

City of Hudson, Ohio

Basic Financial Statements

For the year ended December 31, 2003



**Auditor of State
Betty Montgomery**

Members of the 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 Ciuni & Panichi, Inc., for the audit period January 1, 2003 to December 31, 2003. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 13, 2005

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City of Hudson, Ohio

For The Year Ended December 31, 2003

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City of Hudson, Ohio

For The Year Ended December 31, 2003

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Independent Auditors' Report

Members of the City Council
Hudson, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson (the "City"), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and the Street Construction Fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the financial statements, the City has implemented a new reporting model, as required by the provisions of Governmental Accounting Standards, Board Statement No. 34 *Basic Financial Statements, and Management's Discussion and Analysis – for State and Local Governments*, as of December 31, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of City Council
Hudson, Ohio

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cini & Panichi, Inc.

Cleveland, Ohio
December 13, 2004

City of Hudson, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The discussion and analysis of the City of Hudson's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; along with the review of the basic financial statements for the reader to enhance their understanding of the City's financial performance.

Using this Annual Financial Report

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

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

Reporting the City of Hudson as a Whole

Statement of Net Assets and Statement of Activities

These government-wide statements answer the question, "How did the City as a whole do financially during 2003"? They are prepared on the accrual basis of accounting, including all assets and liabilities, much the same way as for a private enterprise. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

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

- *The Statement of Net Assets.* This Statement (page 12) reports all assets and liabilities of the City as of December 31, 2003. The difference between total assets and total liabilities is reported as net assets. Increases in net assets generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.

- *The Statement of Activities.* This Statement (page 13) serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the City for the year ended December 31, 2003. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities – The reporting of services including public safety, administration and all departments, with the exception of the Water Fund, Sewer Fund, Electric Fund, Storm Water Fund and Golf Course Fund, which are reported as Business-Type Activity.

Business-Type Activity – The City reports the activity of services (Water, Sewer, Electric, Storm Water and Golf Course) where the City charges the user fees to recover the cost of providing the service as well as all capital expenses associated with the facilities.

Reporting the City of Hudson's Most Significant Funds

Fund Financial Statements

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

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

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

The City of Hudson's Water Fund, Wastewater Fund and Electric Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 20 through 22.

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

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

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

A Fiduciary fund statement is on page 23 of this report.

Other Information

Notes to the Basic Financial Statements.

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

The City of Hudson as a Whole

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Hudson, assets exceed liabilities by \$23,284,951 in governmental activities and \$25,521,752 in business-type activities as of December 31, 2003. The largest portion of the City's net assets reflects its investment in capital assets (ie.; land, buildings, equipment and machinery, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens, consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets are presented in the following table:

TABLE 1
NET ASSETS

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Assets			
Current Assets	\$45,751,033	\$18,758,780	\$64,509,813
Capital Assets, Net	26,939,998	29,007,486	55,947,484
Total Assets	72,691,031	47,766,266	120,457,297
Liabilities			
Current and Other Liabilities	19,655,109	3,357,070	23,012,179
Long-Term Liabilities, Due Within One Year	1,460,976	785,380	2,246,356
Long-Term Liabilities, Due in More Than One Year	28,289,995	18,102,064	46,392,059
Total Liabilities	49,406,080	22,244,514	71,650,594
Net Assets			
Invested in Capital			
Assets, Net of Debt	7,721,802	8,642,666	16,364,468
Restricted	18,369,211	0	18,369,211
Unrestricted	(2,806,062)	16,879,086	14,073,024
Total Net Assets	\$23,284,951	\$25,521,752	\$48,806,703

Table 2 below, indicates the changes in net assets for the year ended December 31, 2003. Since these are the first financial statements under GASB Statement No. 34, comparative data is not available for revenue and expenses for 2003 versus 2002. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

TABLE 2
CHANGE IN NET ASSETS

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Revenues			
Program Revenues:			
Charges for Services	\$515,814	\$15,820,015	\$16,335,829
Operating Grants and Contributions	682,734	0	682,734
General Revenues:			
Taxes	13,121,253	0	13,121,253
Grants and Entitlements Not Restricted to Specific Programs	4,839,515	0	4,839,515
Gain on Sale of Capital Assets	95,170	3,045	98,215
Investment Income	935,006	93,667	1,028,673
Miscellaneous	1,455,979	116,549	1,572,528
Transfers In	0	1,542,071	1,542,071
Total Revenues	21,645,471	17,575,347	39,220,818
Expenses			
Program Expenses:			
General Government	5,742,228	0	5,742,228
Security of Persons and Property	6,678,467	0	6,678,467
Public Services	422	0	422
Public Health	693,053	0	693,053
Leisure Time Services	1,108,167	0	1,108,167
Community and Economic Development	1,511,699	0	1,511,699
Transportation	3,809,204	0	3,809,204
Interest and Fiscal Charges	1,793,550	0	1,793,550
Water	0	1,501,869	1,501,869
Wastewater	0	2,422,023	2,422,023
Electric	0	10,181,157	10,181,157
Storm Water	0	805,870	805,870
Golf Course	0	879,472	879,472
Transfers Out	1,542,071	0	1,542,071
Total Expenses	22,878,861	15,790,391	38,669,252
Increase (Decrease) in Net Assets	(\$1,233,390)	\$1,784,956	\$551,566

Governmental Activities

The City income tax is the largest contributor of revenues sources in governmental activities accounting for 34% of total revenues. Property and other local taxes generate 27% and grants and entitlements generate 22% of total revenues.

Security of Persons and Property account for 31% of governmental expenses, general government accounts for 27% of governmental expenses while transportation costs represent 18% of governmental expenses respectively.

Business-Type Activities

The City's business-type activities are the water, wastewater, electric, storm water and golf course departments. Charges for services generated 90% of all revenues in the business-type activities.

For 2003, the base charge for a residential water meter was increased from \$8.00 to \$9.50 per month. The consumption rate for the first 2,000 cubic feet of water did not change and the rate for consumption greater than 2,000 cubic feet increased from \$2.15 to \$2.40. The base rate for sewer increased from \$5.32 to \$5.85 per 100 cubic feet and the availability charge increased from \$6.27 to \$6.90 per month. These increases were approved by City Council to fund the water and sewer system operations and finance the infrastructure costs. The electric rates were unchanged for 2003 and remain at a very competitive rate of \$.07942 for the first 1,600 kilowatt hours and \$.0627 for usage greater than 1,600. The minimum customer charge remained at \$6.24 per meter per month. The storm water fee remained at \$3.00 per equivalent residential unit per month. With the passage of the income tax increase, this fee will no longer be in effect beginning January 1, 2005. The golf course increased its greens fees and cart rental by \$.50 to \$1.00 depending on the type of round played (18 or 9 holes).

Individual Funds Summary and Analysis

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$19,611,794, a decrease of \$5,984,384 in comparison with the prior year. Approximately 67% of this total amount of \$19,611,794 is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not readily available for new spending since it has already been committed to liquidate contracts and purchase commitments, to pay debt service or for a variety of other restricted purposes.

The General Fund is the primary operating fund of the City of Hudson. At the end of the current year, the General Funds' unreserved balance was \$8,259,738, while the total fund balance was \$8,733,021. As a measure of the general funds liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 49% of total General Fund expenditures, while total fund balance represents 52% of that same amount. The General Fund balance decreased by \$1,431,003 or 14% over the prior year primarily due to increased transfers to other funds, decreased inheritance tax revenue and decreased interest income.

The other major governmental funds of the City are Street Improvements (Service Department), Street Construction, City Acquisition and Construction, and Library Construction.

The fund balance of the Street Improvements Fund decreased by \$1,242,753. The decrease is primarily due to increased costs of snow and ice removal and flood related expenses.

The fund balance for the Street Capital Construction Fund decreased by \$260,902. The decrease is due to the start of the Stoney Hill/Route 91 project and the recognition of the related expenses. The project funds were included in the beginning balance.

The fund balance for the City Acquisition and Construction Fund decreased by \$2,618,944. The decrease is due to the progress of the project and the recognition of related costs.

The fund balance for the Library Construction Fund decreased by \$51,038. The small decrease is due to cost incurred during the design and planning stage of for the new library offset by interest earned on the balance of bond proceeds.

Proprietary Funds – The City's proprietary funds provide the same type of information found in the government-wide business-type activity financial statements, but in more detail. Net assets in the Water, Wastewater and Electric increased \$1,040 (.01%), \$499,371 (29%) \$1,238,736 (9%), respectively.

Budgetary Highlights

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

In the General Fund, the original budgeted revenues as compared to the final budgeted revenue did not include an estimated \$800,000 in inheritance tax proceeds as well as \$1,450,000 advance in/out to/from the City Acquisition and Construction Fund. Actual intergovernmental revenue exceeded the final budget amount by approximately \$430,000 primarily due greater than anticipated inheritance and kilowatt hour taxes and local government revenues. Other sources exceeded the final budget amount by approximately \$420,000 due to reimbursements from the Ohio Department of Natural Resources and 2002 Paving Project.

Actual General Fund expenditures compared to the budget reflected approximately \$471,000 remaining in unencumbered funds as of December 31, 2003. Security of persons and property which is largely the Police Department activity, accounted for \$131,000 of those unencumbered funds and general government accounted for \$288,000. The Police Department personnel costs, primarily part-time compensation and severance pay, were substantially less than budgeted. General government departments' actual costs were generally less than budgeted, with the largest variance being from funds budgeted for the Prospect site remediation not being encumbered by year end. The transfers out of the General Fund were approximately \$785,000 less than budgeted because funds had been previously transferred for the Stoney Hill/Route 91 project.

In the Street Improvements Fund, the original budget expenses as compared to the final budgeted expenses did not include additional personnel and severance pay along with increased snow and ice removal costs and expenses related to the flooding. There were no significant differences between the final budget and actual activity.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of December 31, 2003, amounts to \$55,451,454 (net of accumulated depreciation). This investment in capital assets includes land; building structures and improvements; furniture, fixtures and equipment; and infrastructure.

Debt

At December 31, 2003, the City had \$45,997,905 of long-term bonds, loans and other outstanding obligations, excluding compensated absences. Details of the individual obligations can be found on pages 46 through 51.

