6.9% to 9.8%, Due through 2008	<u>970,000</u>	<u>-0-</u>	<u>60,000</u>	<u>910,000</u>
Total Wastewater Fund	<u>1,005,000</u>	<u>-0-</u>	<u>95,000</u>	<u>910,000</u>
Water Fund:				
1998 Water System Improvement 4.5% to 5.0%, Due through 2016	<u>-0-</u>	<u>2,245,000</u>	<u>80,000</u>	<u>2,165,000</u>
Total Water Fund	<u>-0-</u>	<u>2,245,000</u>	<u>80,000</u>	<u>2,165,000</u>
Golf Course Fund:				
Golf Course Improvement 4.3% to 5.1%, Due through 2019	<u>-0-</u>	<u>690,000</u>	<u>-0-</u>	<u>690,000</u>
Total General Obligation Bonds	<u>2,350,000</u>	<u>2,935,000</u>	<u>405,000</u>	<u>4,880,000</u>
OWDA Loan	<u>4,346,342</u>	<u>2,661,997</u>	<u>-0-</u>	<u>7,008,339</u>
Total Enterprise Funds	<u>6,696,342</u>	<u>5,596,997</u>	<u>405,000</u>	<u>11,888,339</u>
TOTAL GENERAL LONG- TERM OBLIGATIONS	<u>\$10,091,780</u>	<u>\$20,175,669</u>	<u>\$1,515,550</u>	<u>\$28,751,899</u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 17 - Long-Term Obligations (continued)

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

The City's overall legal debt margin was \$63,838,637 at December 31, 1998. Principal and interest requirements to retire long-term obligations outstanding at December 31, 1998, are as follows:

Year Ending December 31,	General Obligation Bonds		Special Assessment Bonds	Total
	GLTDAG	Enterprise		
1999	\$ 1,138,350	\$ 605,952	\$ 264,779	\$ 2,009,081
2000	1,126,535	644,443	255,345	2,026,323
2001	1,121,770	649,883	213,540	1,985,193
2002	1,110,855	643,700	214,120	1,968,675
2003	1,109,160	646,618	209,455	1,965,233
2004 - 2008	5,326,499	1,906,096	1,066,230	8,298,825
2009 - 2013	4,599,441	1,074,293	1,062,323	6,736,057
2014 - 2019	<u>3,646,750</u>	<u>734,180</u>	<u>794,350</u>	<u>5,175,280</u>
Total Principal and Interest	19,179,360	6,905,165	4,080,142	30,164,667
Less: Interest	<u>6,696,360</u>	<u>2,025,165</u>	<u>1,405,142</u>	<u>10,126,667</u>
Total Principal	<u>\$12,483,000</u>	<u>\$4,880,000</u>	<u>\$2,675,000</u>	<u>\$20,038,000</u>

The City has entered into a contractual agreement for a construction loan from the Ohio Water Development Authority (OWDA). Under the terms of this agreement, the OWDA will loan the construction costs of the approved project. This loan will not have an accurate repayment schedule until the loan is finalized and, therefore, is not included in the schedule of future annual debt service requirements.

The City also is a participant in a joint venture (See Note 1) that has issued Certificates of Beneficial Interest. The debt service payments are obligations of the joint venture's participants, payable from each participant's municipal electric utility systems, subject only to the prior payment of the operation and maintenance expenses. In case of default by a participant, the remaining participants become liable for that participant's debt service payments. The Certificates of Beneficial Interest are fully insured in case of total default by all participants. No defaults have occurred to date on either of these joint ventures. For accounting purposes, the obligation for repayment of the Certificates is reflected in the financial statements of the joint venture.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 17 - Long-Term Obligations (continued)

The debt associated with Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) amounts to 5.69 percent of \$150,675,000 or approximately \$8,573,413. The total principal retirements and the portion that will be paid by the City are as follows:

Year	Certificates of Beneficial Interest	City of Hudson Amount
1999	\$ 2,860,000	\$ 162,734
2000	2,985,000	169,847
2001	3,130,000	178,097
2002	3,280,000	186,632
2003	3,445,000	196,021
2004 - 2008	20,080,000	1,142,553
2009 - 2013	26,100,000	1,485,091
2014 - 2018	34,065,000	1,938,300
2019 - 2023	44,375,000	2,524,938
2024	<u>10,355,000</u>	<u>589,200</u>
Total	<u>\$150,675,000</u>	<u>\$8,573,413</u>

Note 18 - Defined Benefit Pension Plans

A. Public Employees Retirement System

The City contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 614-466-2085 or 1-800-222-7377.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contributions to PERS for the years ended December 31, 1998, 1997 and 1996 were \$514,336, \$330,943 and \$317,783, respectively. The full amount has been contributed for 1997 and 1996. 78.9 percent has been contributed for 1998 with the remainder being reported as a liability in the respective funds.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 18 - Defined Benefit Pension Plans (continued)

B. *Police and Firemen's Disability and Pension Fund*

The City contributes to the Police and Firemen's Disability and Pension Fund of Ohio (the "Fund"), a cost-sharing multiple-employer defined benefit pension plan. The Fund provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215.

