



Dave Yost • Auditor of State



**CITY OF HUDSON  
SUMMIT COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Honorable Mayor and City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hudson, Summit County, Ohio, (the City), as of and for the year ended, December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hudson, Summit County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Street Construction funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2012, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

September 13, 2012

# City of Hudson, Ohio

## Management's Discussion and Analysis (Unaudited)

### For The Year Ended December 31, 2011

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The discussion and analysis of the City of Hudson's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; along with the review of the basic financial statements for the reader to enhance their understanding of the City's financial performance.

#### Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities (referred collectively as the government-wide statements) provide information about the activities of the entire City and present a longer-term view of the City's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. The proprietary funds' statements are prepared on the same basis as the government-wide statements. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

#### Reporting the City of Hudson as a Whole

##### *Statement of Net Assets and the Statement of Activities*

These government-wide statements answer the question, "How did the City as a whole do financially during 2011"? They are prepared on the accrual basis of accounting, including all assets and liabilities, much the same way as for a private enterprise. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

- *The Statement of Net Assets.* This Statement (page 13) reports all assets and liabilities of the City as of December 31, 2011. The difference between total assets and total liabilities is reported as net assets. Increases in net assets generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This Statement (page 14) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the City for the year ended December 31, 2011. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

# City of Hudson, Ohio

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

### For The Year Ended December 31, 2011

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

### Reporting the City of Hudson's Most Significant Funds

#### *Fund Financial Statements*

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

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

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

The City of Hudson's Water Fund, Wastewater Fund, Electric Fund, Storm Sewer Fund, and Golf Course Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 26 through 29.



# City of Hudson, Ohio

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

### For The Year Ended December 31, 2011

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Internal Service Funds – Often, governments wish to allocate the cost of providing certain centralized services (e.g., motor pools, garages, data processing) to the other departments of the government entity that use the services. An internal service fund is the appropriate accounting mechanism when it is the intent of the government to recover the full cost of providing the service through user charges to other departments.

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

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

A Fiduciary Fund statement is on page 30 of this report.

### ***Other Information***

#### ***Notes to the Financial Statements***

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

#### **The City of Hudson as a Whole**

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Hudson, assets exceed liabilities by \$102,881,353 in governmental activities and \$32,933,719 in business-type activities as of December 31, 2011. The largest portion of net assets reflects its invested in capital assets (i.e.; land, buildings, equipment and machinery, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The next largest portion of the City's net assets reflects its unrestricted portion. Net assets are presented in the following table:

# City of Hudson, Ohio

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

### For The Year Ended December 31, 2011

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current Assets	\$ 35,096,325	\$ 38,891,476	\$ 20,963,793	\$ 26,422,811	\$ 56,060,118	\$ 65,314,287
Investment in Joint Venture	-	-	604,341	614,688	604,341	614,688
Capital Assets, Net	<u>106,837,193</u>	<u>107,531,921</u>	<u>33,052,034</u>	<u>32,229,816</u>	<u>139,889,227</u>	<u>139,761,737</u>
Total Assets	<u>141,933,518</u>	<u>146,423,397</u>	<u>54,620,168</u>	<u>59,267,315</u>	<u>196,553,686</u>	<u>205,690,712</u>
<b>Liabilities</b>						
Current and Other Liabilities	10,909,230	19,842,150	2,782,162	6,194,742	13,691,392	26,036,892
Long-term Liabilities						
Due Within One Year	3,888,366	3,635,333	1,824,292	1,731,091	5,712,658	5,366,424
Due In More Than One Year	<u>24,254,569</u>	<u>22,179,377</u>	<u>17,079,995</u>	<u>18,301,700</u>	<u>41,334,564</u>	<u>40,481,077</u>
Total Liabilities	<u>39,052,165</u>	<u>45,656,860</u>	<u>21,686,449</u>	<u>26,227,533</u>	<u>60,738,614</u>	<u>71,884,393</u>
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	81,036,611	77,932,977	16,770,029	13,736,051	97,806,640	91,669,028
Restricted	11,597,273	8,954,114	-	-	11,597,273	8,954,114
Unrestricted	<u>10,247,469</u>	<u>13,879,446</u>	<u>16,163,690</u>	<u>19,303,731</u>	<u>26,411,159</u>	<u>33,183,177</u>
Total Net Assets	\$ <u>102,881,353</u>	\$ <u>100,766,537</u>	\$ <u>32,933,719</u>	\$ <u>33,039,782</u>	\$ <u>135,815,072</u>	\$ <u>133,806,319</u>

An additional portion of the City's net assets (8.5 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$26,411,159 may be used to meet the City's ongoing obligations to citizens and creditors.

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

For Governmental Activities, there was a \$3,795,151 decrease in current assets. This was primarily due to a decrease in cash balances in the governmental funds due to the spending of note money for the Atterbury Boulevard and Seasons Road projects.

There was an increase of \$2,075,192 in long-term liabilities due in more than one year primarily due to the reduction in long-term liabilities through regularly scheduled payments on bonds and the advanced refunding of bonds in 2011 (see Note 14 for further discussion).

Invested in capital assets, net of related debt increased \$3,103,634 due to increase in capital assets less related debt and accumulated depreciation on those items. The restricted net assets increased \$2,643,159 primarily due to increases in the fund balances of the restricted funds. The net result of the changes in net assets was an increase of \$2,114,816 in net assets.

# City of Hudson, Ohio

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

### For The Year Ended December 31, 2011

Within the Business-Type Activities, assets decreased \$4,647,147 primarily due to a decrease in current assets. Long-term liabilities due in more than one year decreased \$1,221,705 primarily due to the debt payments. Invested in capital assets, net of related debt increased \$3,033,978 due to increase in capital assets less related debt and accumulated depreciation on those items. The balance of the unrestricted net assets decreased \$3,140,041 primarily due to the City expending the remaining funds from the 2008 note issuance for the temporary financing of the 138/69 KV transformer at the City's Eastside substation.

Table 2 below, indicates the changes in net assets for the year ended December 31, 2011.

Table 2  
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Program Revenues						
Charges for services and sales	\$ 1,509,666	\$ 1,113,823	\$ 23,030,146	\$ 22,706,406	\$ 24,539,812	\$ 23,820,229
Operating grants and contributions	159,587	94,502	-	35,910	159,587	130,412
Capital grants and contributions	525,871	536,116	-	-	525,871	536,116
General Revenues						
Taxes	21,821,858	20,499,902	-	-	21,821,858	20,499,902
Grants and entitlements not restricted to specific programs	6,106,728	5,534,505	-	-	6,106,728	5,534,505
Investment income	692,342	831,072	6,788	7,582	699,130	838,654
Miscellaneous	367,837	603,173	210,367	391,249	578,204	994,422
Transfers in	-	-	<u>3,285,000</u>	<u>2,775,000</u>	<u>3,285,000</u>	<u>2,775,000</u>
Total revenues	<u>31,183,889</u>	<u>29,213,093</u>	<u>26,532,301</u>	<u>25,916,147</u>	<u>57,716,190</u>	<u>55,129,240</u>
Program Expenses						
General government	7,232,764	6,531,128	-	-	7,232,764	6,531,128
Security of persons and property	6,719,395	6,821,004	-	-	6,719,395	6,821,004
Public health	1,047,933	1,114,217	-	-	1,047,933	1,114,217
Leisure time services	1,599,223	1,437,000	-	-	1,599,223	1,437,000
Community and economic development	1,764,318	1,500,469	-	-	1,764,318	1,500,469
Transportation	6,339,679	6,450,521	-	-	6,339,679	6,450,521
Interest and fiscal charges	1,080,761	1,450,598	-	-	1,080,761	1,450,598
Electric system	-	-	18,710,629	18,373,782	18,710,629	18,373,782
Golf course	-	-	1,332,646	1,323,821	1,332,646	1,323,821
Storm sewer system	-	-	1,159,597	1,535,501	1,159,597	1,535,501
Wastewater system	-	-	3,860,487	3,296,224	3,860,487	3,296,224
Water system	-	-	1,575,005	1,762,279	1,575,005	1,762,279
Transfers out	<u>3,285,000</u>	<u>2,775,000</u>	<u>-</u>	<u>-</u>	<u>3,285,000</u>	<u>2,775,000</u>
Total program expenses	<u>29,069,073</u>	<u>28,079,937</u>	<u>26,638,364</u>	<u>26,291,607</u>	<u>55,707,437</u>	<u>54,371,544</u>
Change in net assets	\$ <u>2,114,816</u>	\$ <u>1,133,156</u>	\$ <u>(106,063)</u>	\$ <u>(375,460)</u>	\$ <u>2,008,753</u>	\$ <u>757,696</u>

# City of Hudson, Ohio

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

### For The Year Ended December 31, 2011

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#### *Governmental Activities*

The City income tax is the largest contributor of revenues sources in governmental activities accounting for 55.0 percent of total revenues. Property and other local taxes generate 15.0 percent and grants and entitlements generate 19.6 percent of total revenues.

Community and economic development expenses accounts for 6.1 percent of governmental expenses, general government accounts for 24.9 percent of governmental expenses, security of persons and property accounts for 23.1 percent of governmental expenses, and transportation costs represent 21.8 percent of governmental expenses, respectively.

Governmental activities increased the City's net assets by \$2,114,816. Total revenues increased approximately \$1,971,000 primarily due to increased income tax revenues. Grants and entitlements not restricted to specific programs increased approximately \$572,000 due to an increase in estate tax collections in 2011. Lastly, the investment income of the City decreased approximately \$139,000 due to the downturn in the market in the fiscal year.

The increase in overall net assets of \$2,114,816 as compared to the increase of \$1,133,156 in 2010 was due to the increase in tax revenues.

#### *Business-Type Activities*

The City's business-type activities are the water, wastewater, electric, storm sewer, and golf course departments. Charges for services generated 86.8 percent of all revenues in the business-type activities.

Business-Type Activities decreased the City's net assets by \$106,063. Charges for services and sales increased \$323,740 due to increased costs related to the corresponding purchase power. Miscellaneous revenues decreased by \$169,026 due primarily to insurance reimbursements received for the fire in the prior year. Expenses increased \$346,757 due primarily to increased purchase of power for the electric system.

#### **Individual Funds Summary and Analysis**

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

#### *Governmental Funds*

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$18,155,857, an increase of \$4,552,903 in comparison with the prior year, primarily due to the issuance of bonds for the Seasons Road Interchange and Atterbury Boulevard Renovations projects.

# City of Hudson, Ohio

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

### For The Year Ended December 31, 2011

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Approximately 44.8 percent of this total amount or \$8,133,616, which represents the *assigned* and *unassigned* classifications, is available for spending at the government's discretion. The remainder of fund balance, *nonspendable*, *restricted*, and *committed*, is reserved to indicate that it is not readily available for new spending since it has already been committed to liquidate contracts and purchase commitments, to pay debt service or for a variety of other restricted purposes.

The General Fund is the primary operating fund of the City of Hudson. At the end of the current year, the General Funds' unassigned balance was \$14,317,288, while the total fund balance was \$14,978,994. The General Fund balance increased by \$935,567 or 6.7 percent from the prior year due to a combination of several items including the increase in municipal income tax and estate tax.

The other major governmental funds of the City are Street Construction, Seasons Road Interchange, Atterbury Boulevard Renovations, and Youth Development Center.

The fund balance for the Street Construction Fund increased \$49,271. The increase is due to the increase in transfers from the General Fund and decrease in expenditures.

The fund balance of the Seasons Road Interchange Fund increased \$1,486,008. The increase is due to costs coming in under budget and the issuance of bonds.

The fund balance of the Atterbury Boulevard Renovations Fund increased \$1,996,492. The increase is due the issuance of bonds.