The City also had short-term notes outstanding at December 31, 2003 totaling \$14,155,000. These notes were issued to temporarily fund the downtown development project (\$8,100,000), Milford Road/Route 91 connector project (\$4,200,000), the second 138 KV delivery point for the electric system (\$1,000,000) and the Executive Parkway, Cohasset pump station and Division Street sanitary sewer system improvements (\$855,000). These notes matured in May 2004 and were rolled into a long-term bond issue. The downtown development project portion of the notes was paid down by \$1,100,000 bringing the total bonds issued in May 2004 to \$13,055,000.

The general obligation indebtedness of the City is subject to two statutory debt limitations referred to as the direct debt limitation: (Section 133.05 ORC). Certain debt, with a repayment source other than general tax revenue, is excluded from the definition of net indebtedness. Under that definition, the City has \$20,100,000 of net indebtedness as of December 31, 2003. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5% of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was \$24,603,560 as of December 31, 2003. The total principal amount of voted and unvoted nonexempt net indebtedness of the City may not exceed 10.5% of its assessed value of real and personal property. Total net indebtedness for both voted and unvoted issues was \$37,835,000 leaving the City's overall legal debt margin at \$47,508,160 as of December 31, 2003.

Future Funding Considerations

Hudson voters approved an increase in the City's income tax rate going from 1% to 2% effective January 1, 2005. As part of the passage, City Council agreed to no longer collect the property taxes for the Fire, EMS and Parks operating levies and eliminate the storm water utility. The legislation approving the income tax increase provides for 4.5% of the total income taxes to go toward EMS operations; 7.5% to the Fire operations; 7.5% to the Parks operations and 6.75% to go toward Community Learning Centers in cooperation with Hudson Schools. The remaining portion is not legally designated and is subject to City Council's discretion. The emphasis behind the use of the additional discretionary funds will be to improve the City's storm water and sewer system including its infrastructure.

Contacting the City Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City's Finance Department at 330-650-1799 or at 27 East Main Street, Hudson, Ohio 44236.

City of Hudson, Ohio
Summit County
Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$22,246,503	\$15,745,787	\$37,992,290
Cash and Cash Equivalents in Segregated Accounts	9,969,336	28,921	9,998,257
Investment in Common Stock	13,805	0	13,805
Investments in Segregated Accounts	2,499	0	2,499
Investments			
With Escrow Agent	10,000	0	10,000
Materials and Supplies Inventory	152,229	1,298,136	1,450,365
Accounts Receivable	327,139	2,026,626	2,353,765
Internal Balances	392,676	(392,676)	0
Intergovernmental Receivable	2,374,853	0	2,374,853
Taxes Receivable	7,389,423	0	7,389,423
Special Assessments Receivable	2,872,570	51,986	2,924,556
Noncurrent Assets:			
Investment in Joint Venture	0	496,030	496,030
Non-Depreciable Capital Assets	17,032,861	7,107,900	24,140,761
Depreciable Capital Assets, Net	9,907,137	21,403,556	31,310,693
<i>Total Assets</i>	<u>72,691,031</u>	<u>47,766,266</u>	<u>120,457,297</u>
Liabilities			
Current Liabilities:			
Accounts Payable	1,138,119	1,226,508	2,364,627
Accrued Wages and Benefits	190,866	78,383	269,249
Intergovernmental Payable	386,070	123,630	509,700
Matured Interest Payable	10,000	0	10,000
Accrued Interest Payable	137,462	44,628	182,090
Retainage Payable	0	28,921	28,921
Claims Payable	13,334	0	13,334
Deferred Revenue	5,479,258	0	5,479,258
Notes Payable	12,300,000	1,855,000	14,155,000
Noncurrent Liabilities:			
Due Within One Year	1,460,976	785,380	2,246,356
Due In More Than One Year	28,289,995	18,102,064	46,392,059
<i>Total Liabilities</i>	<u>49,406,080</u>	<u>22,244,514</u>	<u>71,650,594</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	7,721,802	8,642,666	16,364,468
Restricted for Debt Service	3,439,662	0	3,439,662
Restricted for Capital Projects	11,971,368	0	11,971,368
Restricted for Other Purposes	2,924,545	0	2,924,545
Restricted for Non-Expendable Trust	33,636	0	33,636
Unrestricted	(2,806,062)	16,879,086	14,073,024
<i>Total Net Assets</i>	<u>\$23,284,951</u>	<u>\$25,521,752</u>	<u>\$48,806,703</u>

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Statement of Activities
For the Fiscal Year Ended December 31, 2003

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General Government	\$5,742,228	\$98,058	\$96,936	(\$5,547,234)	\$0	(\$5,547,234)
Security of Persons and Property	6,678,467	88,842	169,950	(6,419,675)	0	(6,419,675)
Public Services	422	0	11	(411)	0	(411)
Public Health	693,053	86,758	4,757	(601,538)	0	(601,538)
Leisure Time Services	1,108,167	216,059	0	(892,108)	0	(892,108)
Community and Economic Development	1,511,699	26,097	411,080	(1,074,522)	0	(1,074,522)
Transportation	3,809,204	0	0	(3,809,204)	0	(3,809,204)
Interest and Fiscal Charges	1,793,550	0	0	(1,793,550)	0	(1,793,550)
<i>Total Governmental Activities</i>	<u>21,336,790</u>	<u>515,814</u>	<u>682,734</u>	<u>(20,138,242)</u>	<u>0</u>	<u>(20,138,242)</u>
Business-Type Activities						
Electric System	10,181,157	11,308,700	0	0	1,127,543	1,127,543
Golf Course System	879,472	858,517	0	0	(20,955)	(20,955)
Storm Sewer System	805,870	395,324	0	0	(410,546)	(410,546)
Wastewater System	2,422,023	1,884,218	0	0	(537,805)	(537,805)
Water System	1,501,869	1,373,256	0	0	(128,613)	(128,613)
<i>Total Business-Type Activities</i>	<u>15,790,391</u>	<u>15,820,015</u>	<u>0</u>	<u>0</u>	<u>29,624</u>	<u>29,624</u>
Totals	<u>\$37,127,181</u>	<u>\$16,335,829</u>	<u>\$682,734</u>	<u>(\$20,138,242)</u>	<u>\$29,624</u>	<u>(\$20,108,618)</u>
General Revenues						
Income Taxes				7,260,253	0	7,260,253
Grants and Entitlements not Restricted to Specific Programs				4,839,515	0	4,839,515
Investment Earnings				935,006	93,667	1,028,673
Gain on Sale of Capital Assets				95,170	3,045	98,215
Miscellaneous				1,455,979	116,549	1,572,528
Transfers				(1,542,071)	1,542,071	0
Property and Other Local Taxes				5,861,000	0	5,861,000
<i>Total General Revenues</i>				<u>18,904,852</u>	<u>1,755,332</u>	<u>20,660,184</u>
Change in Net Assets				(1,233,390)	1,784,956	551,566
<i>Net Assets Beginning of Year</i>				<u>24,518,341</u>	<u>23,736,796</u>	<u>48,255,137</u>
<i>Net Assets End of Year</i>				<u>\$23,284,951</u>	<u>\$25,521,752</u>	<u>\$48,806,703</u>

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Balance Sheet
Governmental Funds
December 31, 2003

	General	Street Construction	Street Improvements	City Acquisition/ Construction	Library Construction	Non-Major Governmental Funds	Total Governmental Funds
Assets							
Current Assets:							
Equity in Pooled Cash and Cash Equivalents	\$7,396,722	\$321,386	\$5,226,841	\$4,934,560	\$0	\$3,385,269	\$21,264,778
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	9,924,608	44,728	9,969,336
Investment in Common Stock	0	0	0	0	0	13,805	13,805
Investments in Segregated Accounts	0	0	0	0	0	2,499	2,499
Investments:							
With Escrow Agent	0	0	0	0	0	10,000	10,000
Materials and Supplies Inventory	31,660	59,818	0	0	0	21,677	113,155
Accounts Receivable	36,740	0	0	0	0	290,399	327,139
Interfund Receivable	441,008	0	0	0	0	0	441,008
Intergovernmental Receivable	790,965	316,206	658,400	0	0	609,282	2,374,853
Taxes Receivable	3,811,294	0	0	0	0	3,578,129	7,389,423
Special Assessments Receivable	0	0	0	0	0	2,872,570	2,872,570
Noncurrent Assets:							
Advances to Other Funds	100,000	0	0	0	0	0	100,000
Total Assets	\$12,608,389	\$697,410	\$5,885,241	\$4,934,560	\$9,924,608	\$10,828,358	\$44,878,566
Liabilities							
Current Liabilities:							
Accounts Payable	\$179,274	\$152,172	\$233,619	\$470,283	\$0	\$68,906	\$1,104,254
Accrued Wages and Benefits	129,943	25,377	0	0	0	30,395	185,715
Intergovernmental Payable	257,166	38,095	0	0	0	80,617	375,878
Matured Interest Payable	0	0	0	0	0	10,000	10,000
Accrued Interest Payable	0	0	6,475	12,487	0	0	18,962
Interfund Payable	0	0	155,000	0	0	25,000	180,000
Deferred Revenue	3,276,914	200,754	658,400	0	0	6,911,757	11,047,825
Notes Payable	0	0	4,200,000	8,100,000	0	0	12,300,000
Compensated Absences Payable	32,071	5,476	0	0	0	6,591	44,138
Total Liabilities	3,875,368	421,874	5,253,494	8,582,770	0	7,133,266	25,266,772
Fund Balances							
Reserved for Encumbrances	373,283	16,530	1,003,634	3,660,867	0	315,518	5,369,832
Reserved for Advance	100,000	0	0	0	0	0	100,000
Reserved for Principal Trust	0	0	0	0	0	6,473	6,473
Reserved for Debt Service Principal	0	0	0	0	0	1,018,195	1,018,195
Reserved for Investments	0	0	0	0	0	2,499	2,499
Reserved for Common Stock	0	0	0	0	0	13,805	13,805
Unreserved, Undesignated, Reported in:							
General Fund	8,259,738	0	0	0	0	0	8,259,738
Special Revenue Funds	0	259,006	0	0	0	2,339,786	2,598,792
Debt Service Funds	0	0	0	0	0	(564,775)	(564,775)
Capital Projects Funds	0	0	(371,887)	(7,309,077)	9,924,608	536,428	2,780,072
Permanent Funds	0	0	0	0	0	27,163	27,163
Total Fund Balances	8,733,021	275,536	631,747	(3,648,210)	9,924,608	3,695,092	19,611,794
Total Liabilities and Fund Balances	\$12,608,389	\$697,410	\$5,885,241	\$4,934,560	\$9,924,608	\$10,828,358	\$44,878,566

