

City of Hudson, Ohio

**Basic Financial Statements
For the year ended December 31, 2005**



**Auditor of State
Betty Montgomery**

City Council
City of Hudson
27 East Main Street
Hudson, Ohio 44236

We have reviewed the *Independent Auditors' Report* of the City of Hudson, Summit County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2005, through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 16, 2006

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City of Hudson, Ohio

For The Year Ended December 31, 2005

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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, 2005, which collectively comprise the City's basic financial statements as listed table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of Hudson as of December 31, 2005, and the respective changes in financial position, and, where applicable, cash flows and the respective budgetary comparison of 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, during the year ended December 31, 2005, the City of Hudson implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures", and GASB Statement No. 42 "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2006 on our consideration of City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the 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 inquires 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.

Cioni & Paricki, Inc.

Cleveland, Ohio
May 30, 2006

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2005

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, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; along with the review of the basic financial statements for the reader to enhance their understanding of the City's financial performance.

Using this Annual Financial Report

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

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

Reporting the City of Hudson as a Whole

Statement of Net Assets and the Statement of Activities

These government-wide statements answer the question, "How did the City as a whole do financially during 2005"? 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, 2005. 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, 2005. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2005

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities:** The reporting of services including public safety, administration and all departments, with the exception of the Water Fund, 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 these activities.
- ***Proprietary Funds.*** There are two types of Proprietary funds: enterprise funds and internal service funds.

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

The City of Hudson's Water Fund, Wastewater Fund, Electric Fund, and Storm Water Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 20 through 23.

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

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2005

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

The Equipment and Reserve and Fleet Maintenance Fund, Self-Insurance Fund, Flexible Benefits Fund, and Information Services 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 24 of this report.

Other Information

Notes to the Financial Statements

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

The City of Hudson as a Whole

As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Hudson, assets exceed liabilities by \$16,840,345 in governmental activities and \$27,201,140 in business-type activities as of December 31, 2005. The largest portion of the City's net assets reflects its invested in capital assets (i.e.; land, buildings, equipment and machinery, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets are presented in the following table:

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2005

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current Assets	\$ 25,385,413	\$ 30,777,760	\$ 22,245,731	\$ 18,526,898	\$ 47,631,144	\$ 49,304,658
Investment in Joint Venture	-	-	528,145	491,907	528,145	491,907
Capital Assets, Net	<u>34,988,783</u>	<u>33,251,748</u>	<u>31,475,493</u>	<u>30,782,376</u>	<u>66,464,276</u>	<u>64,034,124</u>
Total Assets	<u>60,374,196</u>	<u>64,029,508</u>	<u>54,249,369</u>	<u>49,801,181</u>	<u>114,623,565</u>	<u>113,830,689</u>
Liabilities						
Current and Other Liabilities	5,963,662	6,694,735	2,355,510	3,624,280	8,319,172	10,319,015
Long-term Liabilities						
Due Within One Year	2,849,584	2,751,067	1,259,436	1,210,658	4,109,020	3,961,725
Due In More Than One Year	<u>34,720,605</u>	<u>36,864,052</u>	<u>23,433,283</u>	<u>18,829,067</u>	<u>58,153,888</u>	<u>55,693,119</u>
Total Liabilities	<u>43,533,851</u>	<u>46,309,854</u>	<u>27,048,229</u>	<u>23,664,005</u>	<u>70,582,080</u>	<u>69,973,859</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	7,151,211	4,199,351	10,887,951	10,564,974	18,039,162	14,764,325
Restricted	5,423,038	13,651,425	-	-	5,423,038	13,651,425
Unrestricted (Deficit)	<u>4,266,096</u>	<u>(131,122)</u>	<u>16,313,189</u>	<u>15,572,202</u>	<u>20,579,285</u>	<u>15,441,080</u>
Total Net Assets	\$ <u>16,840,345</u>	\$ <u>17,719,654</u>	\$ <u>27,201,140</u>	\$ <u>26,137,176</u>	\$ <u>44,041,485</u>	\$ <u>43,856,830</u>

An additional portion of the City's net assets (12 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$20,579,285 may be used to meet the City's ongoing obligations to citizens and creditors.

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

For Governmental Activities, there was a \$5,392,347 decrease in Current Assets and an increase of \$1,737,035 in Capital Assets, Net. The Current Assets were reduced by the costs incurred for the construction of the new library. The City records the expenses of the library construction; however, the City does not report the value of the capital asset because the City does not have an ownership interest nor is the library part of the City's reporting entity.

There was a decrease of \$731,073 in Current and Other Liabilities and a decrease of \$2,143,447 in Long-term Liabilities Due in More Than One Year primarily due to the decrease in construction payables at year end for current liabilities and the fact that long-term liabilities were reduced through regularly scheduled payments on bonds.

Invested in Capital Assets, Net of Related Debt increased \$2,951,860 due to the completion of the remaining capital assets from the downtown redevelopment project. The Restricted Net Assets decreased \$8,228,387

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2005

primarily due to the expenses incurred for the new library construction. The net result of the changes in net assets was an increase of \$4,397,218 increase in Unrestricted Net Assets.

Within the Business-Type Activities, Assets increased \$4,448,188 primarily due to increased fund balances within the enterprise funds. Most notable is the increase of approximately \$2,306,000 in the storm water utility as a result of the cash available from the debt issuance. Long term liabilities due in more than one year increased \$4,604,216 primarily due to the debt issuance of \$5.36 million less approximately \$733,000 in payments. Invested in Capital Assets, Net of Related Debt increased \$322,977 due to increase in capital assets less related debt and accumulated depreciation on those items. The balance of the Unrestricted Net Assets increased \$740,987 primarily due to the increase in cash balance discussed above.

Table 2 below, indicates the changes in net assets for the year ended December 31, 2005.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Program Revenues						
Charges for Services and Sales	\$ 1,056,569	\$ 902,691	\$ 21,535,823	\$ 17,949,688	\$ 22,592,392	\$ 18,852,379
Operating Grants and Contributions	30,619	81,558	-	-	30,619	81,558
Capital Grants and Contributions	108,504	1,135,981	-	-	108,504	1,135,981
General Revenues						
Taxes	17,574,573	13,816,901	-	70,038	17,574,573	13,886,939
Grants and Entitlements not restricted to specific programs	4,718,788	3,492,875	-	-	4,718,788	3,492,875
Investment Income	651,776	707,906	105,631	122,465	757,407	830,371
Miscellaneous	596,669	638,521	568,330	260,804	1,164,999	899,325
Gain (Loss) on Sale of Assets	(17,115)	9,975	(5,280)	(23,384)	(22,395)	(13,409)
Transfers In	-	-	1,617,468	1,084,182	1,617,468	1,084,182
Total Revenues	24,720,383	20,786,408	23,821,972	19,463,793	48,542,355	40,250,201
Program Expenses						
General Government	5,478,804	5,669,001	-	-	5,478,804	5,669,001
Security of Persons and Property	5,647,850	5,197,341	-	-	5,647,850	5,197,341
Public Health	503,235	522,422	-	-	503,235	522,422
Leisure Time Services	1,021,184	730,344	-	-	1,021,184	730,344
Community and Economic Development	5,194,866	7,381,476	-	-	5,194,866	7,381,476
Transportation	4,339,311	4,074,221	-	-	4,339,311	4,074,221
Interest and Fiscal Charges	1,796,974	1,752,648	-	-	1,796,974	1,752,648
Electric system	-	-	15,909,063	13,247,767	15,909,063	13,247,767
Golf Course	-	-	1,195,929	877,936	1,195,929	877,936
Storm sewer system	-	-	784,847	914,430	784,847	914,430
Wastewater system	-	-	3,177,791	3,019,444	3,177,791	3,019,444
Water system	-	-	1,690,378	1,494,857	1,690,378	1,494,857
Transfers Out	1,617,468	1,084,182	-	-	1,617,468	1,084,182
Total Program Expenses	25,599,692	26,411,635	22,758,008	19,554,434	48,357,700	45,966,069
Increase (Decrease) in Net Assets	\$ (879,309)	\$ (5,625,227)	\$ 1,063,964	\$ (90,641)	\$ 184,655	\$ (5,715,868)

City of Hudson, Ohio

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

For The Year Ended December 31, 2005

Governmental Activities

The City income tax is the largest contributor of revenues sources in governmental activities accounting for 54 percent of total revenues. Property and other local taxes generate 17 percent and grants and entitlements generate 19 percent of total revenues.

Community and economic development expenses accounts for 20 percent of governmental expenses, general government accounts for 21 percent of governmental expenses, security of persons and property accounts for 22 percent of governmental expenses, and transportation costs represent 17 percent of governmental expenses, respectively.

Governmental activities decreased the City's net assets by \$879,309. Total revenues increased approximately \$3.9 million primarily due to increase income tax collections from the City's increase in tax rate effective January 1, 2005 as well as an increase in estate tax collections of approximately \$625,000. Capital grants and contributions decreased approximately \$1,027,000 primarily due to 2004 grants from the Federal Emergency Management Agency (FEMA) for flooding that occurred in 2003 along with a federal grant through the Ohio Department of Transportation for the improvements to the Route 91/Stoney Hill intersection totaling \$876,000.