The fund balance of the Youth Development Center Fund decreased \$18,870. The decrease is due to the interest paid on the note used to purchase the Youth Development Center.

#### *Proprietary Funds*

The City's proprietary funds provide the same type of information found in the government-wide business-type activity financial statements, but in more detail. Net assets in the Water, Wastewater, Electric, Storm Sewer, and Golf Course increased/(decreased) by \$(32,971) or (0.8 percent), \$(187,360) or (4.3 percent), \$(99,401) or (0.5 percent), \$266,598 or 48.1 percent, and \$(52,929) or (2.9 percent), respectively.

## **City of Hudson, Ohio**

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

#### **For The Year Ended December 31, 2011**

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##### ***Budgetary Highlights***

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

In the General Fund, the final budgeted revenues as compared to the original budgeted revenue increased by approximately \$1,000,000 for income taxes and increased by approximately \$1,087,000 for intergovernmental revenues. The income tax revenue estimated increase was due a one-time payment received from a local business. The intergovernmental revenue estimate increase was primarily due to higher than expected estate tax collections.

Actual General Fund expenditures compared to the budget reflected approximately \$683,000 remaining in unencumbered funds as of December 31, 2011. The security of persons and property activity which is largely police accounted for approximately \$202,000 of those unencumbered funds and general government accounted for approximately \$372,000.

The Police Department personnel costs and overall operating expenditures were less than budgeted. General government departments' actual costs were generally less than budgeted for personnel costs within several departments.

# City of Hudson, Ohio

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

### For The Year Ended December 31, 2011

#### Capital Assets and Debt Administration

##### Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2011, amounts to \$139,889,227 (net of accumulated depreciation). This investment in capital assets includes land; building structures; land improvements; furniture, fixtures and equipment; infrastructure; and construction in progress.

Table 3 shows fiscal 2011 balances of Capital Assets as compared to the 2010 balances:

Table 3  
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 14,618,513	\$ 14,618,513	\$ 2,362,513	\$ 2,362,513	\$ 16,981,026	\$ 16,981,026
Construction in progress	6,137,517	2,554,773	534,616	51,388	6,672,133	2,606,161
Buildings	9,113,078	9,030,378	5,351,190	5,351,190	14,464,268	14,381,568
Land improvements	1,591,332	1,591,332	2,123,612	2,123,612	3,714,944	3,714,944
Vehicles	5,754,437	5,704,870	2,158,620	2,158,620	7,913,057	7,863,490
Equipment, furniture and fixtures	3,377,856	3,143,448	4,029,815	3,979,084	7,407,671	7,122,532
Infrastructure:						
Roads	118,039,944	117,812,825	-	-	118,039,944	117,812,825
Sidewalks	3,544,274	3,238,726	-	-	3,544,274	3,238,726
Traffic signals	2,682,888	2,682,888	-	-	2,682,888	2,682,888
Water main lines	-	-	14,577,510	14,577,510	14,577,510	14,577,510
Sewer lines	-	-	9,704,319	9,538,572	9,704,319	9,538,572
Storm sewers	-	-	1,871,891	1,757,363	1,871,891	1,757,363
Electric	-	-	8,286,120	6,930,790	8,286,120	6,930,790
Less: accumulated depreciation	<u>(58,022,646)</u>	<u>(52,845,832)</u>	<u>(17,948,172)</u>	<u>(16,600,826)</u>	<u>(75,970,818)</u>	<u>(69,446,658)</u>
Total capital assets	\$ <u>106,837,193</u>	\$ <u>107,531,921</u>	\$ <u>33,052,034</u>	\$ <u>32,229,816</u>	\$ <u>139,889,227</u>	\$ <u>139,761,737</u>

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

# **City of Hudson, Ohio**

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

### **For The Year Ended December 31, 2011**

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#### ***Debt***

At December 31, 2011, the City had \$43,850,364 of long-term bonds, loans and other outstanding obligations, excluding compensated absences and capital leases. Details of the individual obligations can be found in Note 14.

The general obligation indebtedness of the City is subject to two statutory debt limitations referred to as the direct debt limitation: (Section 133.05 ORC). Certain debt, with a repayment source other than general tax revenue is excluded from the definition of net indebtedness. Under that definition, the City has \$29,624,329 of net indebtedness as of December 31, 2011. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5 percent of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was \$30,341,844 as of December 31, 2011. The total principal amount of voted and unvoted nonexempt net indebtedness of the City may not exceed 10.5 percent of its assessed value of real and personal property. Total net indebtedness for both voted and unvoted issues was \$27,983,845 leaving the City's overall legal debt margin at \$65,343,444 as of December 31, 2011.

#### **Future Funding Considerations**

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

During 2011, the City completed its 2012-2016 Five Year Financial Plan that includes operating and capital cost projections for the City's operating funds. The plan identifies numerous capital expenditures including the reconstruction/resurfacing of streets, replacing various safety forces vehicles and equipment, along with several wastewater, storm sewer and electric system capital improvements.

#### **Contacting the City Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's Finance Department at 330-650-1799 or at 27 East Main Street, Hudson, Ohio 44236. Electronic copies of the City's 2011 Budget Book and 2012-2016 Five Year Financial Plan are available at the City's website – <http://www.hudson.oh.us>.



# City of Hudson, Ohio

## Statement of Net Assets

**December 31, 2011**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 20,368,853	\$ 15,732,546	\$ 36,101,399
Investment in common stock	19,031	-	19,031
Investments in segregated accounts	2,987	-	2,987
Materials and supplies inventory	550,805	1,707,867	2,258,672
Accounts receivable	505,788	3,999,663	4,505,451
Accrued interest receivable	249,119	2,428	251,547
Internal balances	779,458	(779,458)	-
Intergovernmental receivable	1,486,930	-	1,486,930
Taxes receivable	9,534,444	-	9,534,444
Special assessments receivable	1,274,720	81,344	1,356,064
Unamortized bond issuance costs	324,190	95,206	419,396
Restricted assets:			
Cash in segregated accounts – Customer Deposits	-	124,197	124,197
Noncurrent assets:			
Investment in joint venture	-	604,341	604,341
Nondepreciable capital assets	20,756,030	2,897,129	23,653,159
Depreciable capital assets, net	<u>86,081,163</u>	<u>30,154,905</u>	<u>116,236,068</u>
Total assets	<u>141,933,518</u>	<u>54,620,168</u>	<u>196,553,686</u>
Liabilities			
Current liabilities:			
Accounts payable	664,967	1,505,413	2,170,380
Accrued wages and benefits	157,808	63,023	220,831
Intergovernmental payable	461,848	964,845	1,426,693
Accrued interest payable	73,868	117,253	191,121
Retainage payable	200,157	7,431	207,588
Notes payable	4,650,000	-	4,650,000
Claims Payable	18,179	-	18,179
Payable from restricted assets – Customer Deposits	-	124,197	124,197
Deferred revenue	4,682,403	-	4,682,403
Long-term liabilities:			
Due within one year	3,888,366	1,824,292	5,712,658
Due in more than one year	<u>24,254,569</u>	<u>17,079,995</u>	<u>41,334,564</u>
Total liabilities	<u>39,052,165</u>	<u>21,686,449</u>	<u>60,738,614</u>
Net Assets			
Invested in capital assets, net of related debt	81,036,611	16,770,029	97,806,640
Restricted for:			
Capital projects	3,294,966	-	3,294,966
Debt service	1,640,484	-	1,640,484
Street improvements	527,500	-	527,500
Other purposes	6,127,850	-	6,127,850
Permanent fund	6,473	-	6,473
Unrestricted	<u>10,247,469</u>	<u>16,163,690</u>	<u>26,411,159</u>
Total net assets	<u>\$ 102,881,353</u>	<u>\$ 32,933,719</u>	<u>\$ 135,815,072</u>

The accompanying notes are an integral part of the financial statements

# City of Hudson, Ohio

## Statement of Activities

For the Year Ended December 31, 2011

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 7,232,764	\$ 288,895	\$ 36,408	\$ -
Security of persons and property	6,719,395	695,360	123,179	-
Public health	1,047,933	79,658	-	-
Leisure time services	1,599,223	362,571	-	-
Community and economic development	1,764,318	83,182	-	-
Transportation	6,339,679	-	-	525,871
Interest and fiscal charges	<u>1,080,761</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>25,784,073</u>	<u>1,509,666</u>	<u>159,587</u>	<u>525,871</u>
Business-type activities:				
Electric system	18,710,629	18,568,028	-	-
Golf course	1,332,646	1,038,904	-	-
Storm sewer system	1,159,597	1,195	-	-
Wastewater system	3,860,487	1,938,823	-	-
Water system	<u>1,575,005</u>	<u>1,483,196</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>26,638,364</u>	<u>23,030,146</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>52,422,437</u>	\$ <u>24,539,812</u>	\$ <u>159,587</u>	\$ <u>525,871</u>

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

Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Net assets, end of year

The accompanying notes are an integral part of the financial statements

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
\$ (6,907,461)	\$ -	\$ (6,907,461)
(5,900,856)	-	(5,900,856)
(968,275)	-	(968,275)
(1,236,652)	-	(1,236,652)
(1,681,136)	-	(1,681,136)
(5,813,808)	-	(5,813,808)
<u>(1,080,761)</u>	<u>-</u>	<u>(1,080,761)</u>
<u>(23,588,949)</u>	<u>-</u>	<u>(23,588,949)</u>
-	(142,601)	(142,601)
-	(293,742)	(293,742)
-	(1,158,402)	(1,158,402)
-	(1,921,664)	(1,921,664)
<u>-</u>	<u>(91,809)</u>	<u>(91,809)</u>
<u>-</u>	<u>(3,608,218)</u>	<u>(3,608,218)</u>
<u>(23,588,949)</u>	<u>(3,608,218)</u>	<u>(27,197,167)</u>
4,679,336	-	4,679,336
17,142,522	-	17,142,522
6,106,728	-	6,106,728
692,342	6,788	699,130
367,837	210,367	578,204
<u>(3,285,000)</u>	<u>3,285,000</u>	<u>-</u>
<u>25,703,765</u>	<u>3,502,155</u>	<u>29,205,920</u>
2,114,816	(106,063)	2,008,753
<u>100,766,537</u>	<u>33,039,782</u>	<u>133,806,319</u>
\$ <u>102,881,353</u>	\$ <u>32,933,719</u>	\$ <u>135,815,072</u>

# City of Hudson, Ohio

## Balance Sheet Governmental Funds

**December 31, 2011**

	<u>General</u>	<u>Street Construction</u>	<u>Seasons Road Interchange</u>	<u>Atterbury Boulevard Renovation</u>
<b>Assets</b>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 9,760,934	\$ 138,099	\$ 378,546	\$ 284,538
Investment in common stock	-	-	-	-
Investment in segregated accounts	-	-	-	-
Materials and supplies inventory	36,007	226,992	-	-
Accounts receivable	20,388	-	-	-
Accrued interest receivable	204,283	-	2,562	1,914
Interfund receivable	3,234,740	-	-	-
Intergovernmental receivable	848,002	418,794	-	-
Taxes receivable	6,309,198	-	-	-
Special assessments receivable	300,266	-	-	-
Noncurrent assets:				
Advances to other funds	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b>\$ <u>20,813,818</u></b>	<b>\$ <u>783,885</u></b>	<b>\$ <u>381,108</u></b>	<b>\$ <u>286,452</u></b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 195,506	\$ 15,289	\$ -	\$ -
Accrued wages and benefits	100,413	19,407	-	-
Intergovernmental payable	332,057	23,659	-	-
Interfund payable	-	-	-	-
Retainage payable	-	-	-	140,881
Notes payable	-	-	-	-
Deferred revenue	<u>5,206,848</u>	<u>278,055</u>	<u>1,977</u>	<u>1,477</u>
<b>Total liabilities</b>	<b><u>5,834,824</u></b>	<b><u>336,410</u></b>	<b><u>1,977</u></b>	<b><u>142,358</u></b>
Fund Balances:				
Nonspendable	136,007	226,992	-	-
Restricted	-	220,483	-	-
Committed	-	-	379,131	144,094
Assigned	525,699	-	-	-
Unassigned	<u>14,317,288</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total fund balances (deficit)</b>	<b><u>14,978,994</u></b>	<b><u>447,475</u></b>	<b><u>379,131</u></b>	<b><u>144,094</u></b>
<b>Total liabilities and fund balances</b>	<b>\$ <u>20,813,818</u></b>	<b>\$ <u>783,885</u></b>	<b>\$ <u>381,108</u></b>	<b>\$ <u>286,452</u></b>