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2003

Total Governmental Funds Balances \$19,611,794

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 25,489,776

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

Taxes	915,634
Grants	917,857
Special Assessments	2,872,570
Intergovernmental	862,506
	5,568,567

Total 5,568,567

An internal service fund is used by management to charge the costs of insurance to individual funds, the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets 2,374,363

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

General Obligation Bonds	(25,535,000)
Special Assessment Bonds	(2,465,000)
Compensated Absences	(1,617,853)
Capital Leases Payable	(23,196)
Accrued Interest Payable	(118,500)
	(29,759,549)

Total (29,759,549)

Net Assets of Governmental Activities \$23,284,951

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended December 31, 2003

	General	Street Construction	Street Improvements	City Acquisition/ Construction	Library Construction	Non-Major Governmental Funds	Total Governmental Funds
Revenues							
Property and Other Local Taxes	\$2,263,709	\$0	\$0	\$0	\$0	\$3,476,041	\$5,739,750
Income Taxes	7,166,649	0	0	0	0	0	7,166,649
Special Assessments	0	0	0	0	0	273,011	273,011
Charges for Services	113,099	0	0	0	0	301,258	414,357
Licenses and Permits	93,606	0	0	0	0	6,951	100,557
Fines and Forfeitures	0	0	0	0	0	900	900
Intergovernmental	2,557,310	658,577	0	0	0	1,297,654	4,513,541
Interest	461,870	0	101,387	185,781	116,246	69,572	934,856
Other	639,440	5,295	584,075	54,230	0	148,708	1,431,748
<i>Total Revenues</i>	<u>13,295,683</u>	<u>663,872</u>	<u>685,462</u>	<u>240,011</u>	<u>116,246</u>	<u>5,574,095</u>	<u>20,575,369</u>
Expenditures							
Current:							
General Government	3,972,483	0	0	0	0	39,884	4,012,367
Security of Persons and Property	3,331,559	0	0	0	0	1,519,919	4,851,478
Public Services	0	0	0	0	0	1,110	1,110
Public Health	264,091	0	0	0	0	224,557	488,648
Leisure Time Services	0	0	0	0	0	785,967	785,967
Community and Economic Developme	1,232,312	0	0	0	0	0	1,232,312
Transportation	0	2,710,302	0	0	0	0	2,710,302
Capital Outlay	198,868	63,091	3,728,841	4,989,092	167,284	1,000,112	10,147,288
Debt Service:							
Principal Retirement	0	0	0	0	0	1,120,000	1,120,000
Interest and Fiscal Charges	0	0	53,613	135,820	0	1,485,617	1,675,050
<i>Total Expenditures</i>	<u>8,999,313</u>	<u>2,773,393</u>	<u>3,782,454</u>	<u>5,124,912</u>	<u>167,284</u>	<u>6,177,166</u>	<u>27,024,522</u>
<i>Excess (Deficiency) of Revenues Over (Under) Expenditures</i>	<u>4,296,370</u>	<u>(2,109,521)</u>	<u>(3,096,992)</u>	<u>(4,884,901)</u>	<u>(51,038)</u>	<u>(603,071)</u>	<u>(6,449,153)</u>
Other Financing Sources (Uses)							
Transfers In	15,228	1,848,619	1,845,965	2,250,000	0	385,542	6,345,354
Premium on Debt Issued	0	0	8,274	15,957	0	0	24,231
Proceeds from Sale of Capital Assets	1,959,413	0	0	0	0	0	1,959,413
Inception of Capital Lease	23,196	0	0	0	0	0	23,196
Transfers Out	(7,725,210)	0	0	0	0	(162,215)	(7,887,425)
<i>Total Other Financing Sources (Uses)</i>	<u>(5,727,373)</u>	<u>1,848,619</u>	<u>1,854,239</u>	<u>2,265,957</u>	<u>0</u>	<u>223,327</u>	<u>464,769</u>
<i>Net Change in Fund Balances</i>	<u>(1,431,003)</u>	<u>(260,902)</u>	<u>(1,242,753)</u>	<u>(2,618,944)</u>	<u>(51,038)</u>	<u>(379,744)</u>	<u>(5,984,384)</u>
<i>Fund Balance (Deficit) Beginning of Year</i>	<u>10,164,024</u>	<u>536,438</u>	<u>1,874,500</u>	<u>(1,029,266)</u>	<u>9,975,646</u>	<u>4,074,836</u>	<u>25,596,178</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>\$8,733,021</u>	<u>\$275,536</u>	<u>\$631,747</u>	<u>(\$3,648,210)</u>	<u>\$9,924,608</u>	<u>\$3,695,092</u>	<u>\$19,611,794</u>

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds (\$5,984,384)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 6,410,854

The net effect of various miscellaneous transactions involving capital assets (i.e. sales) is to decrease net assets. (1,897,846)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property Taxes	121,250	
Special Assessments	(245,189)	
Income Tax	93,604	
Intergovernmental Revenue	<u>980,886</u>	950,551

Long-term note proceeds provide current financial resources to governmental funds, but, issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term note principal is an expenditure in the governmental funds, but, the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayment. 1,096,804

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (118,500)

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represent contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (1,617,853)

The internal service funds used by management to charge the costs of insurance and Workers' Compensation to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. (73,016)

Change in Net Assets of Governmental Activities (\$1,233,390)

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Fiscal Year Ended December 31, 2003

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property and Other Local Taxes	\$2,078,881	\$2,277,445	\$2,263,709	(\$13,736)
Income Taxes	7,416,000	7,416,000	7,367,692	(48,308)
Charges for Services	0	130,000	112,919	(17,081)
Licenses and Permits	0	86,000	98,915	12,915
Intergovernmental	1,808,790	2,533,114	2,963,742	430,628
Interest	950,000	950,000	874,791	(75,209)
Other	0	0	89,019	89,019
Total Revenues	12,253,671	13,392,559	13,770,787	378,228
Expenditures				
Current:				
General Government	4,316,649	4,539,812	4,251,208	288,604
Security of Persons and Property	3,510,970	3,561,702	3,430,175	131,527
Public Health	264,237	264,237	264,236	1
Community and Economic Development	1,217,653	1,387,772	1,351,628	36,144
Capital Outlay	130,750	355,653	340,775	14,878
Total Expenditures	9,440,259	10,109,176	9,638,022	471,154
Excess of Revenues Over Expenditures	2,813,412	3,283,383	4,132,765	849,382
Other Financing Sources (Uses)				
Transfers In	41,720	21,720	15,228	(6,492)
Proceeds from Sale of Capital Assets	1,277,119	1,960,000	1,959,413	(587)
Advances In	0	1,450,000	1,450,000	0
Other Financing Sources	94,000	94,000	514,738	420,738
Transfers Out	(7,430,500)	(8,510,710)	(7,725,210)	785,500
Advances Out	0	(1,550,000)	(1,550,000)	0
Total Other Financing Sources (Uses)	(6,017,661)	(6,534,990)	(5,335,831)	1,199,159
Net Change in Fund Balance	(3,204,249)	(3,251,607)	(1,203,066)	2,048,541
Fund Balance at Beginning of Fiscal Year	7,720,651	7,720,651	7,720,651	0
Prior Fiscal Year Encumbrances Appropriated	643,688	643,688	643,688	0
Fund Balance at End of Fiscal Year	\$5,160,090	\$5,112,732	\$7,161,273	\$2,048,541

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Street Construction
For the Fiscal Year Ended December 31, 2003

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$595,000	\$595,000	\$618,525	\$23,525
Other	1,650,170	0	5,295	5,295
Total Revenues	2,245,170	595,000	623,820	28,820
Expenditures				
Current:				
Transportation	2,301,963	2,815,475	2,787,065	28,410
Capital Outlay	64,200	73,515	73,515	0
Total Expenditures	2,366,163	2,888,990	2,860,580	28,410
Excess of Revenues (Under) Expenditures	(120,993)	(2,293,990)	(2,236,760)	57,230
Other Financing Sources				
Transfers In	0	1,822,000	1,848,619	26,619
Refund of Prior Year Expenditures	0	0	7	7
Total Other Financing Sources	0	1,822,000	1,848,626	26,626
Net Change in Fund Balance	(120,993)	(471,990)	(388,134)	83,856
Fund Balance at Beginning of Fiscal Year	308,564	308,564	308,564	0
Prior Fiscal Year Encumbrances Appropriated	300,904	300,904	300,904	0
Fund Balance at End of Fiscal Year	\$488,475	\$137,478	\$221,334	\$83,856