The decrease in overall net assets of \$879,309 as compared the decrease of \$5.6 million in 2004 was due to the increased income tax revenue.

Business-Type Activities

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

Business-Type Activities increased the City's net assets by \$1,063,964. Charges for services and sales increased \$3,586,135 due to increased costs of power and consumption. For the electric system, the City passes along the increased cost of power (referred to as the power cost adjustment) to the customer. As the cost of power increases, the rate that customers pay increases to recoup the cost. There is a corresponding increase in the purchase of power, as noted below. 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) while the water and sewer rates remained the same.

Expenditures increased \$3,203,574 due to increased purchase of power for the electric system of \$2 million and recognition of utility system capital project costs.

Individual Funds Summary and Analysis

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

City of Hudson, Ohio

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

For The Year Ended December 31, 2005

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 \$14,039,769, a decrease of \$4,821,943 in comparison with the prior year. Approximately 82 percent of this total amount of \$14,039,769 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 \$7,822,897, while the total fund balance was \$8,303,350. 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 47 percent of total General Fund expenditures, while total fund balance represents 50 percent of that same amount. The General Fund balance increased by \$352,034 or 4 percent over the prior year due to a combination of several items including the increase in income and estate taxes offset by increases in transfers-out to other funds.

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

The fund balance of the Street Improvements Fund decreased \$1,079,222. The decrease is primarily due to the payments on the construction of the Milford Road to State Route 91 connector road.

The fund balance for the Street Construction Fund decreased \$140,093. The decrease is due to the increased costs of snow and ice removal.

The fund balance for the Library Construction Fund decreased \$3,886,018. The decrease is due to the payments for construction of the new library also located in the downtown First and Main project.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide business-type activity financial statements, but in more detail. Net assets in the Water, Wastewater, Electric, and Storm Water increased/(decreased) by \$(166,906) or 3 percent, \$(62,503) or (3 percent), \$1,292,613 or (8 percent), and \$165,043 or (46 percent) respectively.

City of Hudson, Ohio

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

For The Year Ended December 31, 2005

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 increased by \$1,326,699 for Income Taxes and increased by \$1,064,699 for Intergovernmental revenues. The income tax revenue estimate increase was due to conservative budgeting when the 2005 budget was originally prepared. The City income tax rate went from 1% to 2% effective January 1, 2005 and the full impact of the rate increase was unknown. The final estimate was 13.7% greater than the original because actual collections exceeded expectations. The intergovernmental revenue estimate increase was primarily due to conservative estimating of estate tax revenue. Estate taxes are very unpredictable and the City has budgeted \$800,000 for the past several years as the minimum amount it would expect. For 2005, the City collected \$1,902,667 in estate taxes which is \$1,102,667 more than originally estimated and adequately explains the reason for the increase in intergovernmental revenue.

Actual General Fund expenditures compared to the budget reflected approximately \$613,000 remaining in unencumbered funds as of December 31, 2005. Security of persons and property which is largely the Police Department activity, accounted for \$147,000 of those unencumbered funds and general government accounted for \$406,000. The Police Department personnel costs, primarily insurance and workers' compensation, were substantially less than budgeted as well as internal service charges for computer services. General government departments' actual costs were generally less than budgeted for personnel costs within several departments, unused appropriations for the Prospect site remediation and professional service contracts within the Engineering Department.

In the Street Construction Fund, there were no significant variances between the original budgeted and final budgeted revenues and expenditures. There were also 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, 2005, amounts to \$66,464,276 (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, 2005, the City had \$59,326,744 of long-term bonds, loans and other outstanding obligations, excluding compensated absences and capital leases. Details of the individual obligations can be found in Note 13.

In May 2005, the City issued new bonds for Milford Water Tower painting project (\$1,055,000). As well, the City issued bonds for storm water improvements (\$2,410,000) and sanitary sewer improvements (\$1,230,000) to be funded with Issue 3 income taxes. The total bond issue was \$5,360,000.

City of Hudson, Ohio

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

For The Year Ended December 31, 2005

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 \$35,800,000 of net indebtedness as of December 31, 2005. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5 percent of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was \$28,115,785 as of December 31, 2005. The total principal amount of voted and unvoted nonexempt net indebtedness of the City may not exceed 10.5 percent of its assessed value of real and personal property. Total net indebtedness for both voted and unvoted issues was \$17,440,000 leaving the City's overall legal debt margin at \$74,589,225 as of December 31, 2005.

Future Funding Considerations

During 2005, the City of Hudson maintained its bond rating of Aa1 as determined by Moody's Investors Service. This rating puts the City in the top 5% among municipalities in the state of Ohio, in terms of credit-worthiness, that are rated by Moody's.

In January 2006, Hudson City Council passed a motion to reduce the number of budgeted full-time employees for 2006 from 166 to 150 (a 10% reduction). Additionally, the motion included a \$2 million reduction in City-wide operating expenses. The personnel reduction savings apply toward the \$2 million. These targeted reductions are expected to be in place by the end of 2006. This initiative is in an effort to control city government growth and related expenses and emphasize Council's commitment to fiscal responsibility.

During 2005, the City completed its 2006-2010 Five Year Financial Plan that includes operating and capital cost projections for the City's operating funds. The plan identifies numerous capital expenditures including the acquisition of a computer aided dispatch (CAD) system for the safety forces, painting the City's water tower at Milford Road along with several road/intersection, sewer, storm water and electric system capital improvements.

Contacting the City Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's Finance Department at 330-650-1799 or at 27 East Main Street, Hudson, Ohio 44236. Electronic copies of the City's 2006 Budget Book and 2006-2010 Five Year Financial Plan are available at the City's website – <http://www.hudson.oh.us>.

City Of Hudson, Ohio

Statement of Net Assets

December 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 13,296,575	\$ 18,153,649	\$ 31,450,224
Investment in common stock	11,125	-	11,125
Investments in segregated accounts	2,705	-	2,705
Materials and supplies inventory	148,264	1,326,181	1,474,445
Accounts receivable	416,523	3,150,144	3,566,667
Internal balances	496,008	(496,008)	-
Intergovernmental receivable	1,297,519	-	1,297,519
Taxes receivable	7,097,993	-	7,097,993
Special assessments receivable	2,618,701	111,765	2,730,466
Noncurrent assets:			
Investment in joint venture	-	528,145	528,145
Nondepreciable capital assets	11,859,419	4,001,323	15,860,742
Depreciable capital assets, net	<u>23,129,364</u>	<u>27,474,170</u>	<u>50,603,534</u>
 Total assets	 <u>60,374,196</u>	 <u>54,249,369</u>	 <u>114,623,565</u>
Liabilities			
Current liabilities:			
Accounts payable	700,484	1,482,044	2,182,528
Accrued wages and benefits	300,533	126,285	426,818
Intergovernmental payable	313,970	552,886	866,856
Accrued interest payable	134,844	194,295	329,139
Claims Payable	19,219	-	19,219
Deferred revenue	4,494,612	-	4,494,612
Long-term liabilities:			
Due within one year	2,849,584	1,259,436	4,109,020
Due in more than one year	<u>34,720,605</u>	<u>23,433,283</u>	<u>58,153,888</u>
 Total liabilities	 <u>43,533,851</u>	 <u>27,048,229</u>	 <u>70,582,080</u>
Net Assets			
Invested in capital assets, net of related debt	7,151,211	10,887,951	18,039,162
Restricted for:			
Capital projects	2,298,491	-	2,298,491
Debt service	642,638	-	642,638
Other purposes	2,448,317	-	2,448,317
Permanent fund	33,592	-	33,592
Unrestricted	<u>4,266,096</u>	<u>16,313,189</u>	<u>20,579,285</u>
 Total net assets	 \$ <u>16,840,345</u>	 \$ <u>27,201,140</u>	 \$ <u>44,041,485</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Activities

For the Year Ended December 31, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 5,478,804	\$ 97,254	\$ 7,500	\$ -	\$ (5,374,050)	\$ -	\$ (5,374,050)
Security of persons and property	5,647,850	539,299	23,119	-	(5,085,432)	-	(5,085,432)
Public health	503,235	64,808	-	-	(438,427)	-	(438,427)
Leisure time services	1,021,184	251,156	-	-	(770,028)	-	(770,028)
Community and economic development	5,194,866	102,722	-	20,461	(5,071,683)	-	(5,071,683)
Transportation	4,339,311	1,330	-	88,043	(4,249,938)	-	(4,249,938)
Interest and fiscal charges	1,796,974	-	-	-	(1,796,974)	-	(1,796,974)
Total governmental activities	<u>23,982,224</u>	<u>1,056,569</u>	<u>30,619</u>	<u>108,504</u>	<u>(22,786,532)</u>	<u>-</u>	<u>(22,786,532)</u>
Business-type activities:							
Electric system	15,909,063	16,969,488	-	-	-	1,060,425	1,060,425
Golf course	1,195,929	1,027,753	-	-	-	(168,176)	(168,176)
Storm sewer system	784,847	-	-	-	-	(784,847)	(784,847)
Wastewater system	3,177,791	2,089,243	-	-	-	(1,088,548)	(1,088,548)
Water system	1,690,378	1,449,339	-	-	-	(241,039)	(241,039)
Total business-type activities	<u>22,758,008</u>	<u>21,535,823</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,222,185)</u>	<u>(1,222,185)</u>
Totals	\$ <u>46,740,232</u>	\$ <u>22,592,392</u>	\$ <u>30,619</u>	\$ <u>108,504</u>	<u>(22,786,532)</u>	<u>(1,222,185)</u>	<u>(24,008,717)</u>
General revenues:							
Property and other local taxes					4,260,348	-	4,260,348
Municipal income tax					13,314,225	-	13,314,225
Grants and entitlements not restricted to specific programs					4,718,788	-	4,718,788
Investment income					651,776	105,631	757,407
Miscellaneous income					596,669	568,330	1,164,999
Gain (loss) on sale of assets					(17,115)	(5,280)	(22,395)
Transfers					<u>(1,617,468)</u>	<u>1,617,468</u>	<u>-</u>
Total general revenues and transfers					<u>21,907,223</u>	<u>2,286,149</u>	<u>24,193,372</u>
Change in net assets					(879,309)	1,063,964	184,655
Net assets, beginning of year, restated					<u>17,719,654</u>	<u>26,137,176</u>	<u>43,856,830</u>
Net assets, end of year					\$ <u>16,840,345</u>	\$ <u>27,201,140</u>	\$ <u>44,041,485</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Balance Sheet Governmental Funds