The accompanying notes are an integral part of the financial statements

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<u>Youth Development Center</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 47,540	\$ 9,096,212	\$ 19,705,869
-	19,031	19,031
-	2,987	2,987
-	27,127	290,126
-	485,338	505,726
325	39,967	249,051
-	-	3,234,740
-	220,134	1,486,930
-	3,225,246	9,534,444
-	974,454	1,274,720
-	-	100,000
\$ <u>47,865</u>	\$ <u>14,090,496</u>	\$ <u>36,403,624</u>
\$ -	\$ 408,847	\$ 619,642
-	31,325	151,145
-	91,556	447,272
2,250,000	305,282	2,555,282
-	59,276	200,157
4,650,000	-	4,650,000
251	4,135,661	9,624,269
6,900,251	5,031,947	18,247,767
-	33,600	396,599
-	758,661	979,144
-	8,123,273	8,646,498
-	168,015	693,714
(6,852,386)	(25,000)	7,439,902
(6,852,386)	9,058,549	18,155,857
\$ <u>47,865</u>	\$ <u>14,090,496</u>	\$ <u>36,403,624</u>

# City of Hudson, Ohio

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

**December 31, 2011**

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Total Governmental Funds Balances \$ 18,155,857

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 106,515,549

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

Taxes	\$ 2,487,329	
Special assessments	1,274,720	
Charges for services	299,031	
Interest	192,154	
Intergovernmental	<u>688,632</u>	
Total		4,941,866

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (73,868)

An internal service fund is used by management to charge the costs of insurance to individual funds, the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets 1,111,299

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditures is reported when bonds are issued. 324,190

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

General obligation bonds	(24,974,329)	
Special assessment bonds	(1,250,679)	
Ohio Public Works Commission loan	(132,935)	
Compensated absences	<u>(1,735,597)</u>	
Total		<u>(28,093,540)</u>

Net assets of governmental activities \$ 102,881,353

The accompanying notes are an integral part of the financial statements

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# City of Hudson, Ohio

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

**For the Year Ended December 31, 2011**

	<u>General</u>	<u>Street Construction</u>	<u>Seasons Road Interchange</u>	<u>Atterbury Boulevard Renovation</u>
Revenues:				
Property and other local taxes	\$ 2,406,264	\$ -	\$ -	\$ -
Municipal income tax	13,111,338	-	-	-
Intergovernmental	3,902,817	858,458	317,423	-
Charges for services	355,177	-	-	-
Fines and forfeitures	54,411	-	-	-
Special assessments	52,313	-	-	-
Interest	479,794	-	27,249	25,673
Other	<u>103,674</u>	<u>48</u>	<u>-</u>	<u>-</u>
Total revenues	<u>20,465,788</u>	<u>858,506</u>	<u>344,672</u>	<u>25,673</u>
Expenditures:				
Current:				
Security of persons and property	3,919,729	-	-	-
Public health	302,067	-	-	-
Leisure time services	-	-	-	-
Community and economic development	1,402,006	-	-	-
Transportation	-	2,404,199	298	148,565
General government	5,647,205	-	-	-
Capital outlay	82,927	85,036	-	1,570,321
Debt Service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	28,500	37,000
Issuance costs	<u>-</u>	<u>-</u>	<u>32,558</u>	<u>104,465</u>
Total expenditures	<u>11,353,934</u>	<u>2,489,235</u>	<u>61,356</u>	<u>1,860,351</u>
Excess of revenues over (under) expenditures	<u>9,111,854</u>	<u>(1,630,729)</u>	<u>283,316</u>	<u>(1,834,678)</u>
Other financing sources (uses):				
Proceeds from sale of assets	-	-	-	-
Transfers - in	-	1,680,000	19,836	25,752
Transfers - out	(8,176,287)	-	-	-
Proceeds from issuance of debt	-	-	1,175,000	3,770,000
Premium on issuance of debt	-	-	7,856	35,418
Premium on notes	-	-	-	-
Payment on refunded bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(8,176,287)</u>	<u>1,680,000</u>	<u>1,202,692</u>	<u>3,831,170</u>
Net change in fund balances	935,567	49,271	1,486,008	1,996,492
Fund balance (deficit) at beginning of year	<u>14,043,427</u>	<u>398,204</u>	<u>(1,106,877)</u>	<u>(1,852,398)</u>
Fund balance (deficit) at end of year	\$ <u>14,978,994</u>	\$ <u>447,475</u>	\$ <u>379,131</u>	\$ <u>144,094</u>

The accompanying notes are an integral part of the financial statements



	<u>Youth Development Center</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
\$	-	\$ 2,232,317	\$ 4,638,581
	-	3,576,473	16,687,811
	-	894,364	5,973,062
	-	969,330	1,324,507
	-	2,205	56,616
	-	273,056	325,369
	850	93,249	626,815
	<u>-</u>	<u>95,125</u>	<u>198,847</u>
	<u>850</u>	<u>8,136,119</u>	<u>29,831,608</u>
	-	2,416,944	6,336,673
	-	183,633	485,700
	-	1,045,882	1,045,882
	-	369,364	1,771,370
	-	66,876	2,619,938
	-	48,153	5,695,358
	-	3,515,256	5,253,540
	-	2,741,487	2,741,487
	69,000	934,130	1,068,630
	<u>-</u>	<u>66,472</u>	<u>203,495</u>
	<u>69,000</u>	<u>11,388,197</u>	<u>27,222,073</u>
	<u>(68,150)</u>	<u>(3,252,078)</u>	<u>2,609,535</u>
	-	24,220	24,220
	49,000	3,318,794	5,093,382
	-	(202,095)	(8,378,382)
	-	3,445,000	8,390,000
	-	190,884	234,158
	280	7,348	7,628
	<u>-</u>	<u>(3,427,638)</u>	<u>(3,427,638)</u>
	<u>49,280</u>	<u>3,356,513</u>	<u>1,943,368</u>
	(18,870)	104,435	4,552,903
	<u>(6,833,516)</u>	<u>8,954,114</u>	<u>13,602,954</u>
\$	<u>(6,852,386)</u>	<u>9,058,549</u>	<u>18,155,857</u>

# City of Hudson, Ohio

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Continued)

### For The Year Ended December 31, 2011

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Net Change in Fund Balances - Total Governmental Funds \$ 4,552,903

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

Governmental Funds report Capital Outlay as expenditures. However in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlay	\$ 4,388,229	
Depreciation	<u>(5,273,699)</u>	
Total		(885,470)

In the Statement of Activities, a gain or loss is reported for each disposal, whereas, in the Governmental Funds, only report the disposal of capital assets to the extent proceeds are received from the sale. (11,557)

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

Property and other taxes	40,755	
Municipal income taxes	454,711	
Special assessments	(311,506)	
Charges for services	166,054	
Interest	65,527	
Intergovernmental	<u>(85,057)</u>	
Total		330,484

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

General obligation bonds issued	(8,390,000)	
Premium on bonds issued	<u>(234,158)</u>	
Total		(8,624,158)

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

General obligation bonds	5,755,000	
Special assessment bonds	173,942	
Ohio Public Works Commission loan	7,186	
Capital leases	40,359	
Loss on refunding	192,638	
Compensated absences	<u>128,759</u>	
Total		6,297,884

In the Statement of Activities, bond issuance costs are amortized over the term of the bonds, whereas, in the Governmental Funds, a bond issuance expenditures is reported when bonds are issued. 203,495

The accompanying notes are an integral part of the financial statements

# City of Hudson, Ohio

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Continued)

### For The Year Ended December 31, 2011

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

Accretion on capital appreciation bonds	(62,532)	
Accrued interest on debt	4,178	
Amortization of premium	100,978	
Amortization of loss on refunding	(84,897)	
Amortization of issuance costs	<u>(14,358)</u>	
Total		(56,631)

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

307,866

Change in Net Assets of Governmental Activities

\$ 2,114,816

# City of Hudson, Ohio

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

**For The Year Ended December 31, 2011**

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Property and other local taxes	\$ 2,435,351	\$ 2,436,565	\$ 2,406,264	\$ (30,301)
Income taxes	12,083,629	13,085,140	13,085,140	-
Charges for services	329,623	346,512	355,116	8,604
Fines and forfeitures	64,189	55,200	54,411	(789)
Intergovernmental	2,694,236	3,781,390	3,812,117	30,727
Special assessment	50,892	52,314	52,313	(1)
Interest	646,866	590,000	566,428	(23,572)
Other	<u>165,123</u>	<u>92,511</u>	<u>90,110</u>	<u>(2,401)</u>
Total revenues	<u>18,469,909</u>	<u>20,439,632</u>	<u>20,421,899</u>	<u>(17,733)</u>
Expenditures:				
Current:				
General government	5,892,125	6,400,857	6,028,804	372,053
Security of persons and property	4,151,772	4,148,956	3,947,416	201,540
Public health	300,968	300,968	300,968	-
Community and economic development	1,414,194	1,502,356	1,420,035	82,321
Capital outlay	<u>93,435</u>	<u>321,787</u>	<u>295,179</u>	<u>26,608</u>
Total expenditures	<u>11,852,494</u>	<u>12,674,924</u>	<u>11,992,402</u>	<u>682,522</u>
Excess of revenues over expenditures	<u>6,617,415</u>	<u>7,764,708</u>	<u>8,429,497</u>	<u>664,789</u>
Other financing sources (uses):				
Transfers – out	(7,888,935)	(8,176,287)	(8,176,287)	-
Advances – in	-	10,231	10,231	-
Advances – out	<u>(25,752)</u>	<u>(2,250,000)</u>	<u>(2,250,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(7,914,687)</u>	<u>(10,416,056)</u>	<u>(10,416,056)</u>	<u>-</u>
Net change in fund balance	(1,297,272)	(2,651,348)	(1,986,559)	664,789
Fund balance at beginning of fiscal year	10,607,322	10,607,322	10,607,322	-
Prior fiscal year encumbrances appropriated	346,917	241,044	241,044	-
Decertification of prior year encumbrances	<u>-</u>	<u>105,873</u>	<u>105,873</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>9,656,967</u>	\$ <u>8,302,891</u>	\$ <u>8,967,680</u>	\$ <u>664,789</u>

