

**CITY OF HUDSON  
SUMMIT COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2001**





**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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To the City Manager and  
Members of City Council  
City of Hudson  
27 East Main Street  
Hudson, Ohio 44236

We have reviewed the Independent Auditor's Report of the City of Hudson, Summit County, prepared by Steen & Kennedy LLC, for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Hudson is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

August 7, 2002

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**CITY OF HUDSON, OHIO  
SUMMIT COUNTY  
General Purpose Financial Statements  
For the Year Ended December 31, 2001**

**TABLE OF CONTENTS**

REPORT OF INDEPENDENT ACCOUNTANTS	1
COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS	4-5
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES	6-7
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL (BUDGET BASIS) – ALL GOVERNMENTAL FUND TYPES	8-11
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY – PROPRIETARY FUND TYPES	12
COMBINED STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPES	13
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS	14-44
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS	45-46

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## INDEPENDENT AUDITOR'S REPORT

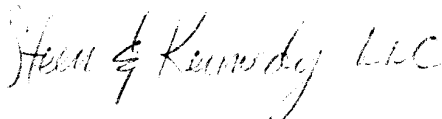
City Council  
City of Hudson  
27 E. Main Street  
Hudson, Ohio 44236

We have audited the accompanying general purpose financial statements of the City of Hudson, Summit County, Ohio (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Hudson, Summit County, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2002 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



**Steen & Kennedy LLC**

June 25, 2002

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*GENERAL PURPOSE FINANCIAL STATEMENTS*

**City of Hudson, Ohio**  
**Combined Balance Sheet**  
**All Fund Types and Account Groups**  
**December 31, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Assets and Other Debits</u>				
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$8,795,000	\$2,939,102	\$785,296	\$20,463,088
Cash and Cash Equivalents in Segregated Accounts	0	89,893	0	0
Cash with Fiscal and Escrow Agent	0	0	10,000	0
Investments in Segregated Accounts	0	3,007	0	0
Investments in Common Stock	0	12,825	0	0
Receivables:				
Taxes	4,305,957	2,065,526	1,472,785	0
Accounts	0	54,854	0	0
Intergovernmental	821,787	193,914	0	7,898
Special Assessments	0	0	3,277,322	57,484
Interfund	726,008	0	0	0
Materials and Supplies Inventory	31,636	99,023	0	0
Notes Receivable	0	0	0	50,000
Investment in Joint Venture	0	0	0	0
Fixed Assets, (Net Where Applicable of Accumulated Depreciation)	0	0	0	0
<u>Other Debits</u>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0
<b>Total Assets and Other Debits</b>	<b>\$14,680,388</b>	<b>\$5,458,144</b>	<b>\$5,545,403</b>	<b>\$20,578,470</b>
<u>Liabilities, Fund Equity and Other Credits</u>				
<u>Liabilities</u>				
Accounts Payable	\$169,130	\$72,215	\$0	\$921,213
Interfund Payable	0	285,000	0	196,750
Accrued Wages and Benefits	91,913	29,514	0	0
Compensated Absences Payable	30,535	3,625	0	0
Intergovernmental	186,601	63,037	181	0
Deferred Revenue	3,145,898	2,056,907	4,743,734	107,484
Undistributed Monies	0	0	0	0
Matured Interest Payable	0	0	10,000	0
Accrued Interest Payable	0	0	0	175,941
Notes Payable	0	0	0	8,575,000
Claims Payable	0	0	0	0
OWDA Loan Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
<b>Total Liabilities</b>	<b>3,624,077</b>	<b>2,510,298</b>	<b>4,753,915</b>	<b>9,976,388</b>
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Reserved:				
Restricted	0	0	0	0
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	421,875	503,935	0	4,278,106
Reserved for Inventory	31,636	99,023	0	0
Reserved for Debt Service	0	0	791,488	0
Reserved for Investments	0	3,007	0	0
Reserved for Common Stock	0	12,825	0	0
Unreserved:				
Undesignated	10,602,800	2,329,056	0	6,323,976
<b>Total Fund Equity and Other Credits</b>	<b>11,056,311</b>	<b>2,947,846</b>	<b>791,488</b>	<b>10,602,082</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$14,680,388</b>	<b>\$5,458,144</b>	<b>\$5,545,403</b>	<b>\$20,578,470</b>

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Agency	General Fixed Assets	General Long-Term Obligations	
\$12,487,024	\$680,597	\$772,681	\$0	\$0	\$46,922,788
0	0	311,246	0	0	401,139
0	0	0	0	0	10,000
0	0	0	0	0	3,007
0	0	0	0	0	12,825
0	0	337,905	0	0	8,182,173
1,966,541	80,455	0	0	0	2,101,850
0	0	0	0	0	1,023,599
0	0	0	0	0	3,334,806
0	0	0	0	0	726,008
1,156,784	61,959	0	0	0	1,349,402
0	0	0	0	0	50,000
497,412	0	0	0	0	497,412
23,215,644	19,452	0	25,016,601	0	48,251,697
0	0	0	0	791,488	791,488
0	0	0	0	90,095	90,095
0	0	0	0	21,887,904	21,887,904
0	0	0	0	2,913,792	2,913,792
<u>\$39,323,405</u>	<u>\$842,463</u>	<u>\$1,421,832</u>	<u>\$25,016,601</u>	<u>\$25,683,279</u>	<u>\$138,549,985</u>
\$2,427,078	\$16,075	\$54,642	\$0	\$0	\$3,660,353
244,258	0	0	0	0	726,008
44,261	3,514	0	0	0	169,202
395,439	51,768	0	0	839,624	1,320,991
125,431	7,233	40	0	158,655	541,178
0	0	3,825	0	0	10,057,848
0	0	1,363,325	0	0	1,363,325
0	0	0	0	0	10,000
100,579	0	0	0	0	276,520
3,260,000	0	0	0	0	11,835,000
0	21,540	0	0	0	21,540
7,406,315	0	0	0	0	7,406,315
2,985,000	0	0	0	21,980,000	24,965,000
0	0	0	0	2,705,000	2,705,000
<u>16,988,361</u>	<u>100,130</u>	<u>1,421,832</u>	<u>0</u>	<u>25,683,279</u>	<u>65,058,280</u>
0	0	0	25,016,601	0	25,016,601
5,518,549	0	0	0	0	5,518,549
0	627,908	0	0	0	627,908
16,816,495	114,425	0	0	0	16,930,920
0	0	0	0	0	5,203,916
0	0	0	0	0	130,659
0	0	0	0	0	791,488
0	0	0	0	0	3,007
0	0	0	0	0	12,825
0	0	0	0	0	19,255,832
<u>22,335,044</u>	<u>742,333</u>	<u>0</u>	<u>25,016,601</u>	<u>0</u>	<u>73,491,705</u>
<u>\$39,323,405</u>	<u>\$842,463</u>	<u>\$1,421,832</u>	<u>\$25,016,601</u>	<u>\$25,683,279</u>	<u>\$138,549,985</u>