December 31, 2005

	<u>General</u>	<u>Street Construction</u>	<u>Street Improvements</u>	<u>Library Construction</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Current assets:						
Equity in pooled cash and cash equivalents	\$ 6,651,872	\$ 21,262	\$ 1,853,333	\$ -	\$ 4,071,751	\$ 12,598,218
Investment in common stock	-	-	-	-	11,125	11,125
Investment in segregated accounts	-	-	-	-	2,705	2,705
Materials and supplies inventory	29,120	58,602	-	-	16,630	104,352
Accounts receivable	146,573	-	2,373	-	267,553	416,499
Interfund receivable	682,936	-	-	-	-	682,936
Intergovernmental receivable	690,738	395,866	-	-	210,915	1,297,519
Taxes receivable	4,517,408	-	-	-	2,580,585	7,097,993
Special assessments receivable	-	-	-	-	2,618,701	2,618,701
Noncurrent assets:						
Advances to other funds	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Total assets	\$ <u>12,818,647</u>	\$ <u>475,730</u>	\$ <u>1,855,706</u>	\$ <u>-</u>	\$ <u>9,779,965</u>	\$ <u>24,930,048</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 224,986	\$ 104,110	\$ 197,496	\$ -	\$ 131,267	\$ 657,859
Accrued wages and benefits	196,439	34,165	-	-	55,505	286,109
Intergovernmental payable	174,810	28,820	13,372	-	84,425	301,427
Interfund payable	-	-	155,000	-	131,928	286,928
Deferred revenue	<u>3,919,062</u>	<u>245,106</u>	<u>-</u>	<u>-</u>	<u>5,193,788</u>	<u>9,357,956</u>
Total liabilities	<u>4,515,297</u>	<u>412,201</u>	<u>365,868</u>	<u>-</u>	<u>5,596,913</u>	<u>10,890,279</u>
Fund Balances:						
Reserved for encumbrances	351,333	8,761	883,432	-	421,809	1,665,335
Reserved for advance	100,000	-	-	-	-	100,000
Reserved for principal trust	-	-	-	-	6,473	6,473
Reserved for inventory	29,120	58,602	-	-	16,630	104,352
Reserved for common stock	-	-	-	-	11,125	11,125
Reserved for debt service	-	-	-	-	642,638	642,638
Unreserved, undesignated, reported in:						
General fund	7,822,897	-	-	-	-	7,822,897
Special revenue funds (deficit)	-	(3,834)	-	-	2,384,122	2,380,288
Capital project funds	-	-	606,406	-	672,136	1,278,542
Permanent fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,119</u>	<u>28,119</u>
Total fund balances	<u>8,303,350</u>	<u>63,529</u>	<u>1,489,838</u>	<u>-</u>	<u>4,183,052</u>	<u>14,039,769</u>
Total liabilities and fund balances	\$ <u>12,818,647</u>	\$ <u>475,730</u>	\$ <u>1,855,706</u>	\$ <u>-</u>	\$ <u>9,779,965</u>	\$ <u>24,930,048</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

December 31, 2005

Total Governmental Funds Balances \$ 14,039,769

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 33,767,588

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

Taxes	\$ 1,413,943	
Special assessments	2,618,702	
Charges for services	87,463	
Intergovernmental	<u>743,236</u>	
Total		4,863,344

An internal service fund is used by management to charge the costs of insurance to individual funds, the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets 1,794,627

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	(33,425,000)	
Special assessment bonds	(2,210,000)	
Compensated absences	(1,647,567)	
Capital leases payable	(207,572)	
Accrued interest payable	<u>(134,844)</u>	
Total		<u>(37,624,983)</u>

Net assets of governmental activities \$ 16,840,345

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For the Year Ended December 31, 2005

	General	Street Construction	Street Improvements	Library Construction	Non-major Governmental Funds	Total Governmental Funds
Revenues:						
Property and other local taxes	\$ 2,280,230	\$ -	\$ -	\$ -	\$ 2,097,418	\$ 4,377,648
Municipal income tax	9,635,989	-	-	-	3,109,644	12,745,633
Intergovernmental	3,893,239	808,878	88,043	-	838,749	5,628,909
Charges for services	109,394	821	1,210	-	765,457	876,882
Fines and forfeitures	69,974	-	-	-	7,131	77,105
Special assessments	-	355	-	-	288,858	289,213
Interest	441,163	-	55,377	17,793	93,855	608,188
Other	<u>238,503</u>	<u>7,895</u>	<u>133,504</u>	<u>-</u>	<u>274,374</u>	<u>654,276</u>
Total revenues	<u>16,668,492</u>	<u>817,949</u>	<u>278,134</u>	<u>17,793</u>	<u>7,475,486</u>	<u>25,257,854</u>
Expenditures:						
Current:						
Security of persons and property	3,350,234	-	-	-	2,323,209	5,673,443
Public health	262,232	-	-	-	238,680	500,912
Leisure time services	-	-	-	-	844,963	844,963
Community and economic development	1,231,517	-	-	-	49,795	1,281,312
Transportation	-	2,636,968	153,856	-	8,386	2,799,210
General government	4,637,275	-	-	-	83,769	4,721,044
Capital outlay	171,300	20,784	3,241,994	3,903,811	1,545,652	8,883,541
Debt Service:						
Principal retirement	-	-	-	-	2,205,000	2,205,000
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,804,030</u>	<u>1,804,030</u>
Total expenditures	<u>9,652,558</u>	<u>2,657,752</u>	<u>3,395,850</u>	<u>3,903,811</u>	<u>9,103,484</u>	<u>28,713,455</u>
Excess of revenues over (under) expenditures	<u>7,015,934</u>	<u>(1,839,803)</u>	<u>(3,117,716)</u>	<u>(3,886,018)</u>	<u>(1,627,998)</u>	<u>(3,455,601)</u>
Other Financing Sources (Uses):						
Proceeds from sale of assets	-	1,274	-	-	-	1,274
Inception of capital lease	-	-	-	-	249,852	249,852
Transfers - in	228,647	1,698,436	2,038,494	-	2,244,808	6,210,385
Transfers - out	<u>(6,892,547)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(935,306)</u>	<u>(7,827,853)</u>
Total other financing sources (uses)	<u>(6,663,900)</u>	<u>1,699,710</u>	<u>2,038,494</u>	<u>-</u>	<u>1,559,354</u>	<u>(1,366,342)</u>
Net change in fund balances	<u>352,034</u>	<u>(140,093)</u>	<u>(1,079,222)</u>	<u>(3,886,018)</u>	<u>(68,644)</u>	<u>(4,821,943)</u>
Fund balance (deficit) at beginning of year, restated	<u>7,951,316</u>	<u>203,622</u>	<u>2,569,060</u>	<u>3,886,018</u>	<u>4,251,696</u>	<u>18,861,712</u>
Fund balance at end of year	<u>\$ 8,303,350</u>	<u>\$ 63,529</u>	<u>\$ 1,489,838</u>	<u>\$ -</u>	<u>\$ 4,183,052</u>	<u>\$ 14,039,769</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For The Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (4,821,943)

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

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

Capital outlay	\$ 2,705,819	
Depreciation	<u>(970,368)</u>	
Total		1,735,451

In the Statement of Activities, only the loss on the disposal of land and equipment are reported, whereas, in the Governmental Funds, the proceeds from the disposal increase financial resources. Thus, the change in Net Assets differs from the change in Fund Balance by the cost of the Land. (20,977)

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

Property and other taxes	(117,300)	
Municipal income taxes	568,592	
Special assessments	(274,094)	
Charges for services	87,463	
Intergovernmental	<u>(2,431)</u>	
Total		262,230

Repayment of Bond Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets. 2,205,000

Other financing sources, such as inception of capital lease, in the governmental funds increase long-term liabilities in the statement of net assets (249,852)