The accompanying notes are an integral part of the financial statements

# City of Hudson, Ohio

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

**For The Year Ended December 31, 2011**

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Intergovernmental	\$ 876,897	\$ 862,390	\$ 862,564	\$ 174
Other	<u>-</u>	<u>48</u>	<u>48</u>	<u>-</u>
Total revenues	<u>876,897</u>	<u>862,438</u>	<u>862,612</u>	<u>174</u>
Expenditures:				
Current:				
Transportation	2,696,366	2,793,369	2,704,684	88,685
Capital outlay	<u>97,668</u>	<u>97,865</u>	<u>97,818</u>	<u>47</u>
Total Expenditures	<u>2,794,034</u>	<u>2,891,234</u>	<u>2,802,502</u>	<u>88,732</u>
Excess of revenues over (under) expenditures	<u>(1,917,137)</u>	<u>(2,028,796)</u>	<u>(1,939,890)</u>	<u>88,906</u>
Other financing sources (uses):				
Transfers - in	<u>1,600,000</u>	<u>1,680,000</u>	<u>1,680,000</u>	<u>-</u>
Net change in fund balance	(317,137)	(348,796)	(259,890)	88,906
Fund balance at beginning of fiscal year	194,979	194,979	194,979	-
Prior fiscal year encumbrances appropriated	160,130	138,639	138,639	-
Decertification of prior year encumbrances	<u>-</u>	<u>21,491</u>	<u>21,491</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>37,972</u>	\$ <u>6,313</u>	\$ <u>95,219</u>	\$ <u>88,906</u>

The accompanying notes are an integral part of the financial statements

# City of Hudson, Ohio

## Statement of Fund Net Assets Proprietary Funds

**December 31, 2011**

	Water	Wastewater	Electric	Storm Sewer	Golf Course	Totals	Governmental Activities - Internal Service Funds
<b>Assets</b>							
<b>Current assets:</b>							
Equity in pooled cash and cash equivalents	\$ 147,231	\$ 1,145,825	\$ 12,558,250	\$ 1,861,308	\$ 19,932	\$ 15,732,546	\$ 662,984
Accounts receivable	269,548	394,368	3,335,704	-	43	3,999,663	62
Special assessments receivable	81,344	-	-	-	-	81,344	-
Accrued interest receivable	-	2,428	-	-	-	2,428	68
Materials and supplies							
Inventory	310,034	8,301	1,318,008	58,150	13,374	1,707,867	260,679
<b>Restricted assets:</b>							
Cash in segregated accounts	-	-	124,197	-	-	124,197	-
Total current assets	<u>808,157</u>	<u>1,550,922</u>	<u>17,336,159</u>	<u>1,919,458</u>	<u>33,349</u>	<u>21,648,045</u>	<u>923,793</u>
<b>Noncurrent assets:</b>							
Unamortized bond premium	54,115	-	17,162	11,896	12,033	95,206	-
Investment in joint venture	-	-	604,341	-	-	604,341	-
Nondepreciable capital assets	-	30,050	604,139	254,715	2,008,225	2,897,129	11,967
Depreciable capital assets, net	<u>9,151,902</u>	<u>9,216,091</u>	<u>8,027,248</u>	<u>1,792,957</u>	<u>1,966,707</u>	<u>30,154,905</u>	<u>309,677</u>
Total noncurrent assets	<u>9,206,017</u>	<u>9,246,141</u>	<u>9,252,890</u>	<u>2,059,568</u>	<u>3,986,965</u>	<u>33,751,581</u>	<u>321,644</u>
Total assets	<u>10,014,174</u>	<u>10,797,063</u>	<u>26,589,049</u>	<u>3,979,026</u>	<u>4,020,314</u>	<u>55,399,626</u>	<u>1,245,437</u>
<b>Liabilities</b>							
<b>Current liabilities:</b>							
Accounts payable	75,494	31,880	1,331,726	34,265	32,048	1,505,413	45,325
Claims payable	-	-	-	-	-	-	18,179
Accrued wages and benefits	9,299	8,243	30,718	9,090	5,673	63,023	6,663
Intergovernmental payable	19,024	825,783	81,808	21,229	17,001	964,845	14,576
Retainage payable	-	-	-	7,431	-	7,431	-
Due to other funds	-	-	-	80,350	599,108	679,458	-
Accrued interest payable	15,841	81,127	6,305	10,719	3,261	117,253	-
Payable from restricted assets – customer deposits	-	-	124,197	-	-	124,197	-
Compensated absences payable	139,444	6,848	325,968	13,884	43,141	529,285	12,301
Capital lease payable	-	-	-	-	42,960	42,960	-
OWDA loans payable	-	463,009	-	-	-	463,009	-
General obligation bonds payable	<u>394,038</u>	<u>45,000</u>	<u>140,000</u>	<u>105,000</u>	<u>105,000</u>	<u>789,038</u>	<u>-</u>
Total current liabilities	<u>653,140</u>	<u>1,461,890</u>	<u>2,040,722</u>	<u>281,968</u>	<u>848,192</u>	<u>5,285,912</u>	<u>97,044</u>
<b>Long-term liabilities (net of current portion):</b>							
Advances from other funds	-	100,000	-	-	-	100,000	-
Compensated absences payable	162,570	33,884	427,351	49,524	75,293	748,622	37,094
Capital lease payable	-	-	-	-	90,999	90,999	-
OWDA loans payable	-	3,202,952	-	-	-	3,202,952	-
General obligation bonds payable	<u>4,886,331</u>	<u>1,800,000</u>	<u>2,282,162</u>	<u>2,826,896</u>	<u>1,242,033</u>	<u>13,037,422</u>	<u>-</u>
Total long-term liabilities	<u>5,048,901</u>	<u>5,136,836</u>	<u>2,709,513</u>	<u>2,876,420</u>	<u>1,408,325</u>	<u>17,179,995</u>	<u>37,094</u>
Total liabilities	<u>5,702,041</u>	<u>6,598,726</u>	<u>4,750,235</u>	<u>3,158,388</u>	<u>2,256,517</u>	<u>22,465,907</u>	<u>134,138</u>
<b>Net Assets</b>							
Invested in capital assets, net of related debt	3,871,533	3,735,180	6,209,225	460,151	2,493,940	16,770,029	321,644
Unrestricted (deficit)	<u>440,600</u>	<u>463,157</u>	<u>15,629,589</u>	<u>360,487</u>	<u>(730,143)</u>	<u>16,163,690</u>	<u>789,655</u>
Total net assets	<u>\$ 4,312,133</u>	<u>\$ 4,198,337</u>	<u>\$ 21,838,814</u>	<u>\$ 820,638</u>	<u>\$ 1,763,797</u>	<u>\$ 32,933,719</u>	<u>\$ 1,111,299</u>

The accompanying notes are an integral part of the financial statements

# City of Hudson, Ohio

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

**For the Year Ended December 31, 2011**

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>	<u>Golf Course</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Operating revenues:							
Charges for services	\$ 1,483,196	\$ 1,938,823	\$ 18,568,028	\$ 1,195	\$ 1,038,904	\$ 22,715,182	\$ 1,911,849
Other	<u>58,838</u>	<u>2,516</u>	<u>43,200</u>	<u>-</u>	<u>105,813</u>	<u>525,331</u>	<u>138,301</u>
Total operating revenues	<u>1,542,034</u>	<u>1,941,339</u>	<u>18,611,228</u>	<u>1,195</u>	<u>1,144,717</u>	<u>23,240,513</u>	<u>2,050,150</u>
Operating expenses:							
Personal services	505,125	683,862	2,697,691	702,336	681,857	5,270,871	568,781
Materials and supplies	177,786	29,134	102,066	31,208	306,303	646,497	462,641
Contractual services	368,614	2,583,309	15,276,621	200,942	124,891	18,554,897	348,704
Claims	-	-	-	-	-	-	299,225
Other	885	-	39,709	-	30,312	70,386	-
Depreciation	<u>338,583</u>	<u>314,994</u>	<u>463,004</u>	<u>89,902</u>	<u>140,863</u>	<u>1,347,346</u>	<u>61,555</u>
Total operating expenses	<u>1,390,993</u>	<u>3,611,299</u>	<u>18,579,091</u>	<u>1,024,388</u>	<u>1,284,226</u>	<u>25,889,997</u>	<u>1,740,906</u>
Operating income (loss)	<u>151,041</u>	<u>(1,669,960)</u>	<u>32,137</u>	<u>(1,023,193)</u>	<u>(139,509)</u>	<u>(2,649,484)</u>	<u>309,244</u>
Non-operating revenues (expenses):							
Investment income	-	6,788	-	-	-	6,788	41
Equity in profit of joint venture	-	-	(10,347)	-	-	(10,347)	-
Interest and fiscal charges	(184,012)	(249,188)	(124,551)	(135,209)	(48,420)	(741,380)	(1,419)
Gain (loss) on disposal of capital assets	<u>-</u>	<u>-</u>	<u>3,360</u>	<u>-</u>	<u>-</u>	<u>3,360</u>	<u>-</u>
Total non-operating (expenses)	<u>(184,012)</u>	<u>(242,400)</u>	<u>(131,538)</u>	<u>(135,209)</u>	<u>(48,420)</u>	<u>(741,579)</u>	<u>(1,378)</u>
Income (loss) before transfers	(32,971)	(1,912,360)	(99,401)	(1,158,402)	(187,929)	(3,391,063)	307,866
Transfers – in	<u>-</u>	<u>1,725,000</u>	<u>-</u>	<u>1,425,000</u>	<u>135,000</u>	<u>3,285,000</u>	<u>-</u>
Change in net assets	(32,971)	(187,360)	(99,401)	266,598	(52,929)	(106,063)	307,866
Net assets at beginning of year	<u>4,345,104</u>	<u>4,385,697</u>	<u>21,938,215</u>	<u>554,040</u>	<u>1,816,726</u>	<u>33,039,782</u>	<u>803,433</u>
Net assets at end of year	\$ <u>4,312,133</u>	\$ <u>4,198,337</u>	\$ <u>21,838,814</u>	\$ <u>820,638</u>	\$ <u>1,763,797</u>	\$ <u>32,933,719</u>	\$ <u>1,111,299</u>

The accompanying notes are an integral part of the financial statements

# City of Hudson, Ohio

## Statement of Cash Flows Proprietary Funds

### For the Year Ended December 31, 2011

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>	<u>Golf Course</u>	<u>Totals</u>	<u>Governmental Activities Internal Service Funds</u>
Cash Flows from Operating Activities:							
Cash received from customers	\$ 1,474,303	\$ 1,885,867	\$ 18,522,916	\$ 1,589	\$ 1,038,904	\$ 22,923,579	\$ 1,916,317
Cash payments to employees for services	(544,055)	(693,928)	(2,611,683)	(703,583)	(665,360)	(5,218,609)	(580,642)
Cash payments for goods and services	(507,789)	(2,293,061)	(15,258,335)	(210,891)	(400,617)	(18,670,693)	(858,507)
Cash payments for claims	-	-	-	-	-	-	(302,033)
Other operating revenues	111,180	2,516	127,680	-	106,067	347,443	138,277
Other operating expenses	(885)	-	(51,228)	-	(29,473)	(81,586)	-
Net cash provided by (used for) operating activities	<u>532,754</u>	<u>(1,098,606)</u>	<u>729,350</u>	<u>(912,885)</u>	<u>49,521</u>	<u>(699,866)</u>	<u>313,412</u>
Cash Flows from Noncapital Financing Activities:							
Transfer-in	-	1,725,000	-	1,425,000	135,000	3,285,000	-
Cash Flows from Capital and Related Financing Activities:							
Acquisition of capital assets	-	(186,007)	(1,659,701)	(323,856)	-	(2,169,564)	(263,854)
Proceeds from sale of capital assets	-	-	3,360	-	-	3,360	-
Proceeds from sale of bonds	3,210,000	-	1,190,000	580,000	875,000	5,855,000	-
Premium from bonds	40,157	-	14,931	7,162	10,593	72,843	-
Payment to refunded bond escrow agent	(3,205,706)	-	(1,187,769)	(575,266)	(873,560)	(5,842,301)	-
Bond issuance costs	(44,451)	-	(17,162)	(11,896)	(12,033)	(85,542)	-
Principal payments	(361,058)	(541,146)	(4,015,000)	(146,290)	(131,352)	(5,194,846)	(34,706)
Interest payments	(175,372)	(257,163)	(125,758)	(133,647)	(49,320)	(741,260)	(1,419)
Net cash provided by (used for) capital and related financing activities	<u>(536,430)</u>	<u>(984,316)</u>	<u>(5,797,099)</u>	<u>(603,793)</u>	<u>(180,672)</u>	<u>(8,102,310)</u>	<u>(299,979)</u>
Cash Flows from Investing Activities:							
Interest on investments	-	6,756	-	-	-	6,756	11
Net increase (decrease) cash and cash equivalents	(3,676)	(351,166)	(5,067,749)	(91,678)	3,849	(5,510,420)	13,444
Cash and cash equivalents at beginning of year	<u>150,907</u>	<u>1,496,991</u>	<u>17,750,196</u>	<u>1,952,986</u>	<u>16,083</u>	<u>21,367,163</u>	<u>649,540</u>
Cash and cash equivalents at end of year	\$ <u><u>147,231</u></u>	\$ <u><u>1,145,825</u></u>	\$ <u><u>12,682,447</u></u>	\$ <u><u>1,861,308</u></u>	\$ <u><u>19,932</u></u>	\$ <u><u>15,856,743</u></u>	\$ <u><u>662,984</u></u>
Non-cash capital financing activities:							
Amortization of premium on general obligation bonds	\$ (2,099)	\$ -	\$ -	\$ -	\$ -	\$ (2,099)	\$ -
Amortization of loss on refunding	<u>9,088</u>	-	-	-	-	<u>9,088</u>	-
Total non-cash capital financing activities	\$ <u><u>6,989</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>	\$ <u><u>6,989</u></u>	\$ <u><u>-</u></u>