**City of Hudson, Ohio**  
**Combined Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**All Governmental Fund Types**  
**For the Year Ended December 31, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Revenues</u>				
Municipal Income Tax	\$7,133,984	\$0	\$0	\$0
Property and Other Taxes	2,051,413	1,839,704	1,506,192	0
Charges for Services	126,286	218,726	0	0
Licenses and Permits	88,698	55,337	0	0
Intergovernmental	3,216,784	1,039,015	176,411	120,413
Special Assessments	0	0	309,287	41,379
Investment Income	1,003,580	71,842	0	602,522
Donations	16,013	53,499	0	0
Other	212,593	42,739	0	18,830
<b>Total Revenues</b>	<b>13,849,351</b>	<b>3,320,862</b>	<b>1,991,890</b>	<b>783,144</b>
<u>Expenditures</u>				
Current:				
General Government	2,726,144	0	38,111	0
Security of Persons and Property	3,097,311	1,107,233	0	0
Public Health and Welfare	570,795	162,591	0	0
Transportation	0	1,968,465	0	0
Community Environment	285,193	4,650	0	0
Leisure Time Activities	0	657,632	0	0
Capital Outlay	559,088	501,375	0	4,530,422
Debt Service:				
Principal Retirement	0	75,000	970,000	0
Interest and Fiscal Charges	0	107,168	1,230,814	341,964
<b>Total Expenditures</b>	<b>7,238,531</b>	<b>4,584,114</b>	<b>2,238,925</b>	<b>4,872,386</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	6,610,820	(1,263,252)	(247,035)	(4,089,242)
<u>Other Financing Sources (Uses)</u>				
Operating Transfers - In	19,500	1,351,305	318,852	5,098,583
Operating Transfers - Out	(7,825,568)	(20,805)	0	(191,867)
<b>Total Other Financing Sources (Uses)</b>	<b>(7,806,068)</b>	<b>1,330,500</b>	<b>318,852</b>	<b>4,906,716</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(1,195,248)	67,248	71,817	817,474
Fund Balances at Beginning of Year	12,244,603	2,860,986	719,671	9,784,608
Increase in Reserve for Inventory	6,956	19,612	0	0
<b>Fund Balances at End of Year</b>	<b>\$11,056,311</b>	<b>\$2,947,846</b>	<b>\$791,488</b>	<b>\$10,602,082</b>

See accompanying notes to the general purpose financial statements

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Totals  
(Memorandum  
Only)

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\$7,133,984  
5,397,309  
345,012  
144,035  
4,552,623  
350,666  
1,677,944  
69,512  

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274,162

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19,945,247

2,764,255  
4,204,544  
733,386  
1,968,465  
289,843  
657,632  
5,590,885

1,045,000  

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1,679,946

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18,933,956

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1,011,291

6,788,240  

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(8,038,240)

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(1,250,000)

(238,709)

25,609,868

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26,568

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\$25,397,727

**City of Hudson, Ohio**  
**Combined Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual (Budget Basis)**  
**All Governmental Fund Types**  
**For the Year Ended December 31, 2001**

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Municipal Income Tax	\$7,137,597	\$7,036,839	(\$100,758)
Property and Other Taxes	2,028,864	2,051,782	22,918
Charges for Services	130,000	126,286	(3,714)
Licenses and Permits	80,000	96,811	16,811
Intergovernmental	1,762,136	3,209,096	1,446,960
Special Assessments	0	0	0
Investment Income	1,025,000	1,220,459	195,459
Other	1,950,000	75,745	(1,874,255)
<b>Total Revenues</b>	<b>14,113,597</b>	<b>13,817,018</b>	<b>(296,579)</b>
<u>Expenditures</u>			
Current:			
General Government	3,635,374	3,251,293	384,081
Security of Persons and Property	3,175,594	3,088,124	87,470
Public Health and Welfare	590,245	572,663	17,582
Transportation	0	0	0
Community Environment	320,342	317,856	2,486
Leisure Time Activities	0	0	0
Capital Outlay	854,327	709,224	145,103
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<b>Total Expenditures</b>	<b>8,575,882</b>	<b>7,939,160</b>	<b>636,722</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,537,715	5,877,858	340,143
<u>Other Financing Sources (Uses)</u>			
Other Financing Sources	105,000	217,647	112,647
Proceeds of Notes	0	0	0
Advances - In	181,000	181,000	0
Advances - Out	(80,000)	(80,000)	0
Operating Transfers - In	345,000	19,500	(325,500)
Operating Transfers - Out	(9,229,035)	(7,825,568)	1,403,467
<b>Total Other Financing Sources (Uses)</b>	<b>(8,678,035)</b>	<b>(7,487,421)</b>	<b>1,190,614</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(3,140,320)	(1,609,563)	1,530,757
Fund Balances at Beginning of Year	9,507,365	9,507,365	0
Prior Year Encumbrances Appropriated	395,115	395,115	0
<b>Fund Balances at End of Year</b>	<b>\$6,762,160</b>	<b>\$8,292,917</b>	<b>\$1,530,757</b>