Police are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent. Contributions are authorized by State statute. The City's contributions to the Fund for police were \$231,080 for the year ended December 31, 1998, \$169,285 for 1997, and \$154,047 for 1996. The full amount has been contributed for 1997 and 1996. 80.1 percent has been contributed for 1998 with the remainder being reported as a liability in the respective funds.

C. *Social Security System*

All volunteer firefighters and Council members, not otherwise covered by another retirement system, are covered by Social Security. The City's liability is 6.2 percent of wages paid.

Note 19 - Postemployment Benefits

A. *Public Employees Retirement System*

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 1998 employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care for 1998.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 19 - Postemployment Benefits (continued)

OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1998 were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. The number of benefit recipients eligible statewide for OPEB at December 31, 1998 was 115,579. The City's actual contributions for 1998 that were used to fund post retirement benefits were \$231,038.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

B. *Police and Firemen's Disability and Pension Fund*

The Police and Firemen's Disability and Pension Fund (the "Fund") provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll.

The Ohio Revised Code provides the statutory authority allowing the Fund's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. Currently, 6.5% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits statewide as of December 31, 1997, was 11,239 for police and 9,025 for firefighters. The City's actual contributions for 1998 that were used to fund postemployment benefits were \$115,540 for police. The Fund's total health care expenses for the year ended December 31, 1997 (the latest information available) were \$76,459,832.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 20 - Other Employee Benefits

A. *Compensated Absences*

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees earn varying hours of vacation per year, depending upon length of service. Vacation accumulation is limited to 240 hours. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at the rate of 4.62 hours per each two week pay period worked. Sick leave accumulation is allocated 40 percent, limited to 120 hours, to the sick leave account and 60 percent, limited to 600 hours, to the extended sick leave account. Upon retirement or death, an employee with 10 years of full-time service with the City is eligible for a severance payment based on the following formula. Deduct the number of sick leave hours used during the employee's last two years of employment from the maximum number of sick leave hours potentially accruable for the same time period using the annual sick leave accrual formula. Multiply the balance by the applicable dollar amount as follows:

Years of Service	Amount to be Paid
Police Employees:	
10 - 14 years	\$20.00 per day
15 - 19 years	\$35.00 per day
20+ years	\$50.00 per day
Non-Police Employees:	
10 - 19 years	\$ 5.00 per day
20+ years	\$ 6.95 per day

As of December 31, 1998, the total liability for unpaid compensated absences was \$1,290,163.

B. *Health Insurance*

The City provides life insurance and accidental death and dismemberment insurance through Anthem Life of Indiana. The City pays an annual premium of \$19.50 for \$50,000 coverage for all employees under age 70. For employees age 70 or older, the City pays an annual premium of \$9.75 for \$25,000 coverage.

The City also provides medical, dental and vision insurance to employees through Anthem Blue Cross-Blue Shield. The City pays monthly premiums of \$497.45 family/\$198.48 single for medical insurance for employees. Medical insurance deductibles and co-payments vary depending on network/non-network providers. Dental and vision insurances carry no deductibles.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 21 - Contingencies

A. Grants

The City 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 term 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, 1998.

B. Litigation

Several claims and lawsuits are pending against the City. The amount of liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material effect on the overall financial position of the City at December 31, 1998.

Note 22 - Interfund Transactions

The account balances by fund of "Interfund Receivable" and "Interfund Payable" as of December 31, 1998 are as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$238,600	\$ -0-
Special Revenue Fund: Fire District Fund	-0-	175,000
Enterprise Fund: Storm Water Utility Fund	<u>-0-</u>	<u>63,600</u>
Total	<u>\$238,600</u>	<u>\$238,600</u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 22 - Interfund Transactions (continued)

A summary of operating transfers by fund type are as follows:

Transfer From:	Transfer To:	Amount
General	Special Revenue	\$1,200,000
General	Debt Service	3,728
General	Capital Projects	1,997,000
General	Enterprise	504,950
Debt Service	General	55,000
Capital Projects	Debt Service	82,104
Capital Projects	General	250,000
Enterprise	General	<u>300,300</u>
Total		<u>\$4,393,082</u>

Note 23 - Joint Venture

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)