(Continued)

The accompanying notes are an integral part of the financial statements



# City of Hudson, Ohio

## Statement of Cash Flows Proprietary Funds (continued)

**For the Year Ended December 31, 2011**

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>	<u>Golf Course</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash from operating activities:							
Operating income (loss)	\$ 151,041	\$ (1,669,960)	\$ 32,137	\$ (1,023,193)	\$ (139,509)	\$ (2,649,484)	\$ 309,244
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	338,583	314,994	463,004	89,902	140,863	1,347,346	61,555
(Increase) Decrease in Operating Assets:							
Accounts receivables	(8,893)	(52,956)	(13,307)	394	254	(74,508)	(62)
Materials and supplies inventory	29,931	1,168	90,064	(18,419)	121	102,865	(22,502)
Special assessments receivable	3,883	-	-	-	-	3,883	-
Increase (Decrease) in Operating Liabilities:							
Accounts payable	57,139	21,598	30,246	29,929	30,014	168,926	(24,455)
Accrued wages and benefits	1,309	1,122	4,533	1,619	1,067	9,650	1,038
Compensated absences payable	(38,333)	(7,527)	96,128	1,941	21,602	73,811	(9,794)
Intergovernmental payable	(1,906)	292,955	(14,598)	(2,489)	(4,891)	269,071	(3,310)
Retainage payable	-	-	-	7,431	-	7,431	-
Customer deposits	-	-	41,143	-	-	41,143	-
Claims payable	-	-	-	-	-	-	1,698
Total adjustments	<u>381,713</u>	<u>571,354</u>	<u>697,213</u>	<u>110,308</u>	<u>189,030</u>	<u>1,949,618</u>	<u>4,168</u>
Net cash provided by (used for) operating activities	\$ <u>532,754</u>	\$ <u>(1,098,606)</u>	\$ <u>729,350</u>	\$ <u>(912,885)</u>	\$ <u>49,521</u>	\$ <u>(699,866)</u>	\$ <u>313,412</u>

The accompanying notes are an integral part of the financial statements

# City of Hudson, Ohio

## Statement of Fiduciary Net Assets Fiduciary Funds

**December 31, 2011**

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	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 523,678
Taxes receivable	<u>2,371,069</u>
Total Assets	\$ <u>2,894,747</u>
Liabilities:	
Accounts payable	\$ 6,592
Intergovernmental payable	1,962
Undistributed Monies	346,138
Deposits Held and Due to Others	168,986
Deferred revenue	<u>2,371,069</u>
Total Liabilities	\$ <u>2,894,747</u>

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements

### For The Year Ended December 31, 2011

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#### **Note 1: Description of the City and Reporting Entity**

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

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

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

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

#### **Note 2: Summary of Significant Accounting Politics**

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies guidance issued after November 30, 1989 by the Financial Accounting Standards Board (“FASB”) which established the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative accounting principles generally accepted in the United States of America, to its enterprise fund activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the City’s accounting policies are described below.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***A. Basis of Presentation***

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

##### Government-Wide Financial Statements

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

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

##### Fund Financial Statements

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

##### ***B. Fund Accounting***

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

##### Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *B. Fund Accounting (continued)*

Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

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

Seasons Road Interchange – The Seasons Road interchange capital projects fund accounts for the costs of the City's construction project.

Atterbury Boulevard Renovations – The Atterbury Boulevard renovations capital projects fund accounts for the costs of the City's construction project.

Youth Development Center – The youth development center capital projects fund accounts for the costs of the City's acquisition of the property and related projects.

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

#### Proprietary Funds

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

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

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

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

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***B. Fund Accounting (continued)***

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

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

##### Fiduciary Funds

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

##### ***C. Measurement Focus***

##### Government-Wide Financial Statements

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

##### Fund Financial Statements

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

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *D. Basis of Accounting*

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

##### Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year-end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, interest, grants, fees, and rentals.

##### Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***D. Basis of Accounting (continued)***

###### Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

##### ***E. Budgetaries***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget (or the Alternative Tax Budget, as permitted by law), the Certificate of Estimated Resources, and the Annual Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Annual Appropriated Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. 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 Fiscal Officer, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

***Estimated Resources*** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews the estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the Annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official Certificate of Estimated Resources issued during 2011.

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



# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***E. Budgetaries (continued)***

##### ***Appropriations (continued)***

Council may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources.

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

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

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

##### ***F. Cash and Cash Equivalents***

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

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

Following Ohio statues, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the year 2011 amounted to \$479,794, which includes \$155,291 assigned from other City funds.

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***F. Cash and Cash Equivalents (continued)***

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

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

##### ***G. Interfund Balances***

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

##### ***H. Inventory***

Inventories of all funds are stated at cost which is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditures in the governmental fund types and as expenses in the proprietary fund type when used.

##### ***I. Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City’s infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, traffic signals, irrigation systems, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of capital assets is also capitalized.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *I. Capital Assets (continued)*

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

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

##### *J. Compensated Absences*

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

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

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

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

##### *K. Accrued Liabilities and Long-Term Obligations*

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### Note 2: Summary of Significant Accounting Policies (continued)

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

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

##### **L. Fund Balance**

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

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

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

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### **L. Fund Balance (continued)**

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

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

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

##### **M. Net Assets**

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

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

##### **N. Operating Revenues and Expenses**

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

##### **O. Contributions of Capital**

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***P. Interfund Activity***

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

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

##### ***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

##### ***R. Estimates***

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

##### ***S. Reclassification***

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

##### ***T. Subsequent Events***

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through September 13, 2012, the date the financial statements were available to be issued.

#### **Note 3: Changes in Accounting Principles**

For fiscal year 2011, the City implemented Governmental Accounting Standards Board (“GASB”) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*.

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of the City’s financial statements.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 3: Changes in Accounting Principles (continued)**

GASB Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The City has no such investments and thus, the implementation of this Statement has no impact on the City's financial statements or disclosures.

#### **Note 4: Budgetary Basis of Accounting**

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

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

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

	Net Change In Fund Balance	
	<u>General Fund</u>	<u>Street Construction</u>
GAAP Basis	\$ 935,567	\$ 49,271
Net Adjustment for Revenue Accruals	(204,953)	4,106
Fair Market Value Adjustment	171,295	-
Net Adjustment for Expenditure Accruals	(2,266,509)	(270,387)
Encumbrances	<u>(621,959)</u>	<u>(42,880)</u>
Budget Basis	\$ <u>(1,986,559)</u>	\$ <u>(259,890)</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 5: Fund Balances

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

	General Fund	Street Construction	Seasons Road Interchange	Attebury Boulevard Renovation	Youth Development Center	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:							
Inventory	\$ 36,007	\$ 226,992	\$ -	\$ -	\$ -	\$ 27,127	\$ 290,126
Interfund loan receivable	100,000	-	-	-	-	-	100,000
Principal trust	-	-	-	-	-	6,473	6,473
Total nonspendable	<u>136,007</u>	<u>226,992</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,600</u>	<u>396,599</u>
Restricted for:							
Streets and highways	-	220,483	-	-	-	24,850	245,333
Cemetery	-	-	-	-	-	129,662	129,662
Law enforcement and education	-	-	-	-	-	33,030	33,030
Court computer fees	-	-	-	-	-	18,427	18,427
Debt service	-	-	-	-	-	516,815	516,815
Capital improvements	-	-	-	-	-	35,877	35,877
Total restricted	<u>-</u>	<u>220,483</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>758,661</u>	<u>979,144</u>
Committed to:							
Community and economic development	-	-	-	-	-	2,991,301	2,991,301
Fire District and EMS	-	-	-	-	-	1,954,223	1,954,223
Cemetery improvement	-	-	-	-	-	4,163	4,163
Storm sewer assessment	-	-	-	-	-	329,047	329,047
Tree trust	-	-	-	-	-	25,761	25,761
Playground trust	-	-	-	-	-	31,052	31,052
Poor endowment trust	-	-	-	-	-	34,575	34,575
Veterans memorial	-	-	-	-	-	17,753	17,753
Other purposes	-	-	-	-	-	9,520	9,520
Capital improvements	-	-	379,131	144,094	-	2,725,878	3,249,103
Total committed	<u>-</u>	<u>-</u>	<u>379,131</u>	<u>144,094</u>	<u>-</u>	<u>8,123,273</u>	<u>8,646,498</u>
Assigned to:							
Other purposes	525,699	-	-	-	-	-	525,699
Bond retirement	-	-	-	-	-	168,015	168,015
Total assigned	<u>525,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,015</u>	<u>693,714</u>
Unassigned (deficit)	<u>14,317,288</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,852,386)</u>	<u>(25,000)</u>	<u>7,439,902</u>
Total fund balance	\$ <u>14,978,994</u>	\$ <u>447,475</u>	\$ <u>379,131</u>	\$ <u>144,094</u>	\$ <u>(6,852,386)</u>	\$ <u>9,058,549</u>	\$ <u>18,155,857</u>



# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 6: Deposits and Investments**

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

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

Inactive deposits are public deposits that the Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily.
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 6: Deposits and Investments (continued)**

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

#### **Deposits**

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

At year-end, the carrying amount of the City's deposits was \$22,044,300 and the bank balance was \$22,659,790. Of the bank balance \$6,157,788 was covered by Federal depository insurance and \$16,502,202 was uninsured. Of the remaining bank balance, \$14,687,340 was collateralized with securities held by the pledging institution's agent in the City's name and \$1,814,662 was collateralized with securities held by the pledging institution's trust department, not in the City's name. At year end, the City had \$1,400 in cash on hand.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 6: Deposits and Investments (continued)

##### Investments

Investments are reported at fair value. As of December 31, 2011, the city had the following investments:

	Fair Value	Maturities (in years)	
		Less than 1	1 - 4
Common Stock (donated)	\$ 19,032	\$ 19,032	\$ -
Federal Farm Credit Banks	500,060	-	500,060
Federal Home Loan Bank	5,196,024	1,309,894	3,886,130
Federal Home Loan Mortgage Corporation	2,437,710	407,000	2,030,710
Federal National Mortgage Association	5,557,744	818,652	4,739,092
Money Market	1,012,035	1,012,035	-
Series E Bonds	2,987	2,987	-
Total Portfolio	\$ <u>14,725,592</u>	\$ <u>3,569,600</u>	\$ <u>11,155,992</u>

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

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

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

*Concentration of Credit Risk* is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2011:

Investment Issuer	Percentage of Investments
Common Stock (donated)	0.13%
Federal Farm Credit Banks	3.40
Federal Home Loan Bank	35.29
Federal Home Loan Mortgage Corporation	16.55
Federal National Mortgage Association	37.74
Money Market	6.87
Series E Bonds	0.02
Total	<u>100.00%</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 7: Receivables**

Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenues. All accounts, taxes, special assessments and intergovernmental receivables are deemed collectible in full.