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Water	Wastewater	Electric	All Other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Assets						
Current Assets:						
Equity in Pooled Cash and Cash Equivalents	\$1,643,711	\$1,885,615	\$10,795,010	\$1,421,451	\$15,745,787	\$981,725
Cash and Cash Equivalents in Segregated Account	28,921	0	0	0	28,921	0
Materials and Supplies Inventory	201,640	0	1,008,448	88,048	1,298,136	39,074
Accounts Receivable	172,778	261,859	1,554,954	37,035	2,026,626	0
Special Assessments Receivable	51,986	0	0	0	51,986	0
Total Current Assets	2,099,036	2,147,474	13,358,412	1,546,534	19,151,456	1,020,799
Noncurrent Assets:						
Investment in Joint Venture	0	0	496,030	0	496,030	0
Non-Depreciable Capital Assets	881,858	68,337	2,815,870	3,341,835	7,107,900	11,967
Depreciable Capital Assets, Net	8,708,392	8,069,518	3,353,896	1,271,750	21,403,556	1,438,255
Total Noncurrent Assets	9,590,250	8,137,855	6,665,796	4,613,585	29,007,486	1,450,222
Total Assets	11,689,286	10,285,329	20,024,208	6,160,119	48,158,942	2,471,021
Liabilities						
Current Liabilities:						
Accounts Payable	71,831	187,392	855,728	111,557	1,226,508	33,865
Accrued Wages and Benefits	11,807	11,787	39,598	15,191	78,383	5,151
Intergovernmental Payable	16,745	16,724	61,485	28,676	123,630	10,192
Accrued Interest Payable	22,076	1,318	9,490	11,744	44,628	0
Retainage Payable	28,921	0	0	0	28,921	0
Interfund Payable	0	0	0	261,008	261,008	0
Claims Payable	0	0	0	0	0	13,334
Notes Payable	0	855,000	1,000,000	0	1,855,000	0
Compensated Absences Payable	7,470	7,470	27,980	8,516	51,436	3,064
General Obligation Bonds Payable	170,000	0	75,000	145,000	390,000	0
Capital Leases Payable	0	0	0	7,724	7,724	0
OWDA Loans Payable	0	336,220	0	0	336,220	0
Total Current Liabilities	328,850	1,415,911	2,069,281	589,416	4,403,458	65,606
Noncurrent Liabilities:						
Advances from Other Funds	0	100,000	0	0	100,000	0
Compensated Absences Payable - Net of Current Portion	137,212	137,212	423,796	123,998	822,218	62,720
General Obligation Bonds Payable - Net of Current Portion	5,565,000	0	2,155,000	3,115,000	10,835,000	0
Capital Leases Payable - Net of Current Portion	0	0	0	8,161	8,161	0
OWDA Loans Payable - Net of Current Portion	0	6,436,685	0	0	6,436,685	0
Total Noncurrent Liabilities	5,702,212	6,673,897	2,578,796	3,247,159	18,202,064	62,720
Total Liabilities	6,031,062	8,089,808	4,648,077	3,836,575	22,605,522	128,326
Net Assets						
Invested in Capital Assets, Net of Related Debt	3,855,250	509,950	2,939,766	1,337,700	8,642,666	1,450,222
Unrestricted	1,802,974	1,685,571	12,436,365	985,844	16,910,754	892,473
Total Net Assets	\$5,658,224	\$2,195,521	\$15,376,131	\$2,323,544	25,553,420	\$2,342,695
					Adjustment to reflect the consolidation of Internal Service Fund activities	(31,668)
					Net Assets of Business-Type Activities	\$25,521,752

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended December 31, 2003

	Water	Wastewater	Electric	All Other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Operating Revenues						
Charges for Services	\$1,373,256	\$1,884,218	\$11,308,700	\$1,253,841	\$15,820,015	\$1,127,626
Other	18	18	29,907	4,485	34,428	52,693
<i>Total Operating Revenues</i>	<u>1,373,274</u>	<u>1,884,236</u>	<u>11,338,607</u>	<u>1,258,326</u>	<u>15,854,443</u>	<u>1,180,319</u>
Operating Expenses						
Personal Services	636,957	439,507	1,950,312	889,745	3,916,521	281,989
Contractual Services	232,832	1,231,972	7,729,530	310,100	9,504,434	121,774
Materials and Supplies	106,812	42,226	110,076	209,274	468,388	272,349
Claims	0	0	0	0	0	169,177
Depreciation	244,420	199,932	217,227	80,861	742,440	378,686
Capital Outlay	0	215,555	0	22,260	237,815	85,016
Other	0	3,047	2,562	61,627	67,236	0
<i>Total Operating Expenses</i>	<u>1,221,021</u>	<u>2,132,239</u>	<u>10,009,707</u>	<u>1,573,867</u>	<u>14,936,834</u>	<u>1,308,991</u>
<i>Operating Income (Loss)</i>	<u>152,253</u>	<u>(248,003)</u>	<u>1,328,900</u>	<u>(315,541)</u>	<u>917,609</u>	<u>(128,672)</u>
Non-Operating Revenues (Expenses)						
Interest	37,823	0	0	15,752	53,575	150
Increase in Fair Value of Capital Assets						
Equity Interest in Joint Venture -	0	0	40,092	0	40,092	0
Proceeds from Sale of Capital Assets	1,473	0	1,572	0	3,045	23,838
Other Non-Operating Revenues	77,068	1,684	3,369	0	82,121	0
Interest and Fiscal Charges	(276,437)	(284,764)	(147,973)	(112,715)	(821,889)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(160,073)</u>	<u>(283,080)</u>	<u>(102,940)</u>	<u>(96,963)</u>	<u>(643,056)</u>	<u>23,988</u>
<i>Income (Loss) Before Transfers</i>	<u>(7,820)</u>	<u>(531,083)</u>	<u>1,225,960</u>	<u>(412,504)</u>	<u>274,553</u>	<u>(104,684)</u>
Transfers In	8,860	1,030,454	12,776	489,981	1,542,071	0
<i>Change in Net Assets</i>	<u>1,040</u>	<u>499,371</u>	<u>1,238,736</u>	<u>77,477</u>	<u>1,816,624</u>	<u>(104,684)</u>
<i>Net Assets at Beginning of Year</i>	<u>5,657,184</u>	<u>1,696,150</u>	<u>14,137,395</u>	<u>2,246,067</u>		<u>2,447,379</u>
<i>Net Assets at End of Year</i>	<u>\$5,658,224</u>	<u>\$2,195,521</u>	<u>\$15,376,131</u>	<u>\$2,323,544</u>		<u>\$2,342,695</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to Enterprise Funds					(31,668)	
Change in Business-Type Activities (page 13)					<u>\$1,784,956</u>	

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Enterprise Funds				Total Enterprise Funds	Governmental Activity
	Water	Wastewater	Electric	All Other Enterprise Funds		Internal Service Funds
Cash Flows from Operating Activities						
Cash Received from Customers	\$1,395,920	\$1,925,344	\$11,842,193	\$1,265,298	\$16,428,755	\$1,127,755
Cash Payments to Employees for Services	(569,380)	(386,145)	(1,767,457)	(858,422)	(3,581,404)	(282,597)
Cash Payments for Goods and Services	(425,525)	(1,490,043)	(8,816,972)	(565,969)	(11,298,509)	(458,879)
Cash Payments for Claims	0	0	0	0	0	(166,247)
Other Operating Revenues	18	18	29,907	4,485	34,428	52,693
Other Operating Expenses	0	(3,047)	(2,562)	(61,602)	(67,211)	0
Net Cash Provided by (Used for) Operating Activities	401,033	46,127	1,285,109	(216,210)	1,516,059	272,725
Cash Flows from Noncapital Financing Activities						
Operating Transfers In	8,860	1,030,454	12,776	489,981	1,542,071	0
Short-Term Loans from Other Funds	0	100,000	0	0	100,000	0
Other Non-Operating Revenues	77,068	1,684	1,399	0	80,151	0
Net Cash Provided by Noncapital Financing Activities	85,928	1,132,138	14,175	489,981	1,722,222	0
Cash Flows from Capital and Related Financing Activities						
Proceeds from Sale of Notes	0	855,000	1,000,000	0	1,855,000	0
Acquisition of Capital Assets	(1,050,640)	(231,126)	0	(656,785)	(1,938,551)	(105,057)
Proceeds from Sale of Capital Assets	1,473	0	1,572	0	3,045	23,838
Premium on Debt	0	0	1,970	0	1,970	0
Payments for Capital Acquisitions	0	0	(3,038,470)	0	(3,038,470)	0
Principal Payments	(100,000)	(323,038)	(3,165,000)	(45,000)	(3,633,038)	0
Interest Payments	(277,485)	(283,446)	(162,586)	(149,183)	(872,700)	0
Net Cash Provided by (Used in) Capital and Related Financing Activities	(1,426,652)	17,390	(5,362,514)	(850,968)	(7,622,744)	(81,219)
Cash Flows from Investing Activities						
Interest on Investments	37,823	0	0	15,752	53,575	150
Net Increase (Decrease) in Cash and Cash Equivalents	(901,868)	1,195,655	(4,063,230)	(561,445)	(4,330,888)	191,656
Cash and Cash Equivalents Beginning of Year	2,545,579	689,960	14,858,240	1,982,896	20,076,675	790,069
Cash and Cash Equivalents End of Year	<u>\$1,643,711</u>	<u>\$1,885,615</u>	<u>\$10,795,010</u>	<u>\$1,421,451</u>	<u>\$15,745,787</u>	<u>\$981,725</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Operating Income (Loss)	\$152,253	(\$248,003)	\$1,328,900	(\$315,541)	\$917,609	(\$128,672)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities						
Depreciation	244,420	199,932	217,227	80,861	742,440	378,686
(Increase) Decrease in Operating Assets:						
Accounts Receivable	19,812	41,126	533,493	11,457	605,888	1,677
Materials and Supplies Inventory	(9,555)	0	(38,302)	(47,678)	(95,535)	9,651
Special Assessment Receivable	2,852	0	0	0	2,852	0
Increase (Decrease) in Operating Liabilities:						
Accounts Payable	(76,296)	(260)	(939,617)	66,712	(949,461)	10,609
Accrued Wages and Benefits	3,151	3,147	6,799	3,587	16,684	(740)
Compensated Absences Payable	70,379	51,185	153,161	35,632	310,357	(2,443)
Intergovernmental Payable	(5,983)	(1,000)	23,448	(43,927)	(27,462)	1,027
Capital Lease	0	0	0	(7,313)	(7,313)	0
Claims Payable	0	0	0	0	0	2,930
Total Adjustments	248,780	294,130	(43,791)	99,331	598,450	401,397
Net Cash Provided by (Used for) Operating Activities	<u>\$401,033</u>	<u>\$46,127</u>	<u>\$1,285,109</u>	<u>(\$216,210)</u>	<u>\$1,516,059</u>	<u>\$272,725</u>

See accompanying notes to the basic financial statements

City of Hudson, Ohio
Summit County
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$949,516
Cash and Cash Equivalents in Segregated Accounts	3,573
Taxes Receivable	<u>2,334</u>
<i>Total Assets</i>	<u><u>\$955,423</u></u>
Liabilities	
Accounts Payable	\$75,026
Undistributed Monies	504,901
Deposits Held and Due to Others	373,162
Deferred Revenue	<u>2,334</u>
<i>Total Liabilities</i>	<u><u>\$955,423</u></u>

See accompanying notes to the basic financial statements.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization’s governing board and 1) the City is able to significantly influence the programs or services performed or provided by the organization; or 2) the City is legally entitled to or can otherwise access the organization’s resources; or 3) the City is legally obligated or has otherwise assumed the responsibility to finance 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 21 and 22.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to 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 after 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.