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

Compensated absences	37,419	
Capital leases	59,677	
Accrued interest on debt	<u>7,056</u>	
Total		104,152

Internal Service Funds are used by management to charge to costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the Internal Service Fund is reported with Governmental Activities (93,370)

Change in Net Assets of Governmental Activities \$ (879,309)

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For The Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Property and other local taxes	\$ 2,266,907	\$ 2,266,907	\$ 2,280,230	\$ 13,323
Income taxes	8,739,370	9,938,370	9,946,663	8,293
Charges for services	130,000	113,000	108,692	(4,308)
Fines and forfeitures	86,000	72,000	70,952	(1,048)
Intergovernmental	2,652,630	3,717,329	3,867,410	150,081
Interest	600,000	737,000	738,232	1,232
Other	<u>7,589</u>	<u>163,589</u>	<u>131,153</u>	<u>(32,436)</u>
Total revenues	<u>14,482,496</u>	<u>17,008,195</u>	<u>17,143,332</u>	<u>135,137</u>
Expenditures:				
Current:				
General government	5,242,568	5,380,946	4,974,654	406,292
Security of persons and property	3,597,859	3,570,274	3,423,204	147,070
Public health	277,546	277,546	277,546	-
Community and economic development	1,440,979	1,389,693	1,350,184	39,509
Capital outlay	<u>822,908</u>	<u>226,897</u>	<u>206,643</u>	<u>20,254</u>
Total expenditures	<u>11,381,860</u>	<u>10,845,356</u>	<u>10,232,231</u>	<u>613,125</u>
Excess of revenues over expenditures	<u>3,100,636</u>	<u>6,162,839</u>	<u>6,911,101</u>	<u>748,262</u>
Other financing sources (uses)				
Transfers - in	226,895	226,895	334,542	107,647
Proceeds from sale of capital assets	625,000	-	-	-
Transfers - out	(6,672,470)	(6,892,867)	(6,892,547)	320
Advances - in	65,928	-	-	-
Advances - out	<u>-</u>	<u>(85,000)</u>	<u>(85,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(5,754,647)</u>	<u>(6,750,972)</u>	<u>(6,643,005)</u>	<u>107,967</u>
Net change in fund balance	(2,654,011)	(588,133)	268,096	856,229
Fund balance at beginning of fiscal year	5,881,565	5,881,565	5,881,565	-
Prior fiscal year encumbrances appropriated	<u>747,191</u>	<u>747,191</u>	<u>747,191</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u><u>3,974,745</u></u>	\$ <u><u>6,040,623</u></u>	\$ <u><u>6,896,852</u></u>	\$ <u><u>856,229</u></u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For The Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Intergovernmental	\$ 876,970	\$ 876,970	\$ 787,133	\$ (89,837)
Charges for services	-	-	821	821
Special assessments	-	-	355	355
Other	-	-	7,895	7,895
Total revenues	<u>876,970</u>	<u>876,970</u>	<u>796,204</u>	<u>(80,766)</u>
Expenditures:				
Current:				
Transportation	2,457,014	2,706,810	2,756,667	(49,857)
Capital outlay	<u>12,504</u>	<u>20,785</u>	<u>20,785</u>	<u>-</u>
Total Expenditures	<u>2,469,518</u>	<u>2,727,595</u>	<u>2,777,452</u>	<u>(49,857)</u>
Excess of revenues over (under) expenditures	<u>(1,592,548)</u>	<u>(1,850,625)</u>	<u>(1,981,248)</u>	<u>(130,623)</u>
Other financing sources (uses)				
Transfers - in	1,600,000	1,650,000	1,698,436	48,436
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>1,274</u>	<u>1,274</u>
Total other financing sources (uses)	<u>1,600,000</u>	<u>1,650,000</u>	<u>1,699,710</u>	<u>49,710</u>
Net change in fund balance	7,452	(200,625)	(281,538)	(80,913)
Fund balance at beginning of fiscal year	208,949	208,949	208,949	-
Prior fiscal year encumbrances appropriated	<u>80,334</u>	<u>80,334</u>	<u>80,334</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u><u>296,735</u></u>	\$ <u><u>88,658</u></u>	\$ <u><u>7,745</u></u>	\$ <u><u>(80,913)</u></u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Fund Net Assets Proprietary Funds

December 31, 2005

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>	<u>All other Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Assets							
Current assets:							
Equity in pooled cash and cash equivalents	\$ 2,244,478	\$ 1,949,596	\$ 10,658,062	\$ 3,218,999	\$ 82,514	\$ 18,153,649	\$ 698,357
Accounts receivable	191,047	282,082	2,676,488	-	527	3,150,144	24
Special assessments receivable	111,765	-	-	-	-	111,765	-
Materials and supplies inventory	<u>212,517</u>	<u>8,377</u>	<u>1,051,929</u>	<u>38,178</u>	<u>15,180</u>	<u>1,326,181</u>	<u>43,912</u>
Total current assets	<u>2,759,807</u>	<u>2,240,055</u>	<u>14,386,479</u>	<u>3,257,177</u>	<u>98,221</u>	<u>22,741,739</u>	<u>742,293</u>
Noncurrent assets:							
Investment in joint venture	-	-	528,145	-	-	528,145	-
Nondepreciable capital assets	789,124	3,050	895,908	305,016	2,008,225	4,001,323	11,967
Depreciable capital assets, net	<u>9,663,426</u>	<u>8,725,624</u>	<u>6,232,873</u>	<u>561,169</u>	<u>2,291,078</u>	<u>27,474,170</u>	<u>1,209,228</u>
Total noncurrent assets	<u>10,452,550</u>	<u>8,728,674</u>	<u>7,656,926</u>	<u>866,185</u>	<u>4,299,303</u>	<u>32,003,638</u>	<u>1,221,195</u>
Total assets	<u>13,212,357</u>	<u>10,968,729</u>	<u>22,043,405</u>	<u>4,123,362</u>	<u>4,397,524</u>	<u>54,745,377</u>	<u>1,963,488</u>
Liabilities							
Current liabilities:							
Accounts payable	65,414	52,799	1,234,356	66,611	62,864	1,482,044	42,625
Claims payable	-	-	-	-	-	-	19,219
Accrued wages and benefits	16,768	19,424	66,633	13,209	10,251	126,285	14,424
Intergovernmental payable	21,714	423,301	64,097	8,920	34,854	552,886	12,543
Due to other funds	-	-	-	80,350	315,658	396,008	-
Accrued interest payable	31,145	128,127	13,690	11,496	9,837	194,295	-
Compensated absences payable	120,128	5,183	195,413	-	29,491	350,215	21,392
OWDA loans payable	-	364,221	-	-	-	364,221	-
General obligation bonds payable	260,000	25,000	100,000	55,000	105,000	545,000	-
Capital leases payable	-	-	-	-	-	-	-
Total current liabilities	<u>515,169</u>	<u>1,018,055</u>	<u>1,674,189</u>	<u>235,586</u>	<u>567,955</u>	<u>4,010,954</u>	<u>110,203</u>
Long-term liabilities (net of current portion):							
Advances from other funds	-	100,000	-	-	-	100,000	-
Compensated absences payable	221,773	29,559	362,011	-	37,417	650,760	58,658
OWDA loans payable	-	5,722,523	-	-	-	5,722,523	-
General obligation bonds payable	<u>6,840,000</u>	<u>2,045,000</u>	<u>2,955,000</u>	<u>3,365,000</u>	<u>1,855,000</u>	<u>17,060,000</u>	<u>-</u>
Total long-term liabilities	<u>7,061,773</u>	<u>7,897,082</u>	<u>3,317,011</u>	<u>3,365,000</u>	<u>1,892,417</u>	<u>23,533,283</u>	<u>58,658</u>
Total liabilities	<u>7,576,942</u>	<u>8,915,137</u>	<u>4,991,200</u>	<u>3,600,586</u>	<u>2,460,372</u>	<u>27,544,237</u>	<u>168,861</u>
Net Assets							
Invested in capital assets, net of related debt	3,352,550	571,930	4,073,781	550,387	2,339,303	10,887,951	1,221,195
Unrestricted	<u>2,282,865</u>	<u>1,481,662</u>	<u>12,978,424</u>	<u>(27,611)</u>	<u>(402,151)</u>	<u>16,313,189</u>	<u>573,432</u>
Total net assets	\$ <u>5,635,415</u>	\$ <u>2,053,592</u>	\$ <u>17,052,205</u>	\$ <u>522,776</u>	\$ <u>1,937,152</u>	\$ <u>27,201,140</u>	\$ <u>1,794,627</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For the Year Ended December 31, 2005