#### **Note 8: Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property taxes collected in 2011 are levied after October 1, 2010, on assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes collected in 2011 were intended to finance 2011 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88% of cost). Public utility property taxes paid in 2011 became a lien December 31, 2010, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

2011 tangible personal property taxes are levied after October 1, 2010, on the value as of December 31, 2010. Collections are made in 2011. In prior year, tangible personal property used in business (except for public utilities) was assessed at 25 percent of its true value. The tangible personal property tax is being phased out - the assessment percentage for all property including inventory for 2009 is zero.

The full tax rate for all City operations for the year ended December 31, 2011, was \$7.22 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 769,545,010
Commercial/Industrial/Mineral	114,830,530
Public Utilities	116,380
Tangible Personal Property Valuation:	
Public Utilities	<u>4,339,400</u>
Total Valuation	\$ <u><u>888,831,320</u></u>

Real Property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits later payment dates to be established.

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 9: Income Tax**

The City levies a municipal income tax of two percent on all gross salaries, wages, and other compensation, earned by the residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted 100 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 Regional Income Tax Agency (RITA) either monthly or quarterly as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, disbursement of the revenue received from income taxes is as follows: first, all expenses of collecting the tax and of administering and enforcing the income tax ordinance are paid. Then, the balance remaining after payment of the expenses is deposited in the general fund for street construction, maintenance and repair, capital improvements and general municipal operations, or as such other fund or funds as Council may, from time to time, establish or designate. The City of Hudson voters approved an increase in the income tax rate from one percent to two percent effective January 1, 2005, with 15 percent of such additional one percent increase being designated for funding of the Fire Department; with nine percent of such additional one percent increase being designated for funding of Emergency Medical Services; with 15 percent of such additional one percent increase being designated for funding of the Park System; and with 13.5 percent of such additional one percent increase being designated for community learning centers in the City, in cooperation with the Hudson City School District. For 2011, municipal income tax revenue was \$17,142,522, which represents the City's portion net of amount due to Hudson City School District.

#### **Note 10: Special Assessments**

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 11: Capital Assets

	Balance <u>12/31/10</u>	Additions	Disposals	Balance <u>12/31/11</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 14,618,513	\$ -	\$ -	\$ 14,618,513
Construction in progress	<u>2,554,773</u>	<u>3,582,744</u>	<u>-</u>	<u>6,137,517</u>
Total capital assets, not being depreciated	<u>17,173,286</u>	<u>3,582,744</u>	<u>-</u>	<u>20,756,030</u>
Capital assets, being depreciated:				
Buildings	9,030,378	82,700	-	9,113,078
Land improvements	1,591,332	-	-	1,591,332
Vehicles	5,704,870	164,186	(114,619)	5,754,437
Equipment, furniture and fixtures	3,143,448	289,786	(55,378)	3,377,856
Infrastructure				
Roads	117,812,825	227,119	-	118,039,944
Sidewalks	3,238,726	305,548	-	3,544,274
Traffic signals	<u>2,682,888</u>	<u>-</u>	<u>-</u>	<u>2,682,888</u>
Total capital assets, being depreciated	<u>143,204,467</u>	<u>1,069,339</u>	<u>(169,997)</u>	<u>144,103,809</u>
Less accumulated depreciation:				
Buildings	(1,940,519)	(230,908)	-	(2,171,427)
Land improvements	(285,182)	(86,639)	-	(371,821)
Vehicles	(3,515,952)	(445,029)	114,619	(3,846,362)
Equipment, furniture and fixtures	(2,064,507)	(229,520)	43,821	(2,250,206)
Infrastructure				
Roads	(42,760,616)	(4,094,696)	-	(46,855,312)
Sidewalks	(969,047)	(118,142)	-	(1,087,189)
Traffic signals	<u>(1,310,009)</u>	<u>(130,320)</u>	<u>-</u>	<u>(1,440,329)</u>
Total accumulated depreciation	<u>(52,845,832)</u>	<u>(5,335,254)</u>	<u>158,440</u>	<u>(58,022,646)</u>
Total capital assets, being depreciated, net	<u>90,358,635</u>	<u>(4,265,915)</u>	<u>(11,557)</u>	<u>86,081,163</u>
Governmental activities capital assets, net	\$ <u>107,531,921</u>	\$ <u>(683,171)</u>	\$ <u>(11,557)</u>	\$ <u>106,837,193</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 538,090
Security of persons and property	421,737
Public health	18,555
Transportation	4,241,994
Community and economic development	2,636
Leisure time services	<u>112,242</u>
Total	\$ <u>5,335,254</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 11: Capital Assets (continued)

	Balance 12/31/10	Additions	Disposals	Balance 12/31/11
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,362,513	\$ -	\$ -	\$ 2,362,513
Construction in progress	<u>51,388</u>	<u>534,616</u>	<u>(51,388)</u>	<u>534,616</u>
Total capital assets, not being depreciated	<u>2,413,901</u>	<u>534,616</u>	<u>(51,388)</u>	<u>2,897,129</u>
Capital assets being depreciated:				
Buildings	5,351,190	-	-	5,351,190
Land improvements	2,123,612	-	-	2,123,612
Vehicles	2,158,620	-	-	2,158,620
Equipment, furniture and fixtures	3,979,084	50,731	-	4,029,815
Infrastructure				
Water main lines	14,577,510	-	-	14,577,510
Sewer lines	9,538,572	165,747	-	9,704,319
Storm water lines	1,757,363	114,528	-	1,871,891
Electric	<u>6,930,790</u>	<u>1,355,330</u>	<u>-</u>	<u>8,286,120</u>
Total capital assets, being depreciated	<u>46,416,741</u>	<u>1,686,336</u>	<u>-</u>	<u>48,103,077</u>
Less accumulated depreciation:				
Buildings	(1,843,217)	(111,120)	-	(1,954,337)
Land improvements	(720,684)	(104,214)	-	(824,898)
Vehicles	(1,356,802)	(178,085)	-	(1,534,887)
Equipment, furniture and fixtures	(2,345,103)	(158,886)	-	(2,503,989)
Infrastructure				
Water main lines	(5,780,426)	(292,811)	-	(6,073,237)
Sewer lines	(2,771,583)	(202,040)	-	(2,973,623)
Storm sewer	(212,135)	(50,084)	-	(262,219)
Electric	<u>(1,570,876)</u>	<u>(250,106)</u>	<u>-</u>	<u>(1,820,982)</u>
Total accumulated depreciation	<u>(16,600,826)</u>	<u>(1,347,346)</u>	<u>-</u>	<u>(17,948,172)</u>
Total capital assets, being depreciated, net	<u>29,815,915</u>	<u>338,990</u>	<u>-</u>	<u>30,154,905</u>
Business-type activities capital assets, net	\$ <u>32,229,816</u>	\$ <u>873,606</u>	\$ <u>(51,388)</u>	\$ <u>33,052,034</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 12: Risk Management**

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

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

The claims liability of \$18,179 reported in the fund at December 31, 2011, is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims to be reported. The costs are to be based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any other factors that would modify past experience. The claims liability is based on an estimate supplied by the City's third party administrator. A summary of the fund's claims liability follows:

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2010	\$ 15,316	\$ 298,166	\$ 297,001	\$ 16,481
2011	16,481	300,923	299,225	18,179



# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### Note 13: Note Debt

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

	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/11</u>
Governmental Activities:				
Various Purpose Notes, Series 2010, Due 10/2011, 1.0%	\$ 13,450,000	\$ -	\$ (13,450,000)	\$ -
Various Purpose Notes, Series 2011, Due 10/2012, 1.0%	<u>-</u>	<u>4,650,000</u>	<u>-</u>	<u>4,650,000</u>
Total governmental activities	<u>13,450,000</u>	<u>4,650,000</u>	<u>(13,450,000)</u>	<u>4,650,000</u>
Business-Type Activities:				
Various Purpose Notes, Series 2010, Due 10/2011, 1.0%	<u>3,900,000</u>	<u>-</u>	<u>(3,900,000)</u>	<u>-</u>
Total notes	\$ <u>17,350,000</u>	\$ <u>4,650,000</u>	\$ <u>(17,350,000)</u>	\$ <u>4,650,000</u>

All notes are backed by the full faith and credit of the City. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued. The 2011 note was issued to pay costs of acquiring the real and personal property constituting the former Cuyahoga County Youth Development Center for park, recreational and other public purposes.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 14: Long – Term Obligations

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

<u>Debt Issue</u>	<u>Original Issuance Year</u>	<u>Maturity Year</u>	<u>Interest Rate</u>	<u>Original Issuance Amount</u>
<b>General Obligation Bonds:</b>				
1999 Park Improvement G.O. Bonds	1999	2018	4.500% - 4.900%	\$ 1,095,000
2002 Community Center Expansion G.O. Bonds	2002	2023	2.800% - 6.500%	330,000
2002 Golf Course Improvement G.O. Bonds	2002	2023	2.800% - 6.500%	1,645,000
2002 Police Facility Construction G.O. Bonds	2002	2023	2.800% - 6.500%	3,985,000
2002 Road Improvement G.O. Bonds	2002	2023	2.800% - 6.500%	1,200,000
2002 Storm Water Improvement G.O. Bond	2002	2023	2.800% - 6.500%	1,090,000
2002 Substation Construction G.O. Bonds	2002	2023	2.800% - 6.500%	2,230,000
2002 Water System Improvement G.O. Bonds	2002	2023	2.800% - 6.500%	4,035,000
2004 Downtown TIF G.O. Bond	2004	2015	3.000% - 5.000%	7,000,000
2004 Electric Issue G.O. Bonds	2004	2034	3.000% - 5.000%	1,000,000
2004 Milford/RT 91 Construction G.O. Bond	2004	2024	3.000% - 5.000%	4,200,000
2004 Sewer Improvement G.O. Bonds	2004	2034	3.000% - 5.000%	855,000
2005 Sewer Improvement G.O. Bonds	2005	2035	3.000% - 5.000%	1,230,000
2005 Storm Water Improvement G.O. Bond	2005	2035	3.000% - 5.000%	2,410,000
2005 Water System Improvement G.O. Bonds	2005	2035	3.000% - 5.000%	665,000
2008 Safety Center G.O. Bonds Refunded	2008	2012	3.625% - 5.000%	370,000
2008 Park Improvement G.O. Bonds Refunded	2008	2018	3.250% - 5.000%	4,248,000
2008 Recreation G.O. Bonds Refunded	2008	2019	3.250% - 5.000%	1,947,000
2008 Library Improvement G.O. Bonds Refunded	2008	2019	3.250% - 5.000%	5,580,000
2008 Park Improvement G.O. Bonds Refunded	2008	2019	3.000% - 4.000%	710,000
2008 Water System Improvement G.O. Bond Refunded	2008	2016	3.000% - 3.750%	1,240,000
2008 Library Improvement C.A.B. Bonds Refunded	2008	2019	19.920%	95,000
2011 Park Improvement G.O. Bond Refunded	2011	2018	2.000%	510,000
2011 Community Center Expansion G.O. Bond Refunded	2011	2023	2.000%	175,000
2011 Golf Course Improvement G.O. Bond Refunded	2011	2023	2.000%	875,000
2011 Police Facility Construction G.O. Bond Refunded	2011	2023	2.000%	2,120,000
2011 Road Improvement G.O. Bond Refunded	2011	2023	2.000%	640,000
2011 Storm Water Improvement G.O. Bond Refunded	2011	2023	2.000%	580,000
2011 Substation Construction G.O. Bond Refunded	2011	2023	2.000%	1,190,000
2011 Water System Improvement G.O. Bond Refunded	2011	2033	2.000%	3,210,000
2011 Street Improvement – Seasons Road G.O. Bond	2011	2031	1.250% - 4.000%	1,175,000
2011 Street Improvement – Atterbury Boulevard G.O. Bond	2011	2031	1.250% - 4.000%	3,770,000
<b>Special Assessment Bonds:</b>				
1998 Executive Parkway S.A. Bonds	1998	2018	4.300% - 5.000%	1,060,000
1999 Water Main Construction S.A. Bonds	1999	2019	3.900% - 5.625%	420,000
2008 Sewer Improvements S.A. Bonds Refunded	2008	2016	3.000% - 3.750%	840,000
<b>OWDA Loan</b>	1999	2018	4.040%	8,266,307
<b>OPWC Loan</b>	2009	2030	0.000%	143,714