A. *Basis Of Presentation*

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. *Fund Accounting*

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

Street Improvement - The street improvements capital projects fund accounts for the costs of the City's annual street maintenance and construction program. The more significant projects included the Seasons/Norton Road and the Milford/Route 1 connector project.

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

City Acquisition and Construction - The City acquisition and construction capital projects fund accounts for the cost of the City's share of the downtown development project and related funding sources.

Library Construction - The library construction capital projects fund accounts for the costs associated with the construction of the new library and related funding sources.

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

Proprietary Funds

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

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

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Internal Service Funds - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on a self-insurance program for employee medical benefits.

Fiduciary Funds

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

C. *Measurement Focus*

Government-Wide Financial Statements

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

Fund Financial Statements

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

D. *Basis of Accounting*

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

Revenues - Exchange and Non-Exchange Transactions

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

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetaries

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Annual Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Annual 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.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

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 2003.

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.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

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

F. *Cash, 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 Balance Sheet.

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

Following Ohio 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 2003 amounted to \$461,870, which includes \$314,047 assigned from other City funds.

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

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

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

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

G. *Interfund Balances*

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

H. *Inventory*

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

I. *Capital Assets*

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City’s infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, irrigation systems and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of capital assets is also capitalized.

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	50 years	50 years
Infrastructure	30 to 65 years	30 to 65 years
Machinery and Equipment	5 to 30 years	5 to 30 years
Vehicles	8 years	8 years

J. *Compensated Absences*

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are 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.

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

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

K. *Accrued and Long-Term Obligations*

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

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

L. *Fund Balance Reserves*

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

M. *Net Assets*

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

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

N. *Operating Revenues and Expenses*

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

O. *Contributions of Capital*

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 2 - Summary of Significant Accounting Policies (continued)

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

R. Estimates

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

Note 3 – Change in Accounting Principal and Equity

For 2003, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”; GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus”; GASB Statement No. 38, “Certain Financial Statement Note Disclosures”; and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”.

GASB Statement No. 34 creates new basic financial statements for reporting on the City’s financial activities. The basic financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 3 – Change in Accounting Principal and Equity (continued)

The government-wide financial statements split the City’s programs between governmental activities and business-type activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity for the enterprise funds from the prior year.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management’s Discussion and Analysis. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

Due to implementation of GASB Statement No. 34, the Endowment Trust Fund and the Dean May Trust Funds were reclassified as Special Revenue Funds.

	City					Nonmajor Government Funds	Total Governmental Activities
	General Fund	Street Construction	Acquisition and Construction	Street Improvements	Library Construction		
Fund Balance at December 31, 2002	\$10,164,024	\$536,438	(\$1,029,266)	\$1,874,500	\$9,975,646	\$4,042,108	\$25,563,450
Change in Fund Structure	0	0	0	0	0	32,728	32,728
Adjusted Fund Balance	<u>\$10,164,024</u>	<u>\$536,438</u>	<u>(\$1,029,266)</u>	<u>\$1,874,500</u>	<u>\$9,975,646</u>	<u>\$4,074,836</u>	<u>\$25,596,178</u>
							Adjusted Fund Balance, December 31, 2002
							\$25,596,178
							GASB Statement No. 34 Adjustments:
							Long-Term (Deferred) Assets
							4,618,016
							Capital Assets
							20,976,768
							Internal Service Reclassified to Governmental
							2,447,379
							Long-Term Liabilities
							(29,120,000)
							<u>Governmental Activities Net Assets, December 31, 2002</u>
							<u>\$24,518,341</u>

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.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 4 - Budgetary Basis of Accounting (continued)

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

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

	Net Changes in Fund Balance	
	General Fund	Street Construction
GAAP Basis	(\$1,431,003)	(\$260,902)
Net Adjustment for Revenue Accruals	2,416,646	(40,045)
Net Adjustment for Expenditure Accruals	(2,701,924)	(187,238)
Encumbrances	513,215	100,051
Budget Basis	(\$1,203,066)	(\$388,134)

Note 5 – Accountability and Compliance

Deficit Fund Balances

The following fund had a deficit in net assets at December 31, 2003:

Fund	Deficit
Capital Project Funds	
City Acquisition and Construction	(\$3,648,210)

This fund complied with Ohio law, which does not permit cash basis deficits. The General Fund transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

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.

City of Hudson, Ohio
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Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 6 - Deposits and Investments (continued)

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 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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

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

City of Hudson, Ohio
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Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 6 - Deposits and Investments (continued)

2. Bankers acceptances of banks that are insured by the Federal Deposit Insurance Corporation (FDIC) and to which the obligations are eligible for purchase by the Federal Reserve System and the obligations mature no later than one hundred eighty days after purchase.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3 "Deposits With Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements".

Deposits - At year end, the carrying amount of the City's deposits was \$2,285,516 and the bank balance was \$3,092,790. Of the bank balance:

1. \$148,062 was covered by federal depository insurance; and
2. \$2,944,728 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.

Investments - The City's investments are required to be categorized to give an indication of the level of custodial credit risk assumed by the City at year end. 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.

At year end, the City's investment balances were as follows:

	Category		Fair
	1	3	Value
Overnight Repurchase Agreements	\$0	\$16,709,536	\$16,709,536
Government Agency Obligations	0	28,106,571	28,106,571
Common Stock	13,805	0	13,805
Series E Bonds	2,499	0	2,499
PEN Investment	0	1,850,639	1,850,639
Total Investments	\$16,304	\$46,666,746	\$46,683,050

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 6 - Deposits and Investments (continued)

The classification of cash and cash equivalents and investments on the basic 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 basic 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	\$48,953,636	\$16,304
Investments of Cash Management Pool:		
MBS	(28,106,571)	28,106,571
Overnight Repurchase Agreements	(16,709,536)	16,709,536
PEN Investment	(1,850,638)	1,850,639
Cash on Hand	(1,375)	0
GASB Statement No. 3	\$2,285,516	\$46,683,050

Note 7 - Receivables

Receivables at December 31, 2003, 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. Real property taxes collected in 2003 are levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes collected in 2003 were intended to finance 2003 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88% of cost). Public utility property taxes paid in 2003 became a lien December 31, 2002, are levied after October 1, 2002, and are collected in 2003 with real property taxes. 2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25% of actual value.

The full tax rate for all City operations for the year ended December 31, 2003, was \$9.29 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 8 - Property Taxes (continued)

	Total Assessed Value	%
Real Property Valuation:		
Residential/Agriculture	\$658,079,890	79.97%
Commercial/Industrial/Mineral	91,079,570	11.07%
Public Utilities	57,310	0.01%
Tangible Personal Property Valuation:		
General	58,556,195	7.12%
Public Utilities	15,127,670	1.84%
Total Valuation	\$822,900,635	100.00%

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

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

Note 9 - Income Tax

The City levies a municipal income tax of 1% 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 100% credit for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax 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 2003, municipal income tax revenue was \$7,166,649.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 10 - Special Assessments

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

The City's special assessments include 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.

Note 11 - Capital Assets

The capital asset balances of the governmental activities have been restated due to the implementation of GASB Statement No. 34.

	Balance	Restatements	Restated Beginning Balance
	01/01/2003	01/01/2003	01/01/2003
Governmental Activities			
Capital Assets, Not Being Depreciated:			
Land	\$11,363,953	(\$443,341)	\$10,920,612
Construction in Progress	4,724,011	663,255	5,387,266
Total Capital Assets, Not Being Depreciated	<u>16,087,964</u>	<u>219,914</u>	<u>16,307,878</u>
Capital Assets, Being Depreciated:			
Buildings	3,052,124	(5,000)	3,047,124
Land Improvements	0	73,964	73,964
Vehicles	4,986,140	(406,520)	4,579,620
Equipment, Furniture and Fixtures	4,277,029	(697,358)	3,579,671
Infrastructure	30,000	1,902,777	1,932,777
Total Capital Assets, Being Depreciated	<u>12,345,293</u>	<u>867,863</u>	<u>13,213,156</u>
Less Accumulated Depreciation:			
Buildings	0	(808,580)	(808,580)
Land Improvements	0	(32,471)	(32,471)
Vehicles	(2,586,131)	(472,686)	(3,058,817)
Equipment, Furniture and Fixtures	(511,450)	(1,687,498)	(2,198,948)
Infrastructure	0	(721,599)	(721,599)
Total Accumulated Depreciation	<u>(3,097,581)</u>	<u>(3,722,834)</u>	<u>(6,820,415)</u>
Total Capital Assets, Being Depreciated, Net	<u>9,247,712</u>	<u>(2,854,971)</u>	<u>6,392,741</u>
Governmental Activities Capital Assets, Net	<u>\$25,335,676</u>	<u>(\$2,635,057)</u>	<u>\$22,700,619</u>

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 11 - Capital Assets (continued)

	Restated Beginning Balance <u>01/01/2003</u>	Additions	Deletions	Balance 12/31/2003
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$10,920,612	\$856,894	(\$1,864,243)	\$9,913,263
Construction in Progress	<u>5,387,266</u>	<u>8,102,784</u>	<u>(6,370,452)</u>	<u>7,119,598</u>
Total Capital Assets, Not Being Depreciated	<u>16,307,878</u>	<u>8,959,678</u>	<u>(8,234,695)</u>	<u>17,032,861</u>
Capital Assets, Being Depreciated:				
Buildings	3,047,124	4,018,031	(2,000)	7,063,155
Land Improvements	73,964	45,618	0	119,582
Vehicles	4,579,620	170,251	(211,257)	4,538,614
Equipment, Furniture and Fixtures	3,579,671	282,881	(50,016)	3,812,536
Infrastructure	<u>1,932,777</u>	<u>16,873</u>	<u>0</u>	<u>1,949,650</u>
Total Capital Assets, Being Depreciated	<u>13,213,156</u>	<u>4,533,654</u>	<u>(263,273)</u>	<u>17,483,537</u>
Less Accumulated Depreciation:				
Buildings	(808,580)	(142,846)	2,000	(949,426)
Land Improvements	(32,471)	(6,055)	0	(38,526)
Vehicles	(3,058,817)	(385,490)	179,680	(3,264,627)
Equipment, Furniture and Fixtures	(2,198,948)	(368,400)	47,990	(2,519,358)
Infrastructure	<u>(721,599)</u>	<u>(82,864)</u>	<u>0</u>	<u>(804,463)</u>
Total Accumulated Depreciation	<u>(6,820,415)</u>	<u>(985,655)</u>	<u>229,670</u>	<u>(7,576,400)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,392,741</u>	<u>3,547,999</u>	<u>(33,603)</u>	<u>9,907,137</u>
Governmental Activities Capital Assets, Net	<u>\$22,700,619</u>	<u>\$12,507,677</u>	<u>(\$8,268,298)</u>	<u>\$26,939,998</u>