	Water	Wastewater	Electric	Storm Sewer	All other Enterprise Funds	Totals	Government Activities - Internal Service Funds
Operating revenues:							
Charges for services	\$ 1,449,339	\$ 2,089,243	\$ 16,969,488	\$ -	\$ 1,027,753	\$ 21,535,823	\$ 1,428,297
Other	<u>80,113</u>	<u>316</u>	<u>195,296</u>	<u>3,717</u>	<u>8,271</u>	<u>287,713</u>	<u>58,678</u>
Total operating revenues	<u>1,529,452</u>	<u>2,089,559</u>	<u>17,164,784</u>	<u>3,717</u>	<u>1,036,024</u>	<u>21,823,536</u>	<u>1,486,975</u>
Operating Expenses:							
Personal services	724,148	460,997	2,238,854	380,795	501,849	4,306,643	454,206
Materials and supplies	143,899	18,556	185,278	53,896	225,697	627,326	331,263
Contractual services	285,666	2,133,434	12,927,312	273,295	175,130	15,794,837	187,222
Claims	-	-	-	-	-	-	217,551
Other	814	-	4,431	203	66,540	71,988	-
Depreciation	<u>284,013</u>	<u>232,935</u>	<u>408,844</u>	<u>22,649</u>	<u>132,624</u>	<u>1,081,065</u>	<u>374,715</u>
Total operating expenses	<u>1,438,540</u>	<u>2,845,922</u>	<u>15,764,719</u>	<u>730,838</u>	<u>1,101,840</u>	<u>21,881,859</u>	<u>1,564,957</u>
Operating income (loss)	<u>90,912</u>	<u>(756,363)</u>	<u>1,400,065</u>	<u>(727,121)</u>	<u>(65,816)</u>	<u>(58,323)</u>	<u>(77,982)</u>
Non-Operating Revenues (Expenses):							
Investment income	34,364	33,518	36,238	-	1,511	105,631	289
Special assessments	-	-	-	-	-	-	-
Interest and fiscal charges	(291,944)	(291,763)	(144,344)	(54,009)	(94,089)	(876,149)	-
Gain (loss) on disposal of capital assets	-	-	654	-	(5,934)	(5,280)	(15,677)
Other non-operating revenue (expense)	<u>90,049</u>	<u>64,395</u>	<u>-</u>	<u>126,173</u>	<u>-</u>	<u>280,617</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(167,531)</u>	<u>(193,850)</u>	<u>(107,452)</u>	<u>72,164</u>	<u>(98,512)</u>	<u>(495,181)</u>	<u>(15,388)</u>
Income (loss) before transfers	(76,619)	(950,213)	1,292,613	(654,957)	(164,328)	(553,504)	(93,370)
Transfers - in	24,318	1,000,000	-	820,000	45	1,844,363	-
Transfers - out	<u>(114,605)</u>	<u>(112,290)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(226,895)</u>	<u>-</u>
Change in net assets	(166,906)	(62,503)	1,292,613	165,043	(164,283)	1,063,964	(93,370)
Net assets at beginning of year, restated	<u>5,802,321</u>	<u>2,116,095</u>	<u>15,759,592</u>	<u>357,733</u>	<u>2,101,435</u>	<u>26,137,176</u>	<u>1,887,997</u>
Net assets at end of year	\$ <u>5,635,415</u>	\$ <u>2,053,592</u>	\$ <u>17,052,205</u>	\$ <u>522,776</u>	\$ <u>1,937,152</u>	\$ <u>27,201,140</u>	\$ <u>1,794,627</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2005

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>	<u>All Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities Internal Service Funds</u>
Cash Flows from Operating Activities:							
Cash received from customers	\$ 1,407,132	\$ 2,012,136	\$ 16,273,728	\$ 93,861	\$ 1,027,753	\$ 20,814,610	\$ 1,428,297
Cash payments to employees for services	(523,557)	(612,223)	(2,123,373)	(406,493)	(478,584)	(4,144,230)	(434,817)
Cash payments for goods and services	(435,309)	(2,059,902)	(13,934,221)	(283,777)	(350,602)	(17,063,811)	(541,905)
Cash payments for claims	-	-	-	-	-	-	(216,240)
Other operating revenues	80,113	316	108,960	3,717	7,854	200,960	58,678
Other operating expenses	-	-	(4,556)	(203)	(66,698)	(71,457)	-
Net cash provided by (used for) operating activities	<u>528,379</u>	<u>(659,673)</u>	<u>320,538</u>	<u>(592,895)</u>	<u>139,723</u>	<u>(263,928)</u>	<u>294,013</u>
Cash Flows from Noncapital Financing Activities:							
Transfer-in	24,318	1,000,000	-	820,000	85,045	1,929,363	-
Transfers-out	(114,605)	(112,290)	-	-	-	(226,895)	-
Other non-operating revenues (expenses)	<u>90,049</u>	<u>64,395</u>	<u>-</u>	<u>126,173</u>	<u>-</u>	<u>280,617</u>	<u>657</u>
Net cash provided by (used for) noncapital financing activities	<u>(238)</u>	<u>952,105</u>	<u>-</u>	<u>946,173</u>	<u>85,045</u>	<u>1,983,085</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities:							
Proceeds from sale of notes	1,720,000	1,230,000	-	2,410,000	-	5,360,000	-
Acquisition of capital assets	(159,878)	(571,815)	(674,399)	(372,670)	(1,355)	(1,780,117)	(413,610)
Proceeds from sale of capital assets	-	-	654	-	-	654	-
Special assessments	2,852	-	-	-	-	2,852	-
Principal payments	(860,000)	(364,941)	(100,000)	(40,000)	(113,160)	(1,478,101)	-
Interest payments	<u>(272,581)</u>	<u>(297,006)</u>	<u>(137,713)</u>	<u>(44,103)</u>	<u>(88,364)</u>	<u>(839,767)</u>	<u>-</u>
Net cash provided by (used for) capital and related financing activities	<u>430,393</u>	<u>(3,762)</u>	<u>(911,458)</u>	<u>1,953,227</u>	<u>(202,879)</u>	<u>1,265,521</u>	<u>(413,610)</u>
Cash Flows from Investing Activities:							
Interest on investments	<u>31,533</u>	<u>31,134</u>	<u>-</u>	<u>-</u>	<u>1,439</u>	<u>64,106</u>	<u>274</u>
Net increase (decrease) cash and cash equivalents	990,067	319,804	(590,920)	2,306,505	23,328	3,048,784	(118,666)
Cash and cash equivalents at beginning of year	<u>1,254,411</u>	<u>1,629,792</u>	<u>11,248,982</u>	<u>912,494</u>	<u>59,186</u>	<u>15,104,865</u>	<u>817,023</u>
Cash and cash equivalents at end of year	\$ <u>2,244,478</u>	\$ <u>1,949,596</u>	\$ <u>10,658,062</u>	\$ <u>3,218,999</u>	\$ <u>82,514</u>	\$ <u>18,153,649</u>	\$ <u>698,357</u>

(Continued)

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Cash Flows Proprietary Funds (continued)

For the Year Ended December 31, 2005

	Water	Wastewater	Electric	Storm Sewer	All other Enterprise Funds	Total Enterprise Funds	Government Activities - Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:							
Operating income (loss)	\$ 90,912	\$ (756,363)	\$ 1,400,065	\$ (727,121)	\$ (65,816)	\$ (58,323)	\$ (77,982)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	284,013	232,935	408,844	22,649	132,624	1,081,065	374,715
(Increase) Decrease in Operating Assets:							
Accounts receivables	(46,762)	(77,107)	(782,096)	104,050	(417)	(802,332)	-
Materials and supplies inventory	17,744	(1,160)	28,201	12,283	(11,905)	45,163	(11,016)
Special assessment receivable	4,555	-	-	-	-	4,555	-
Increase (Decrease) in Operating Liabilities:							
Accounts payable	(23,286)	(40,890)	(850,052)	23,568	61,658	(829,002)	(13,800)
Accrued wages and benefits	1,357	1,249	325	1,742	1,715	6,388	3,644
Compensated absences payable	187,356	(157,414)	81,662	(30,363)	14,854	96,095	7,314
Intergovernmental payable	12,490	139,077	33,589	297	7,010	192,463	8,451
Claims payable	-	-	-	-	-	-	2,687
Total adjustments	<u>437,467</u>	<u>96,690</u>	<u>(1,079,527)</u>	<u>134,226</u>	<u>205,539</u>	<u>(205,605)</u>	<u>371,995</u>
Net cash provided by (used for) operating activities	<u>\$ 528,379</u>	<u>\$ (659,673)</u>	<u>\$ 320,538</u>	<u>\$ (592,895)</u>	<u>\$ 139,723</u>	<u>\$ (263,928)</u>	<u>\$ 294,013</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Fiduciary Net Assets Fiduciary Funds

December 31, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,117,042
Cash and cash equivalents in segregated accounts	5,074
Taxes receivable	<u>889,453</u>
Total Assets	\$ <u>2,011,569</u>
Liabilities:	
Accounts payable	\$ 44,525
Undistributed Monies	559,405
Deposits Held and Due to Others	518,186
Deferred revenue	<u>889,453</u>
Total Liabilities	\$ <u>2,011,569</u>

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

City of Hudson, Ohio

Notes to Basic Financial Statements

For The Year Ended December 31, 2005

Note 1: Description of the City and Reporting Entity

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

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

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

The City is associated with a joint venture and a shared risk pool. The joint venture is the Ohio Municipal Electric Generation Agency Joint Venture 5. The Northern Ohio Risk Management Association (NORMA) is the shared risk pool. These organizations are presented in Notes 20 and 21.

Note 2: Summary of Significant Accounting Policies

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

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

Street Improvements - The street improvements capital projects fund accounts for the costs of the City's annual street maintenance and construction program.