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 14: Long-Term Obligations (continued)

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

	Balance 12/31/10	Additions	Deletions	Balance 12/31/11	Amount Due in One Year
<b>Governmental Activities:</b>					
<b>General Obligation Bonds:</b>					
1999 Park Improvement	\$ 550,000	\$ -	\$ (550,000)	\$ -	\$ -
2002 Community Center Expansion	240,000	-	(180,000)	60,000	15,000
2002 Police Facility Construction	2,925,000	-	(2,160,000)	765,000	180,000
2002 Road Improvement	875,000	-	(645,000)	230,000	55,000
2004 Milford/Rt. 91 Construction	3,215,000	-	(180,000)	3,035,000	185,000
2004 Downtown TIF	3,030,000	-	(720,000)	2,310,000	745,000
2008 Safety Center Refunded	145,000	-	(75,000)	70,000	70,000
2008 Park Acquisition Refunded	3,408,000	-	(414,857)	2,993,143	432,000
2008 Village South Refunded	1,562,000	-	(190,143)	1,371,857	198,000
2008 Park Improvement Refunded	670,000	-	(65,000)	605,000	70,000
2008 Library Construction Refunded	5,280,000	-	(575,000)	4,705,000	600,000
2011 Park Improvement Refunded	-	510,000	-	510,000	70,000
2011 Community Center Expansion Refunded	-	175,000	-	175,000	-
2011 Police Facility Construction Refunded	-	2,120,000	-	2,120,000	25,000
2011 Road Improvement Refunded	-	640,000	-	640,000	5,000
2011 Street Improvement – Seasons Road	-	1,175,000	-	1,175,000	45,000
2011 Street Improvement – Atterbury Boulevard	-	3,770,000	-	3,770,000	140,000
2008 Library Construction Refunded	-	-	-	-	-
Capital Appreciation Bonds	95,000	-	-	95,000	-
Appreciation on Bonds	142,434	62,532	-	204,966	-
Premium on general obligation bonds	840,067	234,158	(99,556)	974,669	-
Loss on refunding	(727,452)	(192,638)	84,784	(835,306)	-
<b>Total General Obligation Bonds</b>	<b>22,250,049</b>	<b>8,494,052</b>	<b>(5,769,772)</b>	<b>24,974,329</b>	<b>2,835,000</b>
<b>Special Assessment Bonds:</b>					
1998 Executive Parkway	535,000	-	(55,000)	480,000	60,000
1999 Water Main Construction	245,000	-	(20,000)	225,000	25,000
2008 Sewer Improvement Refunded	638,076	-	(98,942)	539,134	100,962
Premium on special assessment bonds	8,528	-	(1,422)	7,106	-
Loss on refunding	(674)	-	113	(561)	-
<b>Total Special Assessment Bonds</b>	<b>1,425,930</b>	<b>-</b>	<b>(175,251)</b>	<b>1,250,679</b>	<b>185,962</b>
<b>Ohio Public Works Commission Loan:</b>					
2009 Atterbury Boulevard Renovations	140,121	-	(7,186)	132,935	7,186
<b>Other Long-Term Obligations:</b>					
Capital lease	75,065	-	(75,065)	-	-
Compensated absences	1,923,545	1,026,756	(1,165,309)	1,784,992	860,218
<b>Total Governmental Activities - Long-Term Obligations</b>	<b>\$ 25,814,710</b>	<b>\$ 9,520,808</b>	<b>\$ (7,192,583)</b>	<b>\$ 28,142,935</b>	<b>\$ 3,888,366</b>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 14: Long-Term Obligations (continued)

	Balance <u>12/31/10</u>	Additions	Deletions	Balance <u>12/31/11</u>	Amount Due <u>in One Year</u>
Business-Type Activities:					
<u>General Obligation Bonds:</u>					
1998 Golf Course Improvement	\$ 220,000	\$ -	\$ (20,000)	\$ 200,000	\$ 20,000
2002 Substation Construction	1,640,000	-	(1,210,000)	430,000	100,000
2002 Water System Improvement	3,485,000	-	(3,090,000)	395,000	95,000
2002 Storm Water Improvement	795,000	-	(585,000)	210,000	50,000
2002 Golf Course Improvement	1,205,000	-	(890,000)	315,000	75,000
2004 Electric Issue	880,000	-	(20,000)	860,000	25,000
2004 Sewer Improvement	755,000	-	(20,000)	735,000	20,000
2005 Storm Water Improvement	2,220,000	-	(50,000)	2,170,000	50,000
2005 Water System Improvement	1,205,000	-	(125,000)	1,080,000	125,000
2005 Sewer Improvement	1,135,000	-	(25,000)	1,110,000	25,000
2008 Water System Improvement Refunded	941,924	-	(146,058)	795,866	149,038
2011 Substation Construction Refunded	-	1,190,000	-	1,190,000	15,000
2011 Water System Improvement Refunded	-	3,210,000	-	3,210,000	25,000
2011 Storm Water Improvement Refunded	-	580,000	-	580,000	5,000
2011 Golf Course Improvement Refunded	-	875,000	-	875,000	10,000
Premium on general obligation bonds	12,590	72,843	(2,099)	83,334	-
Loss on refunding	<u>(54,527)</u>	<u>(367,301)</u>	<u>9,088</u>	<u>(412,740)</u>	<u>-</u>
Total General Obligation Bonds	<u>14,439,987</u>	<u>5,560,542</u>	<u>(6,174,069)</u>	<u>13,826,460</u>	<u>789,038</u>
<u>OWDA Loan:</u>					
OWDA Loan	<u>4,110,816</u>	<u>-</u>	<u>(444,855)</u>	<u>3,665,961</u>	<u>463,009</u>
<u>Other Long-Term Obligations:</u>					
Capital lease	277,892	-	(143,933)	133,959	42,960
Compensated absences	<u>1,204,096</u>	<u>468,490</u>	<u>(394,679)</u>	<u>1,277,907</u>	<u>529,285</u>
Total Business-Type Activities	\$ <u>20,032,791</u>	\$ <u>6,029,032</u>	\$ <u>(7,157,536)</u>	\$ <u>18,904,287</u>	\$ <u>1,824,292</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2011, including interest payments of \$13,363,666, are as follows:

Year ending December 31,	<u>Business-Type Activities</u>			
	<u>General Obligation</u>		<u>OWDA Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 789,038	\$ 532,324	\$ 463,009	\$ 143,475
2013	810,000	500,018	481,903	124,581
2014	857,981	469,315	501,569	104,915
2015	888,942	435,377	522,037	84,447
2016	779,905	399,938	543,340	63,144
2017-2021	3,220,000	1,698,103	1,154,103	58,865
2022-2026	2,645,000	1,202,688	-	-
2027-2031	2,405,000	730,838	-	-
2032-2035	<u>1,760,000</u>	<u>183,625</u>	<u>-</u>	<u>-</u>
Total	\$ <u>14,155,866</u>	\$ <u>6,152,226</u>	\$ <u>3,665,961</u>	\$ <u>579,427</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 14: Long-Term Obligations (continued)

Year ending December 31,	Governmental Activities					
	General Obligation		Special Assessments		OPWC	
	Principal	Interest	Principal	Interest	Principal	
2012	\$ 2,835,000	\$ 954,712	\$ 185,962	\$ 55,303	\$ 7,186	
2013	2,870,000	818,973	190,000	47,964	7,186	
2014	2,960,000	719,143	197,019	40,148	7,186	
2015	2,235,000	611,208	206,058	31,680	7,186	
2016	2,315,000	525,988	215,095	22,758	7,186	
2017-2021	7,005,000	2,078,038	250,000	22,644	35,930	
2022-2026	2,890,000	512,575	-	-	35,930	
2027-2029	1,520,000	180,325	-	-	25,145	
Total	\$ <u>24,630,000</u>	\$ <u>6,400,962</u>	\$ <u>1,244,134</u>	\$ <u>220,497</u>	\$ <u>132,935</u>	

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

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

In 2008, the City defeased a portion of various general obligation bonds and sewer improvement bonds in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 2011, \$11,095,000 of the defeased bonds are still outstanding.

On November 23, 2011, the City issued \$3,445,000 in general obligation bonds for the purpose of refunding a various general obligation bonds in order to take advantage of lower interest rates. An analysis of the information follows:

	1999 Barlow Farm Park	2002 Community Center Expansion	2002 Police Facility Construction	2002 Road Improvement
Outstanding at December 31, 2010	\$ 550,000	\$ 240,000	\$ 2,925,000	\$ 875,000
Amount refunded	(490,000)	(165,000)	(1,985,000)	(595,000)
Principal payment on non-refunded portion	(60,000)	(15,000)	(175,000)	(50,000)
Outstanding at December 31, 2011	\$ <u>-</u>	\$ <u>60,000</u>	\$ <u>765,000</u>	\$ <u>230,000</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### **Note 14: Long-Term Obligations (continued)**

The bonds were sold at a premium of \$51,752. Proceeds of \$3,427,638 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. As a result, \$3,235,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

The City decreased its total debt service payments by \$458,858 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$409,664.

On November 23, 2011, the City issued \$5,855,000 in general obligation bonds for the purpose of refunding a various general obligation bonds in order to take advantage of lower interest rates. An analysis of the information follows:

	2002 Substation <u>Construction</u>	2002 Water System <u>Improvement</u>	2002 Storm Water <u>Improvement</u>	2002 Golf Course <u>Improvement</u>
Outstanding at December 31, 2010 \$	1,640,000	\$ 3,485,000	\$ 795,000	\$ 1,205,000
Amount refunded	(1,115,000)	(3,000,000)	(540,000)	(820,000)
Principal payment on non-refunded portion	<u>(95,000)</u>	<u>(90,000)</u>	<u>(45,000)</u>	<u>(70,000)</u>
Outstanding at December 31, 2011 \$	<u>430,000</u>	<u>\$ 395,000</u>	<u>\$ 210,000</u>	<u>\$ 315,000</u>

The bonds were sold at a premium of \$72,843. Proceeds of \$5,842,301 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. As a result, \$5,475,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

The City decreased its total debt service payments by \$927,397 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$754,524.

#### **Note 15: Lease Obligations**

The City has entered into capital leases for the acquisition of various equipment and vehicles. Each lease meets the criteria of a capital lease in accordance with the "Leases" topic of the FASB ASC.