See accompanying notes to the general purpose financial statements

**Governmental Fund Types**

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
1,818,387	1,839,841	21,454	1,624,428	1,506,892	(117,536)
222,430	247,874	25,444	0	0	0
5,500	17,597	12,097	0	0	0
931,671	881,362	(50,309)	180,001	176,411	(3,590)
0	0	0	244,604	309,287	64,683
79,908	88,790	8,882	0	0	0
5,000	71,967	66,967	0	0	0
<u>3,062,896</u>	<u>3,147,431</u>	<u>84,535</u>	<u>2,049,033</u>	<u>1,992,590</u>	<u>(56,443)</u>
0	0	0	49,978	37,930	12,048
1,216,507	1,144,078	72,429	0	0	0
193,626	179,202	14,424	0	0	0
2,320,717	2,251,605	69,112	0	0	0
20,060	18,150	1,910	0	0	0
753,387	704,092	49,295	0	0	0
877,671	800,889	76,782	0	0	0
75,000	75,000	0	970,000	970,000	0
107,168	107,168	0	1,230,814	1,230,814	0
<u>5,564,136</u>	<u>5,280,184</u>	<u>283,952</u>	<u>2,250,792</u>	<u>2,238,744</u>	<u>12,048</u>
<u>(2,501,240)</u>	<u>(2,132,753)</u>	<u>368,487</u>	<u>(201,759)</u>	<u>(246,154)</u>	<u>(44,395)</u>
5,500	64,343	58,843	0	0	0
0	0	0	0	0	0
0	80,000	80,000	0	0	0
(181,000)	(181,000)	0	0	0	0
1,350,000	1,350,000	0	126,985	318,852	191,867
(19,500)	(19,500)	0	0	0	0
<u>1,155,000</u>	<u>1,293,843</u>	<u>138,843</u>	<u>126,985</u>	<u>318,852</u>	<u>191,867</u>
(1,346,240)	(838,910)	507,330	(74,774)	72,698	147,472
2,999,985	2,999,985	0	712,598	712,598	0
296,208	296,208	0	0	0	0
<u>\$1,949,953</u>	<u>\$2,457,283</u>	<u>\$507,330</u>	<u>\$637,824</u>	<u>\$785,296</u>	<u>\$147,472</u>

*(continued)*

**City of Hudson, Ohio**  
**Combined Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Budget and Actual (Budget Basis) (Continued)**  
**All Governmental Fund Types**  
**For the Year Ended December 31, 2001**

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	0	0	0
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Intergovernmental	95,000	115,826	20,826
Special Assessments	46,000	40,102	(5,898)
Investment Income	450,000	639,579	189,579
Other	0	18,830	18,830
<b>Total Revenues</b>	<b>591,000</b>	<b>814,337</b>	<b>223,337</b>
<u>Expenditures</u>			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	18,433,747	9,718,992	8,714,755
Debt Service:			
Principal Retirement	1,385,000	1,385,000	0
Interest and Fiscal Charges	1,158,862	177,989	980,873
<b>Total Expenditures</b>	<b>20,977,609</b>	<b>11,281,981</b>	<b>9,695,628</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,386,609)	(10,467,644)	9,918,965
<u>Other Financing Sources (Uses)</u>			
Other Financing Sources	0	281,995	281,995
Proceeds of Notes	7,425,000	6,326,386	(1,098,614)
Advances - In	0	0	0
Advances - Out	0	0	0
Operating Transfers - In	6,186,000	5,098,583	(1,087,417)
Operating Transfers - Out	(191,867)	(191,867)	0
<b>Total Other Financing Sources (Uses)</b>	<b>13,419,133</b>	<b>11,515,097</b>	<b>(1,904,036)</b>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(6,967,476)	1,047,453	8,014,929
Fund Balances at Beginning of Year	12,097,346	12,097,346	0
Prior Year Encumbrances Appropriated	2,007,091	2,007,091	0
<b>Fund Balances at End of Year</b>	<b>\$7,136,961</b>	<b>\$15,151,890</b>	<b>\$8,014,929</b>



Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$7,137,597	\$7,036,839	(\$100,758)
5,471,679	5,398,515	(73,164)
352,430	374,160	21,730
85,500	114,408	28,908
2,968,808	4,382,695	1,413,887
290,604	349,389	58,785
1,554,908	1,948,828	393,920
1,955,000	166,542	(1,788,458)
<u>19,816,526</u>	<u>19,771,376</u>	<u>(45,150)</u>
3,685,352	3,289,223	396,129
4,392,101	4,232,202	159,899
783,871	751,865	32,006
2,320,717	2,251,605	69,112
340,402	336,006	4,396
753,387	704,092	49,295
20,165,745	11,229,105	8,936,640
2,430,000	2,430,000	0
2,496,844	1,515,971	980,873
<u>37,368,419</u>	<u>26,740,069</u>	<u>10,628,350</u>
<u>(17,551,893)</u>	<u>(6,968,693)</u>	<u>10,583,200</u>
110,500	563,985	453,485
7,425,000	6,326,386	(1,098,614)
181,000	261,000	80,000
(261,000)	(261,000)	0
8,007,985	6,786,935	(1,221,050)
<u>(9,440,402)</u>	<u>(8,036,935)</u>	<u>1,403,467</u>
<u>6,023,083</u>	<u>5,640,371</u>	<u>(382,712)</u>
(11,528,810)	(1,328,322)	10,200,488
25,317,294	25,317,294	0
<u>2,698,414</u>	<u>2,698,414</u>	<u>0</u>
<u>\$16,486,898</u>	<u>\$26,687,386</u>	<u>\$10,200,488</u>

**City of Hudson, Ohio**  
**Combined Statement of Revenues,**  
**Expenses and Changes in Retained Earnings**  
**All Proprietary Fund Types**  
**For the Year Ended December 31, 2001**

	Proprietary Fund Types		Totals (Memorandum Only)
	Enterprise	Internal Service	
<u>Operating Revenues</u>			
Charges for Services	\$16,427,138	\$826,044	\$17,253,182
Other Operating Revenues	21,209	67,984	89,193
Total Operating Revenues	16,448,347	894,028	17,342,375
<u>Operating Expenses</u>			
Personal Services	3,471,034	210,577	3,681,611
Contractual Services	10,880,911	126,823	11,007,734
Claims	0	225,130	225,130
Materials and Supplies	691,129	213,570	904,699
Depreciation	627,650	1,411	629,061
Total Operating Expenses	15,670,724	777,511	16,448,235
Operating Income	777,623	116,517	894,140
<u>Non-Operating Revenues (Expenses)</u>			
Equity Interest in Joint Venture Operating Income	209,726	0	209,726
Rent	61,041	0	61,041
Capital Contribution	25,726	0	25,726
Interest Income	38,996	0	38,996
Gain on Disposal of Fixed Assets	15,552	0	15,552
(Loss) on Disposal of Fixed Assets	(21,873)	0	(21,873)
Proceeds of Notes	128	0	128
Interest and Fiscal Charges	(424,847)	0	(424,847)
Other Non-Operating Revenues	76,525	395,143	471,668
Other Non-Operating Expenses	(78,877)	0	(78,877)
Total Non-Operating Revenues (Expenses)	(97,903)	395,143	297,240
Income Before Operating Transfers	679,720	511,660	1,191,380
Operating Transfers - In	1,250,000	0	1,250,000
Net Income	1,929,720	511,660	2,441,380
Retained Earnings at Beginning of Year	14,886,775	488,203	15,374,978
Residual Equity Transfers Out	0	(257,530)	(257,530)
Retained Earnings at End of Year	16,816,495	742,333	17,558,828
Contributed Capital at Beginning of Year	5,518,549	0	5,518,549
Contributed Capital at End of Year	5,518,549	0	5,518,549
Total Fund Equity at End of Year	\$22,335,044	\$742,333	\$23,077,377