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 uses located within the City.

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

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

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

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

Expenses/Expenditures

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

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

E. Budgetaries

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

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews the estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the Annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official Certificate of Estimated Resources issued during 2005.

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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

Appropriations (continued)

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

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

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

F. Cash and Cash Equivalents

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

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

Following Ohio 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 2005 amounted to \$441,163, which includes \$567,010 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

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.

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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	50 years	50 years
Infrastructure	30 to 65 years	30 to 65 years
Machinery and Equipment	5 to 30 years	5 to 30 years
Vehicles	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 attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all eligible employees with more than one year of service.

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

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

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

K. Accrued Liabilities and Long-Term Obligations

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 2: Summary of Significant Accounting Policies (continued)

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, 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 is 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, advances to other funds, common stock, debt service principal payments, permanent fund principal payments and inventories.

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

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

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 2005.

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: Changes in Accounting Principles

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures," and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries."

GASB Statement No. 40 establishes disclosure requirements for investment credit risk, interest rate risk, deposit custodial risk and foreign currency risk.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statements No. 42 did not affect the presentation of the financial statements of the City.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 4: Budgetary Basis of Accounting

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

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

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

	Net Change In Fund Balance	
	<u>General Fund</u>	<u>Street Construction</u>
GAAP Basis	\$ 352,034	\$ (140,093)
Net Adjustment for Revenue Accruals	580,735	(21,745)
Net Adjustment for Expenditure Accruals	(167,648)	(106,183)
Encumbrances	<u>(497,025)</u>	<u>(13,517)</u>
Budget Basis	\$ <u>268,096</u>	\$ <u>(281,538)</u>

Note 5: Deposits and Investments

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

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

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

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 5: Deposits and Investments (continued)

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

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

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
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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 5: Deposits and Investments (continued)

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

Deposits

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

At year-end, the carrying amount of the City's deposits was \$9,861,269 and the bank balance was \$10,307,432. Of the bank balance \$3,850,221 was covered by Federal depository insurance and \$6,457,211 was uninsured. Of the remaining bank balance, \$900,000 was collateralized with securities held by the pledging institution's agent in the City's name and \$5,557,211 was collateralized with securities held by the pledging institution's trust department, not in the City's name. At year end, the City had \$1,475 in cash on hand.

Investments

Investments are reported at fair value. As of December 31, 2005, the city had the following investments:

	Fair Value	Maturities (in years)	
		Less than 1	1 - 4
Overnight Repurchase Agreements	\$ 1,796,996	\$ 1,796,996	\$ -
Federal Home Loan Bank	10,121,627	2,181,387	7,940,240
Federal National Mortgage Association	6,195,780	3,003,371	3,192,409
Federal Home Loan Mortgage Corporation	4,595,193	492,115	4,103,078
Common Stock (donated)	11,125	11,125	-
Series E Bonds	<u>2,705</u>	<u>-</u>	<u>2,705</u>
Total Portfolio	\$ <u>22,723,426</u>	\$ <u>7,484,994</u>	\$ <u>15,238,432</u>

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 5: Deposits and Investments (continued)

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

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

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2005:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Overnight Repurchase Agreements	7.91%
Federal Home Loan Bank	44.54
Federal National Mortgage Association	27.27
Federal Home Loan Mortgage Corporation	20.22
Common Stock (donated)	.05
Series E Bonds	.01
Total	<u>100.00%</u>

Note 6: Receivables

Receivables at December 31, 2005, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenues. All accounts, taxes, special assessments and intergovernmental receivables are deemed collectible in full.

Note 7: 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 2005 are levied after October 1, 2004, on assessed value as of January 1, 2004, 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 2005 were intended to finance 2005 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 2005 became a lien December 31, 2004, are levied after October 1, 2004, and are collected in 2005 with real property taxes. 2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2004. Tangible personal property assessments are 25% of actual value.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 7: Property Taxes (continued)

The full tax rate for all City operations for the year ended December 31, 2005, was \$6.94 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 665,982,010
Commercial/Industrial/Mineral	94,866,260
Public Utilities	62,240
Tangible Personal Property Valuation:	
General	47,072,272
Public Utilities	<u>13,966,120</u>
Total Valuation	\$ <u>821,948,902</u>

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

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

Note 8: Income Tax

The City levies a municipal income tax of 2% on all gross salaries, wages, and other compensation, earned by the residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted 100% credit for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional 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 including, specifically, with fifteen percent (15%) of such additional one percent (1%) increase being designated for funding of the Fire Department; with nine percent (9%) of such additional one percent (1%) increase being designated for funding of Emergency Medical Services; with fifteen percent (15%) of such additional one percent (1%) increase being designated for funding of the Park System; and with thirteen and one-half percent (13.5%) of such additional one percent (1%) increase being designated for community learning centers in the City, in cooperation with the Hudson City School District. For 2005, municipal income tax revenue was \$12,745,633.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 9: 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 10: Capital Assets

	Restated Balance <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/05</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,040,553	\$ -	\$ -	\$ 9,040,553
Construction in progress	<u>11,563,206</u>	<u>37,070</u>	<u>(8,781,410)</u>	<u>2,818,866</u>
Total capital assets, not being depreciated	<u>20,603,759</u>	<u>37,070</u>	<u>(8,781,410)</u>	<u>11,859,419</u>
Capital assets, being depreciated:				
Buildings	7,152,518	390,885	-	7,543,403
Land improvements	124,580	50,000	-	174,580
Vehicles	4,641,356	672,244	(348,525)	4,965,075
Equipment, furniture and fixtures	4,086,856	163,495	(451,075)	3,799,276
Infrastructure	<u>4,969,575</u>	<u>10,570,808</u>	<u>-</u>	<u>15,540,383</u>
Total capital assets, being depreciated	<u>20,974,885</u>	<u>11,847,432</u>	<u>(799,600)</u>	<u>32,022,717</u>
Less accumulated depreciation:				
Buildings	(1,094,078)	(150,602)	-	(1,244,680)
Land improvements	(44,750)	(7,089)	-	(51,839)
Vehicles	(3,472,806)	(441,067)	332,190	(3,581,683)
Equipment, furniture and fixtures	(2,774,769)	(236,780)	446,435	(2,565,114)
Infrastructure	<u>(940,493)</u>	<u>(509,544)</u>	<u>-</u>	<u>(1,450,037)</u>
Total accumulated depreciation	<u>(8,326,896)</u>	<u>(1,345,082)</u>	<u>778,625</u>	<u>(8,893,353)</u>
Total capital assets, being depreciated, net	<u>12,647,989</u>	<u>10,502,350</u>	<u>(20,975)</u>	<u>23,129,364</u>
Governmental activities capital assets, net	\$ <u>33,251,748</u>	\$ <u>10,539,420</u>	\$ <u>(8,802,385)</u>	\$ <u>34,988,783</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 10: Capital Assets (continued)

	Balance 12/31/04	Additions	Disposals	Balance 12/31/05
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 2,269,866	\$ -	\$ -	\$ 2,269,866
Construction in progress	<u>2,341,328</u>	<u>1,060,615</u>	<u>(1,670,486)</u>	<u>1,731,457</u>
Total capital assets, not being depreciated	<u>4,611,194</u>	<u>1,060,615</u>	<u>(1,670,486)</u>	<u>4,001,323</u>
Capital assets being depreciated:				
Buildings	4,137,034	62,628	-	4,199,662
Land improvements	526,081	1,443,761	-	1,969,842
Vehicles	703,930	76,985	(25,459)	755,456
Equipment, furniture and fixtures	5,616,664	18,973	(7,418)	5,628,219
Infrastructure	<u>24,948,145</u>	<u>762,640</u>	<u>-</u>	<u>25,710,785</u>
Total capital assets, being depreciated	<u>35,931,854</u>	<u>2,364,987</u>	<u>(32,877)</u>	<u>38,263,964</u>
Less accumulated depreciation:				
Buildings	(1,223,246)	(85,418)	-	(1,308,664)
Land improvements	(189,407)	(96,681)	-	(286,088)
Vehicles	(328,329)	(70,785)	25,459	(373,655)
Equipment, furniture and fixtures	(2,681,653)	(191,704)	1,484	(2,871,873)
Infrastructure	<u>(5,338,037)</u>	<u>(611,477)</u>	<u>-</u>	<u>(5,949,514)</u>
Total accumulated depreciation	<u>(9,760,672)</u>	<u>(1,056,065)</u>	<u>26,943</u>	<u>(10,789,794)</u>
Total capital assets, being depreciated, net	<u>26,171,182</u>	<u>1,308,922</u>	<u>(5,934)</u>	<u>27,474,170</u>
Business-type activities capital assets, net	\$ <u>30,782,376</u>	\$ <u>2,369,537</u>	\$ <u>(1,676,420)</u>	\$ <u>31,475,493</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 664,570
Security of persons and property	280,544
Public health and welfare	5,635
Transportation	309,910
Community environment	5,298
Leisure time activities	<u>79,125</u>
 Total	 \$ <u>1,345,082</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 11: Risk Management

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

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

The claims liability of \$19,219 reported in the fund at December 31, 2005, is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims to be reported. The costs are to be based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any other factors that would modify past experience. The claims liability is based on an estimate supplied by the City's third party administrator. A summary of the fund's claims liability follows:

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2004	\$ 13,334	\$ 138,891	\$ 135,693	\$ 16,532
2005	16,532	159,192	156,505	19,219

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 12: Note Debt

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

	<u>Balance</u> <u>1/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/05</u>
2004 water system improvement, 2.5%, Due 05/05	\$ <u>675,000</u>	\$ <u>-</u>	\$ <u>675,000</u>	\$ <u>-</u>
Total notes	\$ <u>675,000</u>	\$ <u> </u>	\$ <u>675,000</u>	\$ <u>-</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 13: Long – Term Obligations

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

<u>Debt Issue</u>	<u>Original Issue</u>	<u>Date Interest Rate</u>	<u>Original Issue Amount</u>
General Obligation Bonds:			
1992 Multipurpose G.O. Bonds	1992	2.5% - 5.2%	\$ 300,000
1992 Safety Center G.O. Bonds	1992	2.9% - 6.35%	395,000
1998 Golf Course Improvement G.O. Bonds	1998	4.3% - 5.0%	690,000
1998 Park Acquisition G.O. Bonds	1998	4.5% - 5.0%	7,335,000
1998 Village South G.O. Bonds	1998	4.5% - 5.0%	3,500,000
1998 Water System Improvement G.O. Bonds	1998	4.5% - 5.0%	2,245,000
1999 Park Improvement G.O. Bonds	1999	4.5% - 4.9%	1,095,000
2000 Library Improvement G.O. Bonds	2000	4.4% - 6.35%	9,925,000
2000 Park Improvement G.O. Bonds	2000	4.5% - 6.125%	1,100,000
2002 Community Center Expansion G.O. Bonds	2002	2.8% - 6.5%	330,000
2002 Golf Course Improvement G.O. Bonds	2002	2.8% - 6.5%	1,645,000
2002 Police Facility Construction G.O. Bonds	2002	2.8% - 6.5%	3,985,000
2002 Road Improvement G.O. Bonds	2002	2.8% - 6.5%	1,200,000
2002 Storm Water Improvement G.O. Bond	2002	2.8% - 6.5%	1,090,000
2002 Substation Construction G.O. Bonds	2002	2.8% - 6.5%	2,230,000
2002 Water System Improvement G.O. Bonds	2002	2.8% - 6.5%	4,035,000
2004 Downtown TIF G.O. Bond	2004	3.0% - 5.0%	7,000,000
2004 Electric Issue G.O. Bonds	2004	3.0% - 5.0%	1,000,000
2004 Milford/RT 91 Construction G.O. Bond	2004	3.0% - 5.0%	4,200,000
2004 Sewer Improvement G.O. Bonds	2004	3.0% - 5.0%	855,000
2005 Sewer Improvement G.O. Bonds	2005	3.0% - 5.0%	1,230,000
2005 Storm Water Improvement G.O. Bond	2005	3.0% - 5.0%	2,410,000
2005 Water System Improvement G.O. Bonds	2005	3.0% - 5.0%	665,000

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 13: Long-Term Obligations (continued)

Special Assessment Bonds:

1998 Executive Parkway S.A. Bonds	1998	4.3% - 5.0%	1,060,000
1998 Sewer Improvement S.A. Bonds	1998	4.5% - 5.0%	1,600,000
1999 Water Main Construction S.A. Bonds	1999	3.9% - 5.625%	420,000

OWDA Loan:	1999	4.04%	8,266,307
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The changes in the City's long-term obligations during the year consist of the following:

	Restated Balance 1/1/05	Additions	Deletions	Balance 12/31/05	Amount Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1992 Multipurpose					
2.5% to 5.2%, due through 2007	\$ 345,000	\$ -	\$ (110,000)	\$ 235,000	\$ 115,000
1992 Safety Center					
2.9% to 6.35 %, due through 2012	580,000	-	(70,000)	510,000	70,000
1998 Park Acquisition					
4.5% to 5.0%, due through 2007	5,430,000	-	(315,000)	5,115,000	330,000
1998 Village South					
4.5% to 5.5%, due through 2018	2,735,000	-	(145,000)	2,590,000	150,000
1999 Park Improvement					
4.5% to 4.9%, due through 2018	855,000	-	(45,000)	810,000	50,000
2000 Park Improvement					
4.5% to 6.125%, due through 2019	900,000	-	(40,000)	860,000	40,000
2000 Library Construction					
4.4% to 6.35%, due through 2019	8,130,000	-	(360,000)	7,770,000	380,000
2002 Community Center Expansion					
1.65% to 4.65%, due through 2023	320,000	-	(10,000)	310,000	10,000
2002 Police Facility Construction					
1.65% to 4.65%, due through 2023	3,850,000	-	(145,000)	3,705,000	150,000
2002 Road Improvement					
1.75%, due through 2023	1,155,000	-	(45,000)	1,110,000	45,000
2004 Milford/Rt. 91 Construction					
3.00% to 5.00%, due through 2024	4,200,000	-	(155,000)	4,045,000	160,000
2004 Downtown TIF					
3.00% to 4.50%, due through 2015	7,000,000	-	(635,000)	6,365,000	640,000
Total General Obligation Bonds	35,500,000	-	(2,075,000)	33,425,000	2,140,000
Special Assessment Bonds:					
1998 Sewer Improvement					
4.5% to 5.0%, due through 2016	1,160,000	-	(70,000)	1,090,000	75,000
1998 Executive Parkway					
4.3% to 5.0%, due through 2018	830,000	-	(45,000)	785,000	45,000
1999 Water Main Construction					
3.9% to 5.625%, due through 2019	350,000	-	(15,000)	335,000	15,000
Total Special Assessment Bonds	2,340,000	-	(130,000)	2,210,000	135,000
Capital lease	17,397	249,852	(59,677)	207,572	52,006
Compensated absences	1,757,722	147,781	(177,886)	1,727,617	522,578
Total Governmental Activities - Long-Term Obligations	\$ 39,615,119	\$ 397,633	\$ (2,442,563)	\$ 37,570,189	\$ 2,849,584

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 13: Long-Term Obligations (continued)

	Restated Balance 1/1/05	Additions	Deletions	Balance 12/31/05	Amount Due in One Year
Business-Type Activities:					
General Obligation Bonds:					
2002 Substation Construction					
1.75%, due through 2023	\$ 2,155,000	\$ -	\$ (80,000)	\$ 2,075,000	\$ 80,000
1998 Water System Improvement					
4.5% to 5.0%, due through 2016	1,600,000	-	(110,000)	1,490,000	110,000
2002 Water System Improvement					
1.75%, due through 2033	3,965,000	-	(75,000)	3,890,000	75,000
2002 Storm Water Improvement					
1.75%, due through 2023	1,050,000	-	(40,000)	1,010,000	40,000
Golf Course Improvement					
4.3% to 5.1%, due through 2019	480,000	-	(45,000)	435,000	45,000
2002 Golf Course Improvement					
1.75%, due 11/02	1,585,000	-	(60,000)	1,525,000	60,000
2004 Electric Issue					
3.00% to 5.00%, due through 2034	1,000,000	-	(20,000)	980,000	20,000
2004 Sewer Improvement					
3.00% to 5.00%, due through 2034	855,000	-	(15,000)	840,000	15,000
2005 Storm Water Improvement					
3.00% to 5.00%, due through 2035	-	2,410,000	-	2,410,000	15,000
2005 Water System Improvement					
3.00% to 5.00%, due through 2035	-	1,720,000	-	1,720,000	75,000
2005 Sewer Improvement					
3.00% to 5.00%, due through 2035	-	1,230,000	-	1,230,000	10,000
Total General Obligation Bonds	<u>12,690,000</u>	<u>5,360,000</u>	<u>(445,000)</u>	<u>17,605,000</u>	<u>545,000</u>
OWDA Loan:					
OWDA Loan					
4.04%, due through 2018	6,436,685	-	(349,941)	6,086,744	364,221
Capital leases	8,160	-	(8,160)	-	-
Compensated absences	<u>904,880</u>	<u>96,095</u>	<u>-</u>	<u>1,000,975</u>	<u>350,215</u>
Total Business-Type Activities	\$ <u>20,039,725</u>	\$ <u>5,456,095</u>	\$ <u>(803,101)</u>	\$ <u>24,692,719</u>	\$ <u>1,259,436</u>

The annual requirements to amortize all long-term debt outstanding as of December 31, 2005, including interest payments of \$25,850,040, 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
2005	\$ 2,140,000	\$ 1,600,189	\$ 135,000	\$ 107,964	\$ 545,000	\$ 923,064	\$ 364,222	\$ 242,262
2006	2,205,000	1,506,808	150,000	101,799	620,000	765,895	379,085	227,399
2007	2,150,000	1,412,284	160,000	94,851	645,000	740,619	394,555	211,929
2008	2,240,000	1,321,999	160,000	87,356	675,000	718,474	410,656	195,828
2009	2,320,000	1,218,786	170,000	79,751	670,000	694,245	427,413	179,071
2010-2014	12,135,000	4,349,678	965,000	267,576	3,775,000	3,049,513	2,413,373	619,046
2015-2019	7,975,000	1,591,661	470,000	46,710	3,170,000	2,250,120	1,697,440	122,012
2020-2024	2,260,000	250,563	-	-	2,865,000	1,512,928	-	-
2025-2029	-	-	-	-	2,310,000	924,175	-	-
2030-thereafter	-	-	-	-	<u>2,330,000</u>	<u>308,963</u>	-	-
Total	\$ <u>33,425,000</u>	\$ <u>13,251,968</u>	\$ <u>2,210,000</u>	\$ <u>786,008</u>	\$ <u>17,605,000</u>	\$ <u>11,887,994</u>	\$ <u>6,086,744</u>	\$ <u>1,797,547</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 13: Long-Term Obligations (continued)

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.