	Balance <u>01/01/2003</u>	Restatements <u>01/01/2003</u>	Restated Beginning Balance <u>01/01/2003</u>
Business-Type Activities			
Capital Assets, Not Being Depreciated:			
Land	\$2,392,694	(\$127,228)	\$2,265,466
Construction in Progress	<u>2,162,785</u>	<u>(485,180)</u>	<u>1,677,605</u>
Total Capital Assets, Not Being Depreciated	<u>4,555,479</u>	<u>(612,408)</u>	<u>3,943,071</u>

City of Hudson, Ohio
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Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 11 - Capital Assets (continued)

	Balance	Restatements	Restated Beginning Balance
	01/01/2003	01/01/2003	01/01/2003
Capital Assets, Being Depreciated:			
Buildings	4,172,646	(149,515)	4,023,131
Land Improvements	0	465,238	465,238
Vehicles	44,285	513,490	557,775
Equipment, Furniture and Fixtures	4,811,765	629,446	5,441,211
Infrastructure	<u>17,853,096</u>	<u>318,495</u>	<u>18,171,591</u>
Total Capital Assets, Being Depreciated	<u>26,881,792</u>	<u>1,777,154</u>	<u>28,658,946</u>
Less Accumulated Depreciation:			
Buildings	(1,335,249)	267,617	(1,067,632)
Land Improvements	0	(138,617)	(138,617)
Vehicles	(16,779)	(407,377)	(424,156)
Equipment, Furniture and Fixtures	(2,011,701)	(320,837)	(2,332,538)
Infrastructure	<u>(3,732,886)</u>	<u>(629,313)</u>	<u>(4,362,199)</u>
Total Accumulated Depreciation	<u>(7,096,615)</u>	<u>(1,228,527)</u>	<u>(8,325,142)</u>
Total Capital Assets, Being Depreciated, Net	<u>19,785,177</u>	<u>548,627</u>	<u>20,333,804</u>
Business-Type Activities Capital Assets, Net	<u>\$24,340,656</u>	<u>(\$63,781)</u>	<u>\$24,276,875</u>

	Restated Beginning Balance			Balance
	01/01/2003	Additions	Deletions	12/31/2003
Business-Type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$2,265,466	\$4,400	\$0	\$2,269,866
Construction in Progress	<u>1,677,605</u>	<u>3,160,429</u>	<u>0</u>	<u>4,838,034</u>
Total Capital Assets, Not Being Depreciated	<u>3,943,071</u>	<u>3,164,829</u>	<u>0</u>	<u>7,107,900</u>

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 11 - Capital Assets (continued)

	Restated Beginning Balance 01/01/2003	Additions	Deletions	Balance 12/31/2003
Capital Assets, Being Depreciated:				
Buildings	4,023,131	11,700	0	4,034,831
Land Improvements	465,238	60,842	0	526,080
Vehicles	557,775	183,060	(65,455)	675,380
Equipment, Furniture and Fixtures	5,441,211	191,813	0	5,633,024
Infrastructure	<u>18,171,591</u>	<u>1,364,777</u>	<u>0</u>	<u>19,536,368</u>
Total Capital Assets, Being Depreciated	<u>28,658,946</u>	<u>1,812,192</u>	<u>(65,455)</u>	<u>30,405,683</u>
Less Accumulated Depreciation:				
Buildings	(1,067,632)	(81,286)	0	(1,148,918)
Land Improvements	(138,617)	(25,395)	0	(164,012)
Vehicles	(424,156)	(50,149)	65,455	(408,850)
Equipment, Furniture and Fixtures	(2,332,538)	(195,614)	0	(2,528,152)
Infrastructure	<u>(4,362,199)</u>	<u>(389,996)</u>	<u>0</u>	<u>(4,752,195)</u>
Total Accumulated Depreciation	<u>(8,325,142)</u>	<u>(742,440)</u>	<u>65,455</u>	<u>(9,002,127)</u>
Total Capital Assets, Being Depreciated, Net	<u>20,333,804</u>	<u>1,069,752</u>	<u>0</u>	<u>21,403,556</u>
Business-Type Activities Capital Assets, Net	<u>\$24,276,875</u>	<u>\$4,234,581</u>	<u>\$0</u>	<u>\$28,511,456</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$292,025
Security of Persons and Property	338,457
Public Services	13
Public Health	37,725
Transportation	184,113
Community Environment	76,759
Leisure Time Activities	<u>56,563</u>
Total	<u>\$985,655</u>

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 12 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City has joined together with other neighboring cities to form the Northern Ohio Risk Management Association (NORMA), a not-for-profit corporation, for the purpose of obtaining property, liability and vehicle insurance and providing for a formalized, jointly administered self-insurance fund. The City pays an annual premium to NORMA for its insurance coverage. The agreement for formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of 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 dental and vision claims of the City's employees and their covered dependents in order to minimize the total cost of annual health care insurance. The City has contracted with a third party administrator to direct this program.

The claims liability of \$13,334 reported in the fund at December 31, 2003, is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 30 "Risk Financing Omnibus" which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims to be reported. The costs are to be based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any other factors that would modify past experience. The claims liability is based on an estimate supplied by the City's third party administrator. A summary of the fund's claims liability follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2002	\$21,540	\$111,759	\$122,895	\$10,404
2003	\$10,404	\$145,179	\$142,249	\$13,334

Note 13 - Note Debt

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

	<u>Balance 01/01/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2003</u>
2003 Road Improvement, 1.5%, Due 05/04	\$0	\$4,200,000	\$0	\$4,200,000
2003 Downtown Development, 1.5%, Due 05/04	0	1,900,000	0	1,900,000
2003 Road Improvement, 1.5%, Due 05/04	0	6,200,000	0	6,200,000

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 13 - Note Debt (continued)

	Balance 01/01/2003	Additions	Deletions	Balance 12/31/2003
2003 Industrial Development, 2.44%, Due 01/04	0	2,250,000	(2,250,000)	0
2003 Sanitary Sewer Improvement, 1.5%, Due 05/04	0	855,000	0	855,000
2003 Electric System Improvement, 1.50%, Due 05/04	0	1,000,000	0	1,000,000
2002 Downtown Development, 1.39%, Due 11/03	5,550,000	0	(5,550,000)	0
2002 Road Improvement, 1.39%, Due 11/03	3,500,000	0	(3,500,000)	0
2002 Electric System Improvement, 1.39%, Due 11/03	2,920,000	0	(2,920,000)	0
2002 Downtown Development, 1.39%, Due 11/03	2,250,000	0	(2,250,000)	0
Total Notes	<u>\$14,220,000</u>	<u>\$16,405,000</u>	<u>(\$16,470,000)</u>	<u>\$14,155,000</u>

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 14 - Long-Term Obligations

Changes in the long-term obligations of the City during 2003 were as follows:

	Balance 01/01/2003	Additions	Deletions	Balance 12/31/2003	Amount Due in One Year
Governmental Activities:					
<u>General Obligation Bonds:</u>					
1992 Multipurpose 2.5% to 5.2%, Due through 2007	\$540,000	\$0	(\$95,000)	\$445,000	\$100,000
1992 Safety Center, 2.9% to 6.35%, Due through 2012	720,000	0	(70,000)	650,000	70,000
1998 Park Acquisition, 4.5% to 5.0%, Due through 2017	6,030,000	0	(295,000)	5,735,000	305,000
1998 Village South, 4.5% to 5.5%, Due through 2018	3,010,000	0	(135,000)	2,875,000	140,000
1999 Park Improvement, 4.5% to 4.9%, Due through 2018	940,000	0	(40,000)	900,000	45,000

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 14 - Long-Term Obligations (continued)

	Balance 01/01/2003	Additions	Deletions	Balance 12/31/2003	Amount Due in One Year
2000 Park Improvement, 4.5% to 6.125%, Due through 2019	975,000	0	(35,000)	940,000	40,000
2000 Library Construction, 4.4% to 6.35%, Due through 2019	8,805,000	0	(330,000)	8,475,000	345,000
2002 Community Center Expansion, 1.65% to 4.65%, Due through 2023	330,000	0	0	330,000	10,000
2002 Police Facility Construction, 1.65% to 4.65%, Due through 2023	3,985,000	0	0	3,985,000	135,000
2002 Road Improvement, 1.75%, Due through 2023	1,200,000	0	0	1,200,000	45,000
Total General Obligation Bonds	26,535,000	0	(1,000,000)	25,535,000	1,235,000
Special Assessment Bonds:					
1998 Sewer Improvement, 4.5% to 5.0%, Due through 2016	1,295,000	0	(65,000)	1,230,000	70,000
1998 Executive Parkway, 4.3% to 5.0%, Due through 2018	910,000	0	(40,000)	870,000	40,000
1999 Water Main Construction, 3.9% to 5.625%, Due through 2019	380,000	0	(15,000)	365,000	15,000
Total Special Assessment Bonds	2,585,000	0	(120,000)	2,465,000	125,000
Total Governmental Activity – Long-Term Obligations	29,120,000	0	(1,120,000)	28,000,000	1,360,000
Business-Type Activities:					
General Obligation Bonds:					
1993 Electric Improvement, 2.7% to 4.25%, Due through 2003	245,000	0	(245,000)	0	0
2002 Substation Construction, 1.75%, Due through 2023	2,230,000	0	0	2,230,000	75,000
1998 Water System Improvement, 4.5% to 5.0%, Due through 2016	1,800,000	0	(100,000)	1,700,000	100,000
2002 Water System Improvement, 1.75%, Due through 2033	4,035,000	0	0	4,035,000	70,000
2002 Storm Water Improvement, 1.75%, Due through 2023	1,090,000	0	0	1,090,000	40,000