See accompanying notes to the general purpose financial statements

**City of Hudson, Ohio**  
**Combined Statement of Cash Flows**  
**All Proprietary Fund Types**  
**For the Year Ended December 31, 2001**

	Enterprise	Internal Service	Totals (Memorandum Only)
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$16,343,507	\$826,663	\$17,170,170
Cash Payments to Suppliers for Goods and Services	(10,637,249)	(373,490)	(11,010,739)
Cash Payments to Employees for Services and Benefits	(3,465,052)	(218,927)	(3,683,979)
Cash Payments for Claims	0	(361,131)	(361,131)
Other Operating Revenues	26,851	71,284	98,135
Other Nonoperating Revenues	137,566	395,143	532,709
Other Nonoperating Expenses	(58,909)	0	(58,909)
Net Cash Provided by Operating Activities	<u>2,346,714</u>	<u>339,542</u>	<u>2,686,256</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Operating Transfers In	1,250,000	0	1,250,000
Residual Equity Transfer Out	0	(257,530)	(257,530)
Net Cash Provided by Noncapital Financing Activities	<u>1,250,000</u>	<u>(257,530)</u>	<u>992,470</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Proceeds From Sale of Notes	3,260,128	0	3,260,128
Acquisition of Capital Assets	(2,410,030)	0	(2,410,030)
Proceeds From Sale of Capital Assets	18,037	0	18,037
Principal Payments	(2,190,592)	0	(2,190,592)
Interest Payments	(378,779)	0	(378,779)
Net Cash (Used For) Capital and Related Financing Activities	<u>(1,701,236)</u>	<u>0</u>	<u>(1,701,236)</u>
<u>Cash Flows from Investing Activities</u>			
Interest on Investments	38,996	0	38,996
Net Cash Provided by Investing Activities	<u>38,996</u>	<u>0</u>	<u>38,996</u>
Net Increase in Cash and Cash Equivalents	1,934,474	82,012	2,016,486
Cash and Cash Equivalents at Beginning of Year	<u>10,552,550</u>	<u>598,585</u>	<u>11,151,135</u>
Cash and Cash Equivalents at End of Year	<u>\$12,487,024</u>	<u>\$680,597</u>	<u>\$13,167,621</u>
Reconciliation of Operating Income (Loss) to			
<u>Net Cash Provided by (Used for) Operating Activities</u>			
Operating Income	\$777,623	\$116,517	\$894,140
Adjustments to Reconcile Operating Income to			
<u>Net Cash Provided by Operating Activities</u>			
Depreciation	627,650	1,411	629,061
Other Nonoperating Revenues	137,566	395,143	532,709
Other Nonoperating Expenses	(58,909)	0	(58,909)
Changes in Assets and Liabilities:			
(Increase)/Decrease in Accounts Receivable	(77,989)	3,906	(74,083)
(Increase)/Decrease in Materials and Supplies Inventory	(91,760)	(4,758)	(96,518)
Increase/(Decrease) in Accounts Payable	1,023,283	(76,607)	946,676
Increase/(Decrease) in Accrued Wages and Benefits	7,910	(735)	7,175
Increase/(Decrease) in Compensated Absences Payable	(16,570)	(2,431)	(19,001)
Increase/(Decrease) in Claims Payable	0	(87,720)	(87,720)
Increase/(Decrease) in Intergovernmental Payable	17,910	(5,184)	12,726
Total Adjustments	<u>1,569,091</u>	<u>223,025</u>	<u>1,792,116</u>
Net Cash Provided by Operating Activities	<u>\$2,346,714</u>	<u>\$339,542</u>	<u>\$2,686,256</u>

See accompanying notes to the general purpose financial statements

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 1 - Description of the City and Reporting Entity**

The City of Hudson (the "City") is a charter municipal corporation established and operating under the laws of the State of Ohio. The City was incorporated as a village in 1837, and became a city 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 general purpose 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 the deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City is associated with a joint venture and a shared risk pool. The joint venture is the Ohio Municipal Electric Generation Agency Joint Venture 1 and 5. The Northern Ohio Risk Management Association (NORMA) is the shared risk pool. These organizations are presented in Notes 22 and 23.

**Note 2 - Summary of Significant Accounting Policies**

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

**A. Basis Of Presentation - Fund Accounting**

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

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

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

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

**General Fund** This fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

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

***Internal Service Funds*** These funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

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

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

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

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

**B. *Measurement Focus and Basis of Accounting***

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

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

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

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

The City reports deferred revenue on its Combined Balance Sheet. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 2001, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable, and have been recorded as a receivable. Since all assessments are due outside of the available period, the entire amount has been deferred.

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

**C. *Budgetary Process***

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Annual Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Annual Appropriation Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the department level. Any budgetary modifications at this level may only be made by resolution of the City Council.

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

***Estimated Resources*** The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews 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 2001.



**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

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. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the general purpose financial statements for the proprietary funds.

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

**D. *Cash, Cash Equivalents and Investments***

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 Combined 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.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the year 2001. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2001.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the year 2001 amounted to \$1,003,580, which includes \$637,357 assigned from other City funds.

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

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

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

For purposes of the Combined Statement of Cash Flows and for presentation on the Combined 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.

**E. *Interfund Assets and Liabilities***

Short-term interfund loans are classified as "Interfund Receivable/Payable".