The City is a participant with forty-two subdivisions within the State of Ohio in a joint venture to construct a hydroelectric plant and associated transmission facilities in West Virginia on the Ohio River at Belleville Locks and Dam and to receive electricity from its operation. The Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) was created for that purpose. On dissolution of the joint venture, the net assets of JV5 will be shared by the participants on a percentage basis. The JV5 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated by the agreement to remit monthly the cost of the electricity generated by the joint venture and a portion of the \$153,415,000 Certificates of Beneficial Interest debt that were issued to construct the fixed asset. In accordance with the joint venture agreement, the City remitted \$1,085,912 to the joint venture for 1998. The City's net investment and its share of the operating results of JV5 are reported in the City's electric enterprise fund. The City's equity interest in JV5 was \$129,751 at December 31, 1998. Financial information can be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219. JV5 is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City.

Note 24 - Shared Risk Pool

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 24 - 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 \$147,500 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 1998, the City paid \$29,250 for premiums. Financial information can be obtained by contacting the fiscal agent: City of Bedford Heights, Finance Director, 5661 Perkins Road, Bedford Heights, Ohio 44146.

Note 25 - Segment Information

The City maintains five enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers. The table below reflects, in a summarized format, the more significant data relating to the enterprise funds of the City as of and for the year ended December 31, 1998:

	Water	Wastewater	Electric	Golf Course	Storm Water Utility	Totals
Operating Revenue	\$ 1,079,611	\$ 1,385,332	\$12,320,642	\$ 807	\$ 357	\$14,786,749
Operating Expenses before Depreciation	918,152	1,628,066	9,771,416	268,150	3,401	12,589,185
Depreciation Expense	188,615	165,498	184,528	30,715	-0-	569,356
Net Non-Operating Revenues (Expenses)	(5,363)	(82,641)	(170,399)	(3,426)	-0-	(261,829)
Net Operating Transfers- In (Out)	(300,300)	750,000	-0-	55,250	-0-	504,950
Net Income (Loss)	(332,819)	259,127	2,194,299	(246,234)	(3,044)	1,871,329
Property, Plant and Equipment Additions	729,572	5,002,296	105,660	2,500,000	-0-	8,337,528
Net Working Capital	752,541	3,000,945	7,805,102	474,481	(3,044)	12,030,025
Total Assets	8,978,395	11,599,975	10,528,983	2,984,290	60,556	34,152,199
Long-Term Liabilities	2,165,000	7,918,339	1,115,000	690,000	-0-	11,888,339
Total Equity	6,630,061	3,100,982	8,843,421	2,253,766	(3,044)	20,825,186
Encumbrances at December 31, 1998	348,554	445,978	450,962	63,928	60,199	1,369,621

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 26 - Outstanding Contractual Commitments

The City has the following outstanding contractual commitment for various construction projects at December 31, 1998:

Contractor	Amount of Contract	Amount Expended	Amount Remaining
Marucci and Gaffney Excavating	\$1,977,708	\$1,811,804	\$165,904
Miller Plumbing and Heating	73,990	71,005	2,985
Enertech Electrical, Inc.	190,000	170,264	19,736
Chapman Excavating	2,945,636	2,052,682	892,954
Triad Engineering and Contracting	1,869,271	1,688,250	181,021
CT Consultants	680,000	634,468	45,532
Campbell Construction	1,164,534	1,105,370	59,164
Bison Construction	301,850	301,850	-0-

Note 27 - Subsequent Event

On March 6, 1999, the City issued \$1,095,000 in General Obligation Bonds for improving the City's Barlow Farm Park. Principal and interest, unless paid from other sources, are to be paid from the proceeds of the City's levy of ad valorem property taxes, which taxes are within the ten-mil limitation imposed by Ohio law.

On October 18, 1999, the City purchased the Morse Controls, Inc. facility for \$4,250,000. In part, the City has issued a \$2,250,000 note, and expended \$2,000,000 from its General Fund to finance this acquisition.

Note 28 - Year 2000 Issue

The Year 2000 Issue is the result of shortcomings in many electronic data-processing systems and other equipment that may adversely affect the City's operations.