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 14 - Long-Term Obligations (continued)

	Balance 01/01/2003	Additions	Deletions	Balance 12/31/2003	Amount Due in One Year
Golf Course Improvement, 4.3% to 5.1%, Due through 2019	570,000	0	(45,000)	525,000	45,000
2002 Golf Course Improvement, 1.75%, Due 11/02	1,645,000	0	0	1,645,000	60,000
Total General Obligation Bonds	<u>11,615,000</u>	<u>0</u>	<u>(390,000)</u>	<u>11,225,000</u>	<u>390,000</u>
OWDA Loan:					
OWDA Loan, 4.04%, Due through 2018	7,095,943	0	(323,038)	6,772,905	336,220
Total Business-Type Activities	<u>18,710,943</u>	<u>0</u>	<u>(713,038)</u>	<u>17,997,905</u>	<u>726,220</u>
Total Long Term Obligations	<u>\$47,830,943</u>	<u>\$0</u>	<u>(\$1,833,038)</u>	<u>\$45,997,905</u>	<u>\$2,086,220</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2003, including interest payments of \$22,408,854, are as follows:

Year Ending December 31,	Governmental Activities				Business-Type Activities			
	General Obligation		Special Assessments		General Obligation		OWDA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$1,235,000	\$1,302,450	\$125,000	\$119,566	\$390,000	\$501,204	\$336,220	\$270,263
2005	1,285,000	1,239,424	130,000	113,881	410,000	478,671	349,941	256,543
2006	1,340,000	1,173,164	135,000	107,964	410,000	455,024	364,221	242,263
2007	1,395,000	1,103,784	150,000	101,799	420,000	431,376	379,084	227,399
2008	1,320,000	1,035,584	160,000	94,851	440,000	412,600	394,554	211,930
2009 - 2013	7,545,000	4,119,944	885,000	355,762	2,320,000	1,815,228	2,227,835	804,584
2014 - 2018	8,720,000	2,019,059	845,000	123,663	2,500,000	1,312,803	2,721,050	311,371
2019 - 2023	2,695,000	311,384	35,000	1,969	2,365,000	801,161	0	0
2024 - 2028	0	0	0	0	865,000	389,496	0	0
2029 - 2033	0	0	0	0	1,105,000	162,690	0	0
Total	<u>\$25,535,000</u>	<u>\$12,304,793</u>	<u>\$2,465,000</u>	<u>\$1,019,455</u>	<u>\$11,225,000</u>	<u>\$6,760,253</u>	<u>\$6,772,905</u>	<u>\$2,324,353</u>

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 14 - Long-Term Obligations (continued)

Long-term liability activity for the year ended December 31, 2003 was as follows:

	Balance 01/01/2003	Additions	Deletions	Balance 12/31/2003	Amount Due in One Year
Governmental Activities:					
General Obligation Bonds	\$26,535,000	\$0	(\$1,000,000)	\$25,535,000	\$1,235,000
Special Assessment Bonds	2,585,000	0	(120,000)	2,465,000	125,000
Total Long-Term Debt	29,120,000	0	(1,120,000)	28,000,000	1,360,000
Capital Leases	0	23,196	0	23,196	5,799
Compensated Absences	1,197,829	529,946	0	1,727,775	95,177
Governmental Activities - Long-Term Liabilities	<u>\$30,317,829</u>	<u>\$553,142</u>	<u>(\$1,120,000)</u>	<u>\$29,750,971</u>	<u>\$1,460,976</u>
Business-Type Activities:					
General Obligation Bonds	\$11,615,000	\$0	(\$390,000)	\$11,225,000	\$390,000
OWDA Loans	7,095,943	0	(323,038)	6,772,905	336,220
Total Long-Term Debt	18,710,943	0	(713,038)	17,997,905	726,220
Capital Leases	0	15,884	0	15,884	7,724
Compensated Absences	563,297	310,358	0	873,655	51,436
Business-Type - Long-Term Liabilities	<u>\$19,274,240</u>	<u>\$326,242</u>	<u>(\$713,038)</u>	<u>\$18,887,444</u>	<u>\$785,380</u>

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

The City also is a participant in a joint venture (See Note 20) 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
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 14 - Long-Term Obligations (continued)

The debt associated with Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) amounts to 5.69% of \$134,975,000 or approximately \$7,680,082. 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
2004	\$3,620,000	\$205,978
2005	3,800,000	216,220
2006	4,000,000	227,600
2007	4,215,000	239,834
2008	4,445,000	252,921
2009 - 2013	26,100,000	1,485,091
2014 - 2018	34,065,000	1,938,300
2019 - 2024	54,730,000	3,114,138
Total	<u>\$134,975,000</u>	<u>\$7,680,082</u>

Additional debt associated with Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) amounts to 5.69% of \$13,899,891 that accretes interest on bonds payable 2025 through 2030. Maturity amount on these bonds will amount to \$56,125,000. The total principal retirements and the portion that will be paid by the City are as follows:

Year	Initial Principal Amount	Maturity Amount	City of Hudson Amount
2025 - 2029	\$13,482,181	\$54,125,000	\$3,079,713
2030	417,800	2,000,000	113,800
	<u>\$13,899,981</u>	<u>\$56,125,000</u>	<u>\$3,193,513</u>

Note 15 – Capitalized Leases – Lessee Disclosure

The City, in prior years, has entered into capitalized leases for the acquisition of a mower. In addition to prior year agreements, the City has entered into one new capitalized lease agreement during 2003. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital assets acquired by lease have been capitalized as equipment in the amount of \$53,870 equal to the present value of the future minimum lease payments in the government-wide financial statements. Principal payments in the current year totaled \$3,383 in the Governmental Activities and \$7,312 in the Business-Type Activities.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 15 – Capitalized Leases – Lessee Disclosure (continued)

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

Year	Governmental Lease Payments	Business-Type Lease Payments
2004	\$5,799	\$8,405
2005	5,799	8,406
2006	5,799	0
2007	5,799	0
Total minimum lease payments	23,196	16,811
Less: amount representing interest	0	(927)
Present value of minimum lease payments	<u>\$23,196</u>	<u>\$15,884</u>

Note 16 - 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 Ohio Public Employees Retirement System (OPERS), which administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 16 - Defined Benefit Pension Plans (continued)

Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to: Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6705 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD and CO). Separate divisions for law enforcement and public safety exist only within the Traditional Plan.

Plan members are required to contribute 8.50% of their annual covered salary to fund pension benefit obligations. The City is required to contribute 13.55%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The City's contributions for pension obligations to the OPERS for the years ending December 31, 2003, 2002 and 2001 were \$624,458, \$517,927 and \$512,984, respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 63.10% has been contributed for 2003.

B. *Ohio Police and Fire Pension Fund*

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

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24.0%, respectively, for police officers and firefighters. The City's contributions for pension obligations to the OP&F Ohio for the years ending December 31, 2003, 2002 and 2001 were \$218,931, \$206,675 and \$205,014, respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. 63.99% has been contributed for 2003.

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% of wages paid.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 17 - Postemployment Benefits

A. *Public Employees Retirement System*

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

OPERS provides post-retirement health care coverage to age and service retirees 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 OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 employer contribution rate was 13.55% of covered payroll; 5.0% was the portion that was used to fund health care for the year 2003. The City's actual contributions for 2003 which were used to fund post-employment benefits were \$365,180.

The assumptions and calculations below were based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.0%, an annual increase in active employee total payroll of 4.0% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll over and above the 4.0% base increase of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.0% annually.

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

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

OPEB's are advance-funded on an actuarially determined basis.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 17 - Postemployment Benefits (continued)

At year end 2003, the number of active contributing participants was 364,881. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December, 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered-position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

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 Ohio shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The City's actual contributions for 2003 which were used to fund post-employment benefits were \$141,810.

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

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 17 - Postemployment Benefits (continued)

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 7.5% and 7.75% of covered payroll in 2002 and 2003, respectively. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of participants eligible statewide to receive health care benefits as of December 31, 2002, the date of the last actuarial valuation available, are 13,527 for police officers and 10,396 for firefighters. The OP&F Ohio's total health care expense for the year ending December 31, 2002, the date of the last actuarial valuation available, was \$141,028,066, which was net of member contributions of \$12,623,875.

Note 18 – Compensated Absences

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

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

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

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

As of December 31, 2003, the total liability for unpaid compensated absences was \$2,601,430.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 19 - Contingencies

A. Grants

The City has received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2003.

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, 2003.

Note 20 - Interfund Transactions

Interfund Receivable/Payable for the year ended December 31, 2003 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Street Improvements	\$155,000
General Fund	Non-Major Governmental Fund	25,000
General Fund	Non-Major Enterprise Funds	261,008
		<u>\$441,008</u>

Advances to/from for the year ended December 31, 2003 consisted of the following:

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

Interfund transfers for the year ending December 31, 2003 consisted of the following:

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 20 - Interfund Transactions (continued)

	Transfer In:				
	General	Street Construction	Street Improvements	Acquisition and Construction	Non-Major Governmental
Transfer Out:					
General Fund	\$0	\$1,822,000	\$1,825,000	\$2,250,000	\$330,000
General Capital Improvements	0	0	0	0	0
Water Fund	0	0	0	0	0
Non-Major Governmental	15,228	26,619	20,965	0	55,542
	\$15,228	\$1,848,619	\$1,845,965	\$2,250,000	\$385,542

	Transfer In:				
	Water	Wastewater	Electric	Non-Major Enterprise Funds	Total
Transfer Out:					
General Fund	\$0	\$1,015,710	\$0	\$482,500	\$7,725,210
General Capital Improvements	0	0	0	0	0
Water Fund	0	0	0	0	0
Non-Major Governmental	8,860	14,744	12,776	7,481	162,215
	\$8,860	\$1,030,454	\$12,776	\$489,981	\$7,887,425

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 21 - 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 \$16,604 and \$945,791 to OMEGA JV1 and OMEGA JV5, respectively in 2003.