**F. *Revenues – Exchange and Non-Exchange Transactions***

Exchange transactions are those in which each party to a transaction gives and receives essentially something of equal value. Proprietary funds, where the full accrual basis of accounting is used, record revenue when the exchange takes place. Governmental funds, where the modified accrual basis of accounting is used, record revenue in the year in which the resources are both measurable and available.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include municipal income taxes, property and other local taxes, special assessments, fines and forfeitures, grants, entitlements and donations.

Municipal income taxes are recognized as revenue in the year when the underlying exchange transaction has occurred and the resources are both measurable and available.

Generally, property and other local taxes, special assessments and fines and forfeitures are recognized as revenue in the year when an enforceable legal claim has arisen and the resources are both measurable and available. Revenue from property and other local taxes, net of refunds and uncollectible amounts, is recognized in the year for which the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different year. Special assessments and fines and forfeitures are recognized in the year when an enforceable legal claim has arisen unless the enabling legislation includes timing requirements. If the enabling legislation includes timing requirements, special assessments and fines and forfeitures are recognized in the year when the resources are required to be used or when use is first permitted.

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied and the revenues are both measurable and available. 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

**G. *Inventory***

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

**H. *Fixed Assets and Depreciation***

***General Fixed Assets Account Group***

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

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

***Proprietary Fund Fixed Assets***

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

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

The City's policy is to capitalize interest on proprietary fund construction projects until substantial completion of the project.

***Valuation***

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

***I. Compensated Absences***

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

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

**J. Contributed Capital**

Contributed capital represents resources from other funds, other governments and private sources provided to proprietary funds that are not subject to repayment. These private sources are recorded at fair market value on the date contributed.

**K. Reserves of Fund Equity**

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

**L. Interfund Transactions**

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

Non-recurring and non-routine transfers of equity between funds, capital contributions to the proprietary fund type, the subsequent return of all or part of such contributions, and the transfer of residual balances of discontinued funds or projects to the general fund, capital project funds or debt service fund are classified as residual equity transfers.

All other interfund transfers are reported as operating transfers.

**M. Accrued and Long-Term Obligations**

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

**N. *Estimates***

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

**O. *Total Columns on General Purpose Financial Statements***

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

**Note 3 – Changes in Accounting Principles**

For the year 2001, the City has adopted GABS Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Nonexchange Revenues." As a result of implementation of these statements, there was no impact on prior year balances. Therefore, restatement of prior year balances is not necessary.

**Note 4 - Budgetary Basis of Accounting**

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

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 4 - Budgetary Basis of Accounting** (continued)

3. Outstanding year-end encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Proceeds from and principal payment on bond anticipation notes are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).
5. Advances are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).

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

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under)  
 Expenditures and Other Financing (Uses)  
 All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$1,195,248)	\$67,248	\$71,817	\$817,474
Net Adjustment for Revenue Accruals	366,314	(30,393)	700	6,639,574
Net Adjustment for Expenditure Accruals	(206,759)	(305,633)	181	(1,162,361)
Encumbrances	(573,870)	(570,132)	0	(5,247,234)
Budget Basis	(\$1,609,563)	(\$838,910)	\$72,698	\$1,047,453

**Note 5 - Accountability**

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

Fund	Deficit Fund Balance
Capital Project Funds	
Village South Construction	(\$974,995)
City Acquisition and Construction	(229,711)
Police Station	(1,257,877)
Barlow Community Center	(258,978)
Enterprise Fund	
Golf Course	(827,182)
Wastewater	(493,047)

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 6 - Deposits and Investments**

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

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

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

Interim monies can be deposited and invested in the following securities:

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



**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 6 - Deposits and Investments** (continued)

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

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this state, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

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.

***Cash on Hand***

At year end, the City had \$1,350 in undeposited cash on hand which is included on the Combined Balance Sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

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

***Deposits***

At year end, the carrying amount of the City's deposits was \$6,545,813 and the bank balance was \$7,129,201. Of the bank balance:

1. \$329,201 was covered by federal depository insurance; and
2. \$6,800,000 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 6 - Deposits and Investments** (continued)

***Investments***

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

	1	Category 2	3	Fair Value
Overnight Repurchase Agreements	\$0	\$0	\$1,070,000	\$1,070,000
Series "E" Bonds	3,007	0	0	3,007
Common Stock	12,825	0	0	12,825
Government Agency Obligations	0	0	16,916,014	16,916,014
	<u>\$15,832</u>	<u>\$0</u>	<u>\$17,986,014</u>	
STAR Ohio				<u>22,800,750</u>
Total Investments				<u>\$40,802,596</u>

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$47,333,927	\$15,832
Investments of Cash Management Pool:		
Overnight Repurchase Agreements	(1,070,000)	1,070,000
Government Agency Obligations	(16,916,014)	16,916,014
STAR Ohio	(22,800,750)	22,800,750
Cash on Hand	(1,350)	0
GASB Statement No. 3	<u>\$6,545,813</u>	<u>\$40,802,596</u>

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 7 - Receivables**

Receivables at December 31, 2001, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements and shared revenues. Accounts, taxes, special assessments and intergovernmental receivables are deemed collectible in full.

**Note 8 - Property Taxes**

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

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

Public utility, real, and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31, of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 80 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable as of December 31, 2001. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, 2001, and are not intended to finance 2001 operations. The receivable is therefore offset by a credit to deferred revenue.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 8 - Property Taxes** (continued)

The full tax rate for all City operations for the year ended December 31, 2001, was \$8.905 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

Category	Total Assessed Value	%
Real Property Valuation:		
Residential/Agriculture	\$584,366,030	79.64%
Commercial/Industrial/Mineral	76,188,020	10.38%
Public Utilities	72,380	0.01%
Tangible Personal Property Valuation:		
General	56,881,794	7.75%
Public Utilities	16,217,920	2.21%
Total Valuation	<u>\$733,726,144</u>	<u>100.00%</u>

**Note 9 - Income Tax**

The City levies a municipal income tax of one percent on gross salaries, wages and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted one hundred percent credit for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Authority (RITA) either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, disbursement of the revenue received from income taxes is as follows: first, all expenses of collecting the tax and of administering and enforcing the income tax ordinance are paid. Then, the balance remaining after payment of the expenses is deposited in the general fund for street construction, maintenance and repair, capital improvements and general municipal operations, or as such other fund or funds as Council may from time to time establish or designate. For 2001, municipal income tax revenue was \$7,133,984.