As of December 6, 1999 the City has completed an inventory of computer systems and other equipment necessary to conducting City operations. The City has identified the following systems requiring Year 2000 remediation:

- A. The financial reporting, utility billing and payroll and employee benefits systems have been tested and validated.
- B. The police communications and records systems have been tested and validated.
- C. The water and sewer systems have been assessed and remediated as of December 31, 1998. Systems requiring updating have been replaced and systems with embedded chips have been either identified as compliant or not date sensitive by vendors. No further validation or testing is anticipated.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Note 28 - Year 2000 Issue (continued)

- D. The 911 police and fire emergency reporting system is being remediated by Ameritech. Ameritech is responsible for remediation of this system and is responsible for any costs associated with the project.
- E. City income taxes are collected by the Regional Income Tax Agency (RITA). RITA is responsible for remediation of this system and is responsible for any costs associated with this project.
- F. The State of Ohio distributes a substantial sum of money to the City in the form of permissive taxes, local government funds, federal and state grant payments. The State is responsible for remediation of these systems and is responsible for any costs associated with this project.
- G. Summit County collects property taxes for distribution to the City. Summit County is responsible for remediation its tax collection system and are solely responsible for any costs associated with this project.

Because of the unprecedented nature of the Year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be Year 2000 ready.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

111 2nd Street, NW, 4th Floor
Canton, Ohio 44702

Telephone 330-438-0617
800-443-9272

Facsimile 330-471-0001

**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Hudson
Summit County
27 East Main Street
Hudson, Ohio 44236

To the members of City Council:

We have audited the general purpose financial statements of the City of Hudson, Summit County, (the City) as of and for the year ended December 31, 1998, and have issued our report thereon dated November 5, 1999, except for Note 28, as to which the date was December 6, 1999, in which we noted that the City changed its method and accounting and reporting for a certain deferred compensation plan. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 1998-20977-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated November 5, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 1998-20977-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated November 5, 1999.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is written in a cursive style with a large, sweeping initial "J".

JIM PETRO
Auditor of State

November 5, 1999

SCHEDULE OF FINDINGS

December 31, 1998

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

Finding # 1998-20977-001

Ohio Rev. Code Section 5705.41 (D), states in part that no subdivision shall make any contract or order expenditures of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. This section also provides two "exceptions" to the above requirements:

- A) Then and Now Certificate: If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was both at the time of the contract or order and at the time the certificate was appropriated free of any encumbrances, the City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B) If the amount involved is less than \$1,000, the fiscal officer may authorize it to be paid without the affirmation of the City Council.

The fiscal officer's certification of available resources statement is included on the City's purchase orders. Purchase orders, however, are not issued for all expenditures, and they are often issued after the date the goods or services are ordered. For expenditures made without formal purchase orders, a written requisition of the department supervisor is generally used. However, the requisition forms do not contain a statement as to the certification of available resources. 25% of the vouchers selected for testing did not have purchase orders attached, and it could not be determined whether the expenditures were certified by the fiscal officer. Of the vouchers that did have purchase orders attached, 13% were not certified prior to entering into the contract or order. Then and Now Certificates were not used for any of these transactions.

Failure to certify the availability of funds prior to purchase could result in expenditures in excess of available resources. We recommend that the City implement purchasing procedures that require the certification of available resources before a commitment is incurred.

Finding # 1998-20977-002

Payroll Time Sheets

The approval of payroll time sheets by supervisory personnel and the maintenance of time records are important control procedures. In order for these control procedures to be effective, the City should consider the following:

- a. A standard time sheet form should be used by all employees to report their time. At a minimum, the form should include the employee's name and department, the pay period, the dates and hours worked and, if applicable, the dates of vacation and/or other compensated leave.
- b. All employee time sheets should be approved and signed by the employee's immediate supervisor. If the employee is the supervisor or has no supervisor, another authorized employee of the City, such as the City Treasurer, should approve and sign the time sheet.

**SCHEDULE OF FINDINGS
(Continued)**

- c. Any special pay conditions such as overtime, court time, seminars or training should be clearly marked on the time sheet with the appropriate rate of compensation.

During our testing of payroll controls of the City's departments, we found that 39 % of the employees' time sheets tested did not have supervisory approval. The departments which were tested where there was no evidence of supervisory approval include the Golf Course, Cemetery, and Emergency Medical Technicians. In addition, we found that all of the Volunteer Fire Department time sheets tested for the months of February and October of 1998 were not properly approved by supervisory personnel.

The lack of time sheet approval increases the likelihood of errors and omissions occurring in the recording and payment of employee wages, sick leave, vacation, and other types of leave. It also increases the temptation and likelihood of employees fraudulently reporting their hours worked for additional compensation.

We recommend that management implement policies and procedures, such as those noted above, for time sheet recording and approval. Implementation of these procedures, as an internal control measure, will significantly reduce the likelihood of errors and omissions in the recording and payment of employees' wages, as well as reduce the temptation and likelihood of fraudulent time reporting.



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111 2nd Street, NW
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800-443-9272

Facsimile 330-471-0001

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.

By: *Susan Babbitt*
Clerk of the Bureau

Date: JAN 20 2000