Capital assets acquired by lease have been capitalized as equipment and vehicles in the amount of \$1,054,642, accumulated depreciation as of December 31, 2011, for the equipment and vehicles was \$484,742, leaving a current book value of \$569,900 for equipment and vehicles. Principal and interest payments in the current year totaled \$75,065 and \$3,069, respectively in the Governmental Activities and \$143,935 and \$11,016, respectively for Business-Type Activities.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 15: Lease Obligations (continued)

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

Year	Capital Lease		Operating Leases	
	Business-Type Lease Payments		Governmental Lease Payments	Business-Type Lease Payments
2012	\$ 48,171	\$	273,332	\$ 65,940
2013	48,171		8,160	65,940
2014	48,173		6,081	65,940
2015	-		5,450	-
2016	-		3,030	-
Total minimum lease payments	144,515		296,053	197,820
Less: amount representing interest	(10,556)		-	-
Present value of minimum lease payments	\$ 133,959	\$	296,053	\$ 197,820

Rental expense related to operating leases for equipment totaled \$273,535 for governmental funds, of which \$257,449 was rented from a related party, and \$65,940 for business-type funds for the year ended December 31, 2011.

#### Note 16: Related Party Transactions

The City has a lease agreement for office and warehouse space with a company owned by a Councilman's brother. The related Councilman abstained from vote on this matter. As noted in Note 15, the current year expense related to this lease was \$257,449 and the 2012 lease payments total \$265,172. The current lease addendum ends January 1, 2013.

#### Note 17: Pension Plans

##### A. Ohio Public Employees Retirement System

The City of Hudson participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the by the retirement system to provide a formula, retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 17: Pension Plans (continued)**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, the members of all three plans were required to contribute 10 percent of their annual salaries. The City's contribution rate of 14.0 percent was allocated to fund pension benefits for members of the traditional plan and combined plan. The pension allocation for the traditional plan was 10.0 percent during calendar year 2011. The pension allocation for the combined plan was 7.95 percent during calendar year 2011.

The City of Hudson's required contributions for pension obligations, excluding healthcare, to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009 were \$998,349, \$905,471, and \$783,962, respectively; 91.9 percent has been contributed for 2011 and 100 percent for 2009 and 2010. Contributions to the member-directed plan for 2011 were \$36,218 made by the City of Hudson and \$25,870 made by the plan members.

##### ***B. Ohio Police and Fire Pension Fund***

The City of Hudson contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary, while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters. The City of Hudson's contributions, excluding healthcare, for the years ended December 31, 2011, 2010, and 2009 for police officers and firefighters were \$279,658, \$279,646, and \$284,820, respectively, equal to the required contributions for each year. The full amount has been contributed for years 2009 and 2010, and for 2011 73.8 percent for police and 73.1 percent for firefighters has been contributed, with the remainder being reported as a liability.



# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 18: Postemployment Benefits**

##### ***A. Ohio Public Employees Retirement System***

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

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

In order to qualify for post-retirement health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 227 E. Town St., Columbus, OH, 43215-4642, or by calling (614)222-5601 or (800)222-7377.

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The 2011 local governmental employer contribution rate was 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional plan was 4.00 percent during calendar year 2011. The portion of employer contributions allocated to health care for members in the combined plan was 6.05 percent during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contributions for health care for the years ended December 31, 2011, 2010, and 2009 were \$398,993, \$491,337, and \$563,592, respectively; 91.9 percent has been contributed for 2011 and 100 percent for 2010 and 2009.

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

## City of Hudson, Ohio

### Notes to Basic Financial Statements (continued)

#### For The Year Ended December 31, 2011

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#### **Note 18: Postemployment Benefits (continued)**

##### ***B. Ohio Police and Fire Pension Fund***

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

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

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 18: Postemployment Benefits (continued)**

##### ***B. Ohio Police and Fire Pension Fund (continued)***

The City's total contributions to OP&F for police and fire for the years ending December 31, 2011, 2010, and 2009 were \$400,105, \$400,096, and \$407,809 and \$25,020, \$25,012, and \$25,192, respectively, of which \$138,436, \$138,433, and \$141,102 and \$7,031, \$7,028, and \$7,079, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2010 and 2009. For 2011, 73.8 percent for police and 73.1 percent for firefighters has been contributed, with the remainder being reported as a liability.

#### **Note 19: Compensated Absences**

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

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

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

Upon resignation, retirement or death, an employee with 10 or more years of service with the City is eligible for a severance payment for his/her accumulated but unused sick leave, but the maximum payment shall not exceed 1,440 hours. Such payment shall be based on the employee's rate of pay at the time of resignation, retirement or death. Individuals who were regular full-time employees as of December 31, 2000, accrue sick leave at a one-for-one cash-out rate up to the next 500, 1000, or 1440 hour level – based on their respective aggregate sick leave levels at December 31, 2000. All remaining sick leave hours will be accrued subject to one-for-three cash-out rate, up to an aggregate maximum of 1,440 hours. Employees who dip below their maximum one-for-one cash-out levels can replenish those one-for-one levels with earned sick leave. All regular full-time employees hired after January 1, 2001, will accrue all sick leave up to a maximum of 1,440 hours subject to a one-for-three cash-out rate.

As of December 31, 2011, the total liability for unpaid compensated absences was \$3,062,899.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 20: Contingencies**

##### **A. Grants**

The City has received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2011.

##### **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, 2011.

As part of its normal business practice of purchasing available electric for distribution through its electric utility distribution fund, in November 2007, the City entered into a “take or pay” Contract with American Municipal Power (AMP) for the development of a 1,000 megawatt coal-fired generating station to be located on the Ohio River in Meigs County, Ohio, known as the American Municipal Power Generating Station (AMPGS). The City was one of 81 member participants in the AMPGS project and had committed to receive a 6,000 kW share of the project’s output. In November 2009, participants in the AMPGS voted to terminate development of the project due to estimated cost increases of 37% with no guarantee that the costs would not continue to escalate. At the time the development was terminated, participants agreed to pursue a conversion of the AMPGS to a Natural Gas Combined Cycle (NGCC) Plant. In February 2011, development of the NCGG Plant was suspended due to availability of purchasing the AMP Fremont Energy Center (AFEC).

At the time the decision was made to abandon the AMPGS, AMP had incurred what they consider to be stranded costs of \$121,429,424. General Counsel for AMP has asserted that AMP intends to recover these stranded costs through sale of the property on which construction was started, AFEC development costs and a lawsuit filed against the contractor for breach of contract.

Due to the pending lawsuit against the contractor and the uncertainty regarding proceeds from the sale of the undeveloped property, the amount of the final costs to the participants has not yet been determined. Therefore the City has elected not to record the liability and related expense in the financial statements. If none of the stranded costs are recovered by AMP, the City’s potential liability is \$612,277 (net of AFEC development credits of \$369,054). Any liability not recovered through pending litigation, sale of property, or through participation in replacement projects will be recovered by AMP from participants over a period of time which has not currently been defined.

The City has not paid any monies to AMP associated with the AMPGS issue noted above as AMP has communicated the amount of the City’s liability, if any, cannot be accurately determined. The City’s management is of the opinion that the ultimate settlement of any liability, if any, from the AMPGS issues noted above will not have a material adverse effect on the financial position of the City or its Electric Utility Fund.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

#### Note 21: Interfund Transactions

Interfund Receivable/Payable for the year ended December 31, 2011 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Youth Development Center Fund	\$ 2,250,000
General Fund	Non-Major Governmental Funds	305,282
General Fund	Storm Sewer Fund	80,350
General Fund	Golf Course Fund	<u>599,108</u>
		<u>\$ 3,234,740</u>

Long-term interfund loans are classified as "advances to/from other funds" and consist of the following at December 31, 2011:

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

As of December 31, 2011, interfund transfers were as follows:

	<u>Transfers Out</u>		
	<u>General</u>	<u>Non-Major Governmental</u>	<u>Total</u>
Transfers In:			
Street Construction	\$ 1,680,000	\$ -	\$ 1,680,000
Seasons Road Interchange	19,836	-	19,836
Atterbury Boulevard	25,752	-	25,752
Youth Development Center	49,000	-	49,000
Non-Major Governmental	3,116,699	202,095	3,318,794
Wastewater	1,725,000	-	1,725,000
Storm Sewer	1,425,000	-	1,425,000
Golf Course	<u>135,000</u>	-	<u>135,000</u>
Total	<u>\$ 8,176,287</u>	<u>\$ 202,095</u>	<u>\$ 8,378,382</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The transfers from Non-Major Governmental Funds was a \$200,000 transfer from the Fire District Special Revenue Fund to the Fire Capital Replacement Capital Projects Fund, which was proper in accordance with Ohio Revised Code (ORC) 5705.13(C). The remaining \$2,095 was from the Police Station Acquisition Fund to the Bond Retirement Fund was proper in accordance with Ohio Revised Code Sections 5705.14 as the transfer was used to pay off debt related to the Police Station Acquisition Fund and to close the fund to its related bond retirement fund.

## City of Hudson, Ohio

### Notes to Basic Financial Statements (continued)

#### **For The Year Ended December 31, 2011**

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#### **Note 22: Joint Venture**

##### ***Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)***

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

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

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

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement, each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2011, Hudson has met their debt coverage obligation.

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 22: Joint Venture (continued)**

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

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$604,341 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

#### **Note 23: Shared Risk Pool**

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

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

In 2011, the City paid \$134,838 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 24: Outstanding Contractual Commitments**

The City has the following outstanding contractual commitments for various construction projects at December 31, 2011:

<u>Contractor</u>	<u>Contract and Contingency</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>
City of Stow	\$ 16,365	\$ 5,015	\$ 11,350
Fabrizi Trucking & Paving	3,619,523	3,359,602	259,921
Hysong Paving Company	30,893	-	30,893
Mr. Excavator	342,770	268,923	73,847
Mar-King Construction	124,188	21,182	103,006
Mark Haynes Construction, Inc.	228,993	-	228,993
Ohio Farmers Insurance Company	1,619,118	1,085,450	533,668
Perrin Asphalt Company, Inc.	1,070,031	973,845	96,186
Thompson Electric, Inc.	244,179	226,547	17,632

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 25: Accountability**

There was a deficit in the following Capital Projects Funds: Police State Acquisition Fund of \$25,000 and Youth Development Center Fund of \$6,852,386 caused by the application of accounting principles generally accepted in the United State of America to these funds. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Contrary to the Ohio Revised Code Section 5705.14, the City moved money from the Parks Fund to the Golf Course Fund which is unallowable since the Parks Fund is a restricted fund.

#### **Note 26: Fair Value Measurements**

The FASB ASC “Fair Value Measurements” topic establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for financial assets measured at fair value:

*U.S. government obligations:* Valued at the closing price reported in the active market in which the individual security is traded.



# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For The Year Ended December 31, 2011

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#### **Note 26: Fair Value Measurements (continued)**

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

The following table sets forth by level, within the fair value hierarchy, the City's financial assets at fair value as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>12/31/2011</u>
U.S. Government Obligations	\$ -	\$ 5,928,277	\$ -	\$ 5,928,277

#### **Note 27: Subsequent Event**

On March 15, 2012, the City refunded a portion of their existing debt to take advantage of favorable interest rates and issued \$9,630,000 in refunded bonds. In addition, \$280,000 in bonds were issued for water system improvement and \$640,000 in bonds were issued for sanitary sewer improvements.

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Honorable Mayor and City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson, Summit County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 13, 2012, wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matter we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 13, 2012.

We intend this report solely for the information and use of management, City Council, and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

September 13, 2012



# Dave Yost • Auditor of State

**CITY OF HUDSON**

**SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 23, 2012**