**Note 10 - Note Receivable**

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 11 - Intergovernmental Receivable**

Receivables at December 31, 2001 consisted of taxes, special assessments, accounts, interfund and intergovernmental arising from grants, entitlements and shared revenues. All receivables are considered collectible in full. Delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

A summary of the items of intergovernmental receivables follows:

Fund	Amount
General	\$821,787
Special Revenue Funds	
Street Construction	12,029
State Highway	975
State Permissive	176,470
County Permissive Tax	3,948
Court Computerization	492
Total Special Revenue	193,914
Capital Projects Fund	
Permissive Capital	7,898
Total All Funds	\$1,023,599

**Note 12 - Special Assessments**

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

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

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 13 - 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 the limits described in the agreement. This coverage is maintained through the general fund. There has not been a significant reduction in coverage from the prior year and claims have not exceeded coverage provided by NORMA in any of the last three years.

In addition, the City has established a health care self-insurance fund. The purpose of this fund is to pay medical, dental, vision and prescription drug 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 \$21,540 reported in the fund at December 31, 2001, is based on the requirements of Governmental Accounting Standards Board Statement No. 30 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:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2000	\$0	\$764,650	\$655,390	\$109,260
2001	\$109,260	\$225,130	\$312,850	\$21,540

**Note 14 - Fixed Assets**

A summary of the changes in general fixed assets during 2001 follows:

	Balance 01/01/2001	Additions	Deletions	Balance 12/31/2001
Land	\$11,137,353	\$771,246	\$0	\$11,908,599
Buildings	1,859,865	185,514	0	2,045,379
Equipment	6,449,123	489,775	(47,001)	6,891,897
Vehicles	2,819,318	194,917	(67,692)	2,946,543
Infrastructure	0	30,000	0	30,000
Construction in Progress	460,086	1,194,183	(460,086)	1,194,183
	\$22,725,745	\$2,865,635	(\$574,779)	\$25,016,601

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 14 - Fixed Assets** (continued)

A summary of the proprietary funds' fixed assets at December 31, 2001 follows:

	<u>Enterprise Funds</u>	<u>Internal Service Fund</u>
Land and Improvements	\$2,348,546	\$0
Buildings	4,170,158	0
Infrastructure	17,375,389	0
Machinery and Equipment	5,206,320	13,682
Vehicles	1,149,215	9,545
Construction in Progress	244,103	0
	<u>30,493,731</u>	<u>23,227</u>
Less: Accumulated Depreciation	<u>(7,278,087)</u>	<u>(3,775)</u>
Net Fixed Assets	<u><u>\$23,215,644</u></u>	<u><u>\$19,452</u></u>

**Note 15 - Note Debt**

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

	<u>Balance</u> <u>01/01/2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2001</u>
1999 Housing Development, Variable, Due 7/01	\$1,385,000	\$0	(\$1,385,000)	\$0
1999 Industrial Development, Variable, Due 11/02	2,250,000	0	0	2,250,000
2000 Golf Course Improvement, 4.58%, Due 5/01	380,000	0	(380,000)	0
2000 Water System Improvement, 4.60%, Due 5/01	1,300,000	0	(1,300,000)	0
2001 Water System Improvement, 3.10%, Due 5/02	0	1,960,000	0	1,960,000
2001 Golf Course Improvement, 3.10%, Due 5/02	0	380,000	0	380,000
2001 Community Center Expansion, 3.10%, Due 5/02	0	325,000	0	325,000
2001 Police Facility Construction, 3.10%, Due 5/02	0	3,800,000	0	3,800,000
2001 Road Improvement, 3.10%, Due 5/02	0	1,200,000	0	1,200,000
2001 Golf Course Improvement, 2.15%, Due 12/02	0	920,000	0	920,000
2001 Real Estate Acquisition, 3.20%, Due 5/02	0	1,000,000	0	1,000,000
Total Notes	<u><u>\$5,315,000</u></u>	<u><u>\$9,585,000</u></u>	<u><u>(\$3,065,000)</u></u>	<u><u>\$11,835,000</u></u>

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 15 - Note Debt** (continued)

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

**Note 16 - Long-Term Obligations**

Changes in the long-term obligations of the City during 2001 were as follows:

	<u>Balance</u> 01/01/2001	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/2001
<b>GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP</b>				
<u>General Obligation Bonds:</u>				
1992 Multipurpose 2.5% to 5.2%, Due through 2007	\$720,000	\$0	(\$90,000)	\$630,000
1992 Safety Center, 2.9% to 6.35%, Due through 2012	860,000	0	(70,000)	790,000
1998 Park Acquisition, 4.5% to 5.0%, Due through 2017	6,580,000	0	(370,000)	6,210,000
1998 Village South, 4.5% to 5.5%, Due through 2018	3,265,000	0	(125,000)	3,140,000
1999 Park Improvement, 4.5% to 4.9%, Due through 2018	1,020,000	0	(40,000)	980,000
2000 Park Improvement, 4.5% to 6.125%, Due through 2019	1,045,000	0	(35,000)	1,010,000
2000 Library Construction, 4.4% to 6.35%, Due through 2019	<u>9,420,000</u>	<u>0</u>	<u>(200,000)</u>	<u>9,220,000</u>
<b>Total General Obligation Bonds</b>	<u>22,910,000</u>	<u>0</u>	<u>(930,000)</u>	<u>21,980,000</u>
<u>Special Assessment Bonds:</u>				
1998 Sewer Improvement, 4.5% to 5.0%, Due through 2016	1,420,000	0	(60,000)	1,360,000
1998 Executive Parkway, 4.3% to 5.0%, Due through 2018	990,000	0	(40,000)	950,000
1999 Water Main Construction, 3.9% to 5.625%, Due through 2019	<u>410,000</u>	<u>0</u>	<u>(15,000)</u>	<u>395,000</u>
<b>Total Special Assessment Bonds</b>	<u>2,820,000</u>	<u>0</u>	<u>(115,000)</u>	<u>2,705,000</u>