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% and 5.69%, respectively. The City's equity interest was \$46,886 and \$449,144 for OMEGA JV1 and OMEGA JV5, respectively, at December 31, 2003. Financial information can be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

Note 22 - 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 2003, the City paid \$118,900 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
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Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 23 – 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 tables below reflect, 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, 2003:

Condensed Statement of Net Assets

	Water	Wastewater	Electric	Golf Course	Storm Water Utilities	Totals
Assets						
Current Assets	\$2,099,036	\$2,147,474	\$13,358,412	\$171,600	\$1,374,934	\$19,151,456
Investment in Joint Venture	0	0	496,030	0	0	496,030
Capital Assets	9,590,250	8,137,855	6,169,766	4,226,651	386,934	28,511,456
Total Assets	11,689,286	10,285,329	20,024,208	4,398,251	1,761,868	48,158,942
Liabilities						
Current Liabilities	328,850	1,415,911	2,069,281	376,139	213,277	4,403,458
Advances from Other Funds	0	100,000	0	0	0	100,000
Noncurrent Liabilities	5,702,212	6,573,897	2,578,796	2,128,741	1,118,418	18,102,064
Total Liabilities	6,031,062	8,089,808	4,648,077	2,504,880	1,331,695	22,605,522
Net Assets						
Invested in Capital Assets, Net of Related Debt	3,855,250	509,950	2,939,766	2,040,766	(703,066)	8,642,666
Unrestricted	1,802,974	1,685,571	12,436,365	(147,395)	1,133,239	16,910,754
Total Net Assets	\$5,658,224	\$2,195,521	\$15,376,131	\$1,893,371	\$430,173	\$25,553,420

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Water	Wastewater	Electric	Golf Course	Storm Water Utilities	Totals
Operating Revenues						
Charges for Services	\$1,373,256	\$1,884,218	\$11,308,700	\$858,517	\$395,324	\$15,820,015
Other Operating Revenues	18	18	29,907	4,485	0	34,428
Depreciation Expense	(244,420)	(199,932)	(217,227)	(68,431)	(12,430)	(742,440)
Operating Expenses	(976,601)	(1,932,307)	(9,792,480)	(746,932)	(746,074)	(14,194,394)
Operating Income (Loss)	152,253	(248,003)	1,328,900	47,639	(363,180)	917,609

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 23 – Segment Information (continued)

	Water	Wastewater	Electric	Golf Course	Storm Water Utilities	Totals
Non-Operating Revenues (Expenses)						
Interest	37,823	0	0	15,752	0	53,575
Increase in Fair Value of Investments	0	0	40,092	0	0	40,092
Proceeds from Sale of Capital Assets	1,473	0	1,572	0	0	3,045
Premium on Debt Issued	0	1,684	1,970	0	0	3,654
Other Non-Operating Revenues	77,068	0	1,399	0	0	78,467
Interest and Fiscal Charges	(276,437)	(284,764)	(147,973)	(64,109)	(48,606)	(821,889)
Transfers	8,860	1,030,454	12,776	270	489,711	1,542,071
Change in Net Assets	1,040	499,371	1,238,736	(448)	77,925	1,816,624
Net Assets (Deficit) at Beginning of Year	5,657,184	1,696,150	14,137,395	1,893,819	352,248	23,736,796
Net Assets at End of Year	\$5,658,224	\$2,195,521	\$15,376,131	\$1,893,371	\$430,173	\$25,553,420

Condensed Statement of Cash Flows

	Water	Wastewater	Electric	Golf Course	Storm Water Utilities	Totals
Net Cash Provided by (Used for)						
Operating Activities	\$401,033	\$46,127	\$1,285,109	\$116,873	(\$333,083)	\$1,516,059
Noncapital Financing Activities	85,928	1,132,138	14,175	270	489,711	1,722,222
Capital and Related Financing Activities	(1,426,652)	17,390	(5,362,514)	(618,590)	(232,378)	(7,622,744)
Investing Activities	37,823	0	0	15,752	0	53,575
Net Increase (Decrease)	(901,868)	1,195,655	(4,063,230)	(485,695)	(75,750)	(4,330,888)
Beginning Cash and Cash Equivalents	2,545,579	689,960	14,858,240	619,646	1,363,250	20,076,675
Ending Cash and Cash Equivalents	\$1,643,711	\$1,885,615	\$10,795,010	\$133,951	\$1,287,500	\$15,745,787

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 24 – Outstanding Contractual Commitments

The City has the following outstanding contractual commitments for various construction projects at December 31, 2003:

Contractor	Contract and Contingency	Amount Expended	Amount Remaining
Beaver Excavating Company	\$735,401	\$701,463	\$33,938
Emschoff Excavating	75,016	74,772	244
HM Miller Construction	439,544	0	439,544
Karvo Paving	1,382,265	1,214,109	168,156
Kenmore Construction Company	858,260	837,216	21,044
LTZ Construction, Inc.	75,940	75,899	41
McCourt Construction	543,983	473,842	70,141
Nerone & Sons, Inc.	69,982	67,475	2,507
Kenmore Construction	1,610,698	715,125	895,573
Nerone & Sons, Inc.	610,500	610,000	500
Northern Ohio Paving Company	1,949,789	1,744,835	204,954
MATEJA	36,300	25,671	10,629
Rhino Excavating & Milling	102,355	95,545	6,810
Spano Brothers, Inc.	658,907	580,628	78,279
Meadville Land Service	103,068	0	103,068
Michael Construction	53,398	0	53,398
MR Exavator	2,226,769	746,686	1,480,083
Vito Girona Construction Company, Inc.	388,013	0	388,013
Vito Girona Construction Company, Inc.	564,746	474,541	90,205
Vito Girona Construction Company, Inc.	874,145	461,980	412,165
Vito Girona Construction Company, Inc.	295,592	276,600	18,992
Northern Ohio Paving	544,088	0	544,088
Ray Bertollini	46,039	40,164	5,875
Ray Bertollini	73,890	71,993	1,897
AJC Construction	257,743	245,808	11,935
AJC Construction	28,556	24,922	3,634
Bochert	19,295	0	19,295
Cardinal Asphalt	32,230	31,028	1,202
Cavanaugh Building Corporation	80,164	0	80,164
Cleveland Cement	1,749,700	1,621,220	128,480
The Davis Company	307,871	0	307,871

City of Hudson, Ohio
Summit County
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Note 25 – Subsequent Event

For fiscal year 2005, the City of Hudson voters approved an increase in the City's income tax rate going from 1% to 2% effective January 1, 2005. As part of the passage, City Council agreed to no longer collect the property taxes for the Fire, EMS and Parks operating levies and eliminate the storm water utility. The legislation approving the income tax increase provides for 4.5% of the total income taxes to go toward EMS operations; 7.5% to the Fire operations; 7.5% to the Parks operations and 6.75% to go toward Community Learning Centers in cooperation with Hudson Schools. The remaining portion is not legally designated and is subject to City Council's discretion. The emphasis behind the use of the additional discretionary funds will be to improve the City's storm water and sewer system including its infrastructure.

During May, 2004, the City sold \$13,055,000 of various purpose bonds to construct and improve City streets, off-street parking, improve the City's electrical system and improve the City's sanitary sewer system.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Members of the City Council
Hudson, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson (the "City"), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 13, 2004, wherein we noted the City of Hudson adopted Government Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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

Members of the City Council
Hudson, Ohio

This report is intended solely for the information and use of the City Council, management, finance committee, the Auditor of State's Office, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cini & Parichi, Inc.

Cleveland, Ohio
December 13, 2004

**Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Members of the City Council
Hudson, Ohio

Compliance

We have audited the compliance of the City of Hudson (the "City"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Members of the City Council
Hudson, Ohio

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operations that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson, as of and for the year ended December 31, 2003, and have issued our report thereon dated December 13, 2004, wherein we noted the City of Hudson adopted Government Accounting Standards Board Statement No. 34. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management, finance committee, the Auditor of State's Office, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cimini & Panichi, Inc.

Cleveland, Ohio
December 13, 2004

City of Hudson

Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2003

<u>Federal Grantor/Pass-Through Entity</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Receipts</u>	<u>Disbursements</u>
U.S. Department of Homeland Security: Assistance to Firefighters Grant	97.044	n/a	-	32,023
U.S. Federal Highway Administration: Pass through Programs from Ohio Department of Transportation: Highway Planning and Construction	20.205	23930-03N079	-	423,042
Federal Emergency Management Agency: Pass through Programs from Ohio Emergency Management Agency: Public Assistance Grant	97.036	SRR068	<u>107,676</u>	<u>205,336</u>
Subtotal pass through programs			<u>107,676</u>	<u>628,378</u>
Total expenditures of federal awards			\$ <u>107,676</u>	\$ <u>660,401</u>

The accompanying notes are an integral part of this schedule

City of Hudson

Notes to Schedule of Expenditures of Federal Awards

For The Year Ended December 31, 2003

Note 1: General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Hudson (the "City").

Note 2: Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the cash basis of accounting. The City's expenditures for the year ended December 31, 2003 as reported on the Schedule reflect federal expenditures only and do not include matching expenditures.

City of Hudson

Schedule of Findings
OMB Circular A-133 Section .505

December 31, 2003

1. Summary of Auditor's Results

(d)(I)(i)	Type of Financial Statement Opinion	Unqualified
(d)(I)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(I)(iii)	Was there any material reported noncompliance at the financial statement level (GAGAS)?	No
(d)(I)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(I)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(I)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(I)(vi)	Are there any reportable findings under Section .510?	No
(d)(I)(vii)	Major Programs	ODOT Grant Highway Planning and Construction, CFDA No. 20.205
(d)(I)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All Others
(d)(I)(ix)	Low Risk Auditee?	No

2. Findings Related To The Financial Statements Required To Be Reported In Accordance With GAGAS

None.

3. Findings for Federal Awards

None.

City of Hudson, Ohio

Schedule of Prior Audit Findings
OMB Circular A-133-Section .315(b)

December 31, 2003

There was no prior year audit.

City of Hudson

**27 East Main Street
Hudson, Ohio 44236
(330) 650-1799**

**Response to Findings Associated with
Audit Conducted in Accordance with *Government Auditing Standards*
for the Year Ended December 31, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
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Not applicable.



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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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
FEBRUARY 10, 2005**