Note 14: Capital Leases – Lessee Disclosure

The City, in prior years, has entered into capital leases for the acquisition of various equipment. 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 \$303,722 equal to the present value of the future minimum lease payments in the government-wide financial statements. Principal payments in the current year totaled \$59,677 in the Governmental Activities and \$8,160 in Business-Type Activities.

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:

<u>Year</u>	<u>Governmental Lease Payments</u>
2006	\$ 59,680
2007	59,680
2008	53,881
2009	<u>53,881</u>
Total minimum lease payments	227,122
Less: amount representing interest	<u>(19,550)</u>
Present value of minimum lease payments	<u>\$ 207,572</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 15: Pension Plans

A. *Ohio Public Employees Retirement System*

The City of Hudson participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, 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 and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 800-222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City contributed 13.55 percent of covered payroll, of which 4.0 percent was used to fund health care coverage for retirees. The contribution rate is determined actuarially. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City of Hudson's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$813,399, \$765,255, and \$624,458, respectively, equal to the required contributions for each year. The full amount has been contributed for all three years. Contributions to the member-directed plan for 2005 were \$22,174 made by the City of Hudson and \$13,910 made by the plan members.

B. *Ohio Police and Fire Pension Fund*

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 15: Pension Plans (continued)

B. Ohio Police and Fire Pension Fund (continued)

Plan members are required to contribute 10 percent of their annual covered salary, while employers are required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City of Hudson's contributions for the years ended December 31, 2005, 2004, and 2003 for police officers and firefighters were \$326,869, \$222,278, and \$206,675, respectively, equal to the required contributions for each year.

Note 16: Postemployment Benefits

A. Ohio Public Employees Retirement System

OPERS administers three separate pension plans: the traditional plan – a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan – a defined contribution plan; and the combined plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the traditional and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. The 2005 employer contribution rate was 13.55 percent of covered payroll; 4.0 percent was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.0 percent. An annual increase of 4.0 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increase, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next eight years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 16: Postemployment Benefits (continued)

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

At December 31, 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 376,109. The City's actual contributions for 2005, which were used to fund post employment benefits, were \$340,691. The actual contribution and the actuarially-required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially-accrued liability and the unfunded actuarially-accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The HCPP incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retirement Medical Account that can be used to fund future health care expenses.

B. *Ohio Police and Fire Pension Fund*

The 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 OPEB as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The Ohio Revised Code provides the statutory authority allowing the OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The total police officers' employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2004 and 2005. 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 to receive health care benefits as of December 31, 2004, the date of the last actuarial valuation available, was 13,812 for police officers and 10,528 for firefighters. The City's actual contributions for 2005 that were used to fund post employment benefits were \$202,140 for police officers and \$9,728 for firefighters. OP&F's total health care expenses for the year ending December 31, 2004, the date of the last actuarial valuation available, was \$102,173,796, which was net of member contributions of \$55,665,341.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 17: Compensated Absences

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

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

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

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

As of December 31, 2005, the total liability for unpaid compensated absences was \$2,748,915.

Note 18: 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, 2005.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 18: Contingencies (continued)

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, 2005.

Note 19: Interfund Transactions

Interfund Receivable/Payable for the year ended December 31, 2005 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	131,928
General Fund	Storm Sewer Fund	80,350
General Fund	Non-Major Enterprise Funds	315,658
		<u>\$ 682,936</u>

Long-term interfund loans are classified as "advances to/from other funds" and consist of the following at December 31, 2004:

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

Advances to/from for the year ended December 31, 2005 consisted of the following:

<u>Advance from</u>	<u>Advance to</u>	<u>Amount</u>
General Fund	Non-Major Enterprise Funds	\$ <u>85,000</u>

As of December 31, 2005, interfund transfers were as follows:

	<u>Transfer In:</u>			
	<u>General</u>	<u>Street Construction</u>	<u>Street Improvements</u>	<u>Non-Major Governmental</u>
Transfer out:				
General Fund	\$ -	\$ 1,694,000	\$ 2,035,000	\$ 1,343,547
Water Fund	114,605	-	-	-
Sewer Fund	112,290	-	-	-
Non-Major Governmental	1,752	4,436	3,494	901,261
	<u>\$ 228,647</u>	<u>\$ 1,698,436</u>	<u>\$ 2,038,494</u>	<u>\$ 2,244,808</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 19: Interfund Transactions (continued)

	Transfer In:				Total
	Water	Wastewater	Stormwater	Non-Major Enterprise Funds	
Transfer out:					
General Fund	\$ -	\$ 1,000,000	\$ 820,000	\$ -	\$ 6,892,547
Water Fund	-	-	-	-	114,605
Sewer Fund	-	-	-	-	112,290
Non-Major Governmental	24,318	-	-	45	935,306
	<u>\$ 24,318</u>	<u>\$ 1,000,000</u>	<u>\$ 820,000</u>	<u>\$ 45</u>	<u>\$ 8,054,747</u>

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

Note 20: Joint Venture

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)

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

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

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

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement, each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2004, Hudson has met their debt coverage obligation.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 20: Joint Venture (continued)

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

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

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

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$528,145 at December 31, 2005. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

Note 21: 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 2005, the City paid \$143,533 for premiums. Financial information can be obtained by contacting the fiscal agent: City of Bedford Heights, Finance Director, 5661 Perkins Road, Bedford Heights, Ohio 44146.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 22: Outstanding Contractual Commitments

The City has the following outstanding contractual commitments for various construction projects at December 31, 2005:

<u>Contractor</u>	<u>Contract and Contingency</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>
3M Corporation	\$ 142,010	\$ 89,015	\$ 52,995
City of Stow	55,000	42,026	12,974
City of Stow	63,248	-	63,248
Meadville Land Service	19,680	-	19,680
Nerone & Sons	39,317	27,307	12,010
Ohio Farmers Insurance Company	1,032,185	741,903	290,282
Ohio Farmers Insurance Company	486,933	42,557	444,376
Pathmaster	42,755	-	42,755
Signal Service Company	52,975	39,219	13,756
Spano Brothers Construction Company	392,096	391,139	957
The Shelly Company	1,379,223	1,319,312	59,911
United Survey, Inc.	19,360	17,466	1,894
United Survey, Inc.	28,963	-	28,963
Vito Girona Construction Co.	261,237	211,314	49,923
Vito Girona Construction Co.	301,369	201,346	100,023
Vito Girona Construction Co.	140,751	-	140,751

Note 23: Subsequent Event

On March 1, 2006, the City approved labor negotiations with Teamster's Local Union No. 436. The term of the agreement is January 1, 2006 through December 31, 2008 and covers several public works and parks department employees. On May 9, 2006, the City approved labor negotiations with Utility Worker's Local 588. The term of the agreement is May 1, 2006 through April 30, 2009 and covers several electric department employees.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2005

Note 24: Restatement of Prior Year's Balances

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net assets, December 31, 2004	\$ 17,659,724	\$ 25,431,111
Reclassification of cash	(65,585)	65,585
Restatement of accounts receivable	-	524,062
Restatement of compensated absences	229,973	116,418
Restatement of capital assets	<u>(104,458)</u>	<u>-</u>
Fund balance, December 31, 2004, restated	\$ <u>17,719,654</u>	\$ <u>26,137,176</u>

The December 31, 2004 governmental activities and business-type activities net assets have been restated due to adjustments made to 1) reclassify cash previously recorded as a part of governmental funds but was determined to be part of business-type funds, 2) accounts receivable due to a change in recording the amount due for utility billing, 3) recalculation of compensated absences based upon the change made in prior years in the pay-out of accumulated sick leave, and 4) capital assets due to items being capitalized in prior years that were determined to be maintenance expenses.

The enterprise funds net assets at December 31, 2004 were also restated due to the above mentioned items. The December 31, 2004 net assets were restated for the Water Fund, Wastewater Fund, Electric Fund, and Other Enterprise Funds from \$5,687,145 to \$5,802,321, \$2,055,292 to \$2,116,095, \$15,246,748 to \$15,759,592 and \$2,084,193 to \$2,101,435, respectively.

**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 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, 2005, which collectively comprise the City’s basic financial statements and have issued our report thereon dated May 30, 2006, wherein we noted the City adopted *Government Accounting Standards Board Statements No. 40 and 42*. 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, and the Auditor of State's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Cuni & Panichi, Inc.

Cleveland, Ohio
May 30, 2006



**Auditor of State
Betty Montgomery**

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CITY OF HUDSON

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 29, 2006**