**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 16 - Long-Term Obligations** (continued)

	<u>Balance</u> <u>01/01/2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2001</u>
Compensated Absences	863,521	0	(23,897)	839,624
Intergovernmental Payable	136,832	21,823	0	158,655
Total General Long-Term Obligations Account Group	<u>26,730,353</u>	<u>21,823</u>	<u>(1,068,897)</u>	<u>25,683,279</u>
 ENTERPRISE FUNDS				
<u>General Obligation Bonds:</u>				
Electric Fund:				
1993 Electric Improvement, 2.7% to 4.25%, Due through 2003	705,000	0	(225,000)	480,000
Water Fund:				
1998 Water System Improvement, 4.5% to 5.0%, Due through 2016	1,990,000	0	(95,000)	1,895,000
Golf Course Fund:				
Golf Course Improvement, 4.3% to 5.1%, Due through 2019	650,000	0	(40,000)	610,000
Total General Obligation Bonds	<u>3,345,000</u>	<u>0</u>	<u>(360,000)</u>	<u>2,985,000</u>
OWDA Loan, 4.04%, Due through 2018	7,556,907	0	(150,592)	7,406,315
Total Enterprise Funds	<u>10,901,907</u>	<u>0</u>	<u>(510,592)</u>	<u>10,391,315</u>
 TOTAL GENERAL LONG- TERM OBLIGATIONS	 <u>\$37,632,260</u>	 <u>\$21,823</u>	 <u>(\$1,579,489)</u>	 <u>\$36,074,594</u>

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 16 - Long-Term Obligations** (continued)

The enterprise general obligation bonds will be paid with electric, wastewater, water service charges and golf course revenues from the electric, wastewater, water enterprise and golf course funds. The OWDA loan will be repaid with income tax monies and wastewater service charges from the wastewater enterprise fund. General obligation bonds will be paid from 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. The "Intergovernmental Payable" represents pension obligations paid outside the available period and will be paid from the funds from which the employees are paid.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2001, are as follows:

Year Ending December 31	General Obligation Bonds	Enterprise General Obligation Bonds	Special Assessments Bonds	OWDA Loan	Total
2002	\$2,119,549	\$509,700	\$250,231	\$606,484	\$3,485,964
2003	2,114,061	513,698	244,906	606,484	3,479,149
2004	2,111,296	251,828	244,566	606,484	3,214,174
2005	2,100,620	255,220	243,881	606,484	3,206,205
2006	2,097,360	248,147	242,964	606,484	3,194,955
2007-2011	9,883,230	1,145,020	1,250,337	3,032,419	15,311,006
2012 - 2016	9,336,709	1,054,605	1,230,064	3,032,419	14,653,797
2017 - 2020	4,039,456	93,815	272,644	1,212,968	5,618,883
Total Principal and Interest	33,802,281	4,072,033	3,979,593	10,310,226	52,164,133
Less: Interest	(11,822,281)	(1,087,033)	(1,274,593)	(2,903,911)	(17,087,818)
Total Principal	<u>\$21,980,000</u>	<u>\$2,985,000</u>	<u>\$2,705,000</u>	<u>\$7,406,315</u>	<u>\$35,076,315</u>

The City also is a participant in a joint venture (See Note 22) that has issued Certificates of Beneficial Interest. The debt service payments are obligations of the joint venture's participants, payable from each participant's municipal electric utility systems, subject only to the prior payment of the operating and maintenance expenses. In case of default by a participant, the remaining participants become liable for that participant's debt service payments. The Certificates of Beneficial Interest are fully insured in case of total default by all participants. No defaults have occurred to date on either of these joint ventures. For accounting purposes, the obligation for repayment of the Certificates is reflected in the financial statements of the joint venture.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 16 - Long-Term Obligations** (continued)

The debt associated with Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) amounts to 5.69 percent of \$141,700,000 or approximately \$8,062,735. This percentage is based on ownership interest in equity. The total principal retirements and the portion that will be paid by the City are as follows:

Year	Certificates of Beneficial Interest	City of Hudson Amount
2002	\$3,280,000	\$186,632
2003	3,445,000	196,021
2004	3,620,000	205,978
2005	3,800,000	216,220
2006	4,000,000	227,600
2007 - 2011	23,495,000	1,336,867
2012 - 2016	30,585,000	1,740,288
2017 - 2021	39,965,000	2,274,009
2022 - 2024	29,510,000	1,679,120
Total	\$141,700,000	\$8,062,735

**Note 17 - Defined Benefit Pension Plans**

**A. Public Employees Retirement System**

All employees of the City, with the exclusion of City police officers and firefighters, participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. The PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. The PERS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)466-2085 or 1-800-222-7377.

Plan members are required to contribute eight and one-half percent of their annual covered salary to fund pension benefit obligations. The City is required to contribute 13.55 percent. Contributions are authorized by state statute. The contribution rates are determined actuarially. The City's contributions for pension obligations to the PERS for the years ending December 31, 2001, 2000 and 1999 were \$512,984, \$331,737 and \$341,034, respectively, equal to the required contributions for each year.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 17 - Defined Benefit Pension Plans** (continued)

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

All City police officers and firefighters are required to be members of the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by the OP&F's Board of Trustees. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established and may be amended by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available stand-alone 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 ten percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent, respectively, for police officers and firefighters. Contributions are authorized by State statute. The City's contributions for pension obligations to the OP&F for the years ending December 31, 2001, 2000 and 1999 were \$205,014, \$197,387 and \$137,941, respectively, equal to the required contributions for each year.

**C. *Social Security System***

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

**Note 18 - Postemployment Benefits**

**A. *Public Employees Retirement System***

The Public Employees Retirement System of Ohio (PERS) provides post-retirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the PERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate was 13.55 percent of covered payroll; 4.3 percent was the portion that was used to fund health care for the year 2001. The City's actual contributions for 2001 which were used to fund post-employment benefits were \$238,468.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 18 - Postemployment Benefits** (continued)

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54 percent and 5.1 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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

The number of active contributing participants was 411,076. The actual contribution and the actuarially required contribution amounts are the same. PERS's net assets available for payment of benefits at December 31, 2000, (the latest information available) were \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$14,364.6 million and \$2,628.7 million, respectively.

For 2001, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

In January, 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs and township police with an employee contribution rate of 10.1 percent. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 9.0 percent. The employer contribution rate for both the law enforcement and public safety divisions is 16.70 percent.

Law enforcement officer benefits permit age and service retirement at an earlier age with a different formula than for PERS members not covered under this division.

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

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll. The City's actual contributions for 2001 which were used to fund post-employment benefits were \$126,128.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 18 - Postemployment Benefits** (continued)

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

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.25 percent and 7.5 percent of covered payroll in 2000 and 2001, respectively. The allocation is 7.75 percent in 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. The number of participants eligible statewide to receive health care benefits as of December 31, 2000, the date of the last actuarial valuation available, are 12,853 for police officers and 10,037 for firefighters. The OP&F's total health care expense for the year ending December 31, 2000, the date of the last actuarial valuation available, was \$106,160,054, which was net of member contributions of \$5,657,431.

**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 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 retirement or death.

As of December 31, 2001, the total liability for unpaid compensated absences was \$1,320,991.

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**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, 2001.

**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, 2001.

**Note 21 - Interfund Transactions**

The account balances by fund of "Interfund Receivable" and "Interfund Payable" as of December 31, 2001 are as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$726,008	\$0
Special Revenue Funds:		
State Permissive	0	80,000
Fire District	0	75,000
Parks	0	130,000
Total Special Revenue Funds	0	285,000
Capital Projects Funds		
Police Station	0	25,000
Street Improvements	0	155,000
Storm Sewer Improvements	0	16,750
Total Capital Projects Funds	0	196,750
Enterprise Funds		
Storm Water Utility	0	63,600
Golf Course	0	180,658
Total Enterprise Funds	0	244,258
Total All Funds	\$726,008	\$726,008

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 22 - Joint Venture**

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

The City's electric enterprise fund has entered into an ongoing joint venture agreement with other Ohio municipal electric systems to form the Ohio Municipal Electric Generation Agency Joint Venture 1 and 5 (OMEGA JV1 and OMEGA JV5) for the purpose of providing electric power and energy to its participants on a cooperative basis. Title to the six diesel-powered generating units in OMEGA JV1 and the title to the hydroelectric project in OMEGA JV5 located at the existing Belleville Lock was transferred to the municipal electrical systems from American Municipal Power Ohio, Incorporated (AMP-Ohio), a membership organization comprised of communities throughout Ohio, West Virginia and Pennsylvania that own and operate electric systems. Each participant has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. In accordance with the joint venture agreement, the City remitted \$16,937 and \$996,991 to OMEGA JV1 and OMEGA JV5, respectively in 2001.

The City's equity interest in OMEGA JV1 and OMEGA JV5 is reported in the City's electric enterprise fund. The City's undivided ownership of OMEGA JV1 and OMEGA JV5 is 10.37 percent and 5.69 percent, respectively. The City's equity interest was \$43,558 and \$453,854 for OMEGA JV1 and OMEGA JV5, respectively, at December 31, 2001. Financial information can be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

**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 2001, the City paid \$66,974 for premiums. Financial information can be obtained by contacting the fiscal agent: City of Bedford Heights, Finance Director, 5661 Perkins Road, Bedford Heights, Ohio 44146.



**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 24 - Segment Information**

The City maintains five enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers. The table below reflects, in a summarized format, the more significant data relating to the enterprise funds of the City as of and for the year ended December 31, 2001:

	Water	Wastewater	Electric	Golf Course	Storm Water Utilities	Totals
Operating Revenue	\$1,146,524	\$1,566,615	\$12,497,466	\$832,957	\$404,785	\$16,448,347
Operating Expenses Before Depreciation	724,647	2,060,384	11,081,747	672,120	504,176	15,043,074
Depreciation Expense	223,630	170,972	171,997	51,880	9,171	627,650
Net Non-Operating Revenues (Expenses)	(27,496)	(163,743)	238,008	(144,432)	(240)	(97,903)
Operating Transfers - In	0	1,000,000	0	0	250,000	1,250,000
Net Income (Loss)	170,751	171,516	1,481,730	(35,475)	141,198	1,929,720
Fixed Asset Additions	1,560,410	152,362	385,830	2,412	334,742	2,435,756
Net Working Capital	(1,273,293)	960,991	9,751,278	(600,622)	174,949	9,013,303
Total Assets	10,678,340	8,934,775	15,120,064	3,907,768	682,458	39,323,405
OWDA Loan Payable	0	7,406,315	0	0	0	7,406,315
General Obligation Bonds Payable	1,895,000	0	480,000	610,000	0	2,985,000
Total Equity	6,282,265	1,369,909	12,487,068	1,672,818	522,984	22,335,044
Encumbrances at December 31, 2001	\$603,033	\$416,730	\$2,957,481	\$17,404	\$196,262	\$4,190,910

**Note 25 – Outstanding Contractual Commitments**

The City has the following outstanding contractual commitments for various construction projects at December 31, 2001:

Contractor	Contract and Contingency	Amount Expended	Amount Remaining
Beaver Excavating Company	\$735,401	\$701,463	\$33,938
Bochert Excavating, Inc.	36,215	32,619	3,596
C.S.A. Marking & Maintenance, Inc.	59,728	47,474	12,254
Cavanaugh Building Corporation	201,500	107,138	94,362
Emshoff Excavating, Inc.	75,016	0	75,016
Fidelity & Deposit Company of Maryland	242,900	219,914	22,986
Gabor Enterprises, Inc.	18,590	16,900	1,690
Kenmore Construction Company	2,314,355	0	2,314,355
McCourt Construction Company	543,983	0	543,983
Northern Ohio Paving Company	1,716,502	1,515,003	201,499
Spano Brothers, Inc.	584,064	536,319	47,745
Stamm Contracting	360,000	311,962	48,038
Stathos Construction	80,784	57,062	23,722
Thomas Asphalt Paving Company, Inc.	2,028,538	1,606,538	422,000
Vito Gironda Construction Company, Inc.	\$141,632	\$0	\$141,632

**City of Hudson, Ohio**  
*Notes to the General Purpose Financial Statements*  
*For the Year Ended December 31, 2001*

**Note 26 - Subsequent Events**

On May 7, 2002, the City issued \$11,795,000 in bond anticipation notes for various purposes.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

City Council  
City of Hudson  
27 E. Main Street  
Hudson, Ohio 44236

We have audited the general purpose financial statements of the City of Hudson, Summit County, Ohio, (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated June 25, 2002. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

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

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We did note certain matters involving internal control over financial reporting that do not require inclusion in this report that we have reported to the City in a separate letter dated June 25, 2002.

City Council  
City of Hudson  
Independent Auditor's Report on Compliance and on Internal Control Over Financial  
Reporting Based on an Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards*  
Page 2

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



**Steen & Kennedy LLC**  
June 25, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**CITY OF HUDSON**

**SUMMIT COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 22, 2002**