City of Hudson, Ohio

Basic Financial Statements
For the year ended December 31, 2006

Mary Taylor, CPA
Auditor of State

Members of 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, 2006 through December 31, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 2, 2007

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City of Hudson, Ohio

For The Year Ended December 31, 2006

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Ciuni &
Panichi
CPAs and Business Advisors

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, Ohio as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hudson'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 the 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, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Street Construction Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2006, the City implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits."

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2007 on our consideration of the City of Hudson'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.

C&P Advisors, LLC
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Members of the City Council
Hudson, Ohio

The management's discussion and analysis on pages 3 though 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ciuni & Panichi, Inc.

Cleveland, Ohio
June 29, 2007

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

<u>For The Year Ended December 31, 2006</u>

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, 2006. 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.

<u>Reporting the City of Hudson as a Whole</u>

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 2006"? 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, 2006. 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, 2006. Changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

In the Statement of Net Assets and the Statement of Activities, 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, date processing) to the other departments of the government entity that use the services. An internal service fund is the appropriate accounting mechanism when it is the intent of the government to recover the full cost of providing the service through user charges to other departments.

The Equipment and Reserve and Fleet Maintenance Fund, Self-Insurance Fund, Flexible Benefits Fund, and Information Services 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 $25,590,699 in governmental activities and $29,270,816 in business-type activities as of December 31, 2006. The largest portion of the City's net assets reflects its unrestricted portion. The next largest portion of net assets reflects its invested in capital assets (i.e.; land, buildings, equipment and machinery, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets are presented in the following table:

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2006

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current Assets	$ 30,959,852	$ 25,385,413	$ 22,614,594	$ 21,721,669	$ 53,574,446	$ 47,107,082
Investment in Joint Venture	-	-	614,702	528,145	614,702	528,145
Capital Assets, Net	35,273,043	34,988,783	31,400,958	31,475,493	66,674,001	66,464,276
Total Assets	66,232,895	60,374,196	54,630,254	53,725,307	120,863,149	114,099,503
Liabilities						
Current and Other Liabilities	5,652,164	5,963,662	1,806,382	2,355,510	7,458,546	8,319,172
Long-term Liabilities						
Due Within One Year	3,067,817	2,926,877	1,355,730	1,265,529	4,423,547	4,192,406
Due In More Than One Year	31,922,215	34,322,278	22,197,326	23,245,401	54,119,541	57,567,679
Total Liabilities	40,642,196	43,212,817	25,359,438	26,866,440	66,001,634	70,079,257
Net Assets						
Invested in Capital Assets, Net of Related Debt	9,267,477	7,151,211	11,548,538	10,887,951	20,816,015	18,039,162
Restricted	7,479,715	5,423,038	-	-	7,479,715	5,423,038
Unrestricted	8,843,507	4,587,130	17,722,278	15,970,916	26,565,785	20,558,046
Total Net Assets	$ 25,590,699	$ 17,161,379	$ 29,270,816	$ 26,858,867	$ 54,861,515	$ 44,020,246

An additional portion of the City's net assets (14 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of $26,565,785 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 $5,574,439 increase in current assets. The increase was primarily due to the City realizing the full impact of the increase in its income tax rate combined with a City Council-directed reduction in the City's operating expenses.

There was a decrease of $2,400,063 in long-term liabilities due in more than one year primarily due to the reduction in long-term liabilities through regularly scheduled payments on bonds. Additionally, the City did not issue any new long-term bonds or notes during 2006.

Invested in capital assets, net of related debt increased $2,116,266 due to the completion of Milford Road connector street, start of the Seasons Road/State Route 8 interchange project and purchase of various capital assets. The restricted net assets increased $2,056,677 primarily due to increases in the fund balances of the restricted funds and in particular the Parks, Fire and EMS funds which benefited directly from the income tax increase. The net result of the changes in net assets was an increase of $4,256,377 increase in unrestricted net assets.

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2006

Within the Business-Type Activities, assets increased $904,947 primarily due to increased fund balances within the enterprise funds. Long term liabilities due in more than one year decreased $1,048,075 primarily due to the debt payments. Invested in capital assets, net of related debt increased $660,587 due to increase in capital assets less related debt and accumulated depreciation on those items. The balance of the unrestricted net assets increased $1,751,362 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, 2006.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for services and sales	$ 1,227,622	$ 1,283,464	$ 20,527,948	$ 21,011,761	$ 21,755,570	$ 22,295,225
Operating grants and contributions	234,893	30,619	-	-	234,893	30,619
Capital grants and contributions	-	108,504	-	-	-	108,504
General Revenues						
Taxes	22,140,248	17,574,573	112	-	22,140,360	17,574,573
Grants and entitlements not restricted to specific programs	6,567,589	4,718,788	-	-	6,567,589	4,718,788
Investment income	1,636,933	651,487	190,986	105,631	1,827,919	757,118
Miscellaneous	520,957	596,958	114,876	568,330	635,833	1,165,288
Gain (loss) on sale of assets	39,042	(17,115)	1,799	(5,280)	40,841	(22,395)
Transfers in	-	-	2,750,000	1,844,363	2,750,000	1,844,363
Total program revenues	32,367,284	24,947,278	23,585,721	23,524,805	55,953,005	48,472,083
Program Expenses						
General government	6,412,877	5,379,628	-	-	6,412,877	5,379,628
Security of persons and property	5,558,517	5,584,042	-	-	5,558,517	5,584,042
Public health	527,237	474,544	-	-	527,237	474,544
Leisure time services	982,805	998,304	-	-	982,805	998,304
Community and economic development	1,270,102	5,131,630	-	-	1,270,102	5,131,630
Transportation	4,742,886	4,296,068	-	-	4,742,886	4,296,068
Interest and fiscal charges	1,693,540	1,796,974	-	-	1,693,540	1,796,974
Electric system	-	-	14,191,520	15,819,099	14,191,520	15,819,099
Golf course	-	-	1,130,359	1,158,512	1,130,359	1,158,512
Storm sewer system	-	-	903,661	784,847	903,661	784,847
Wastewater system	-	-	3,397,444	3,249,982	3,397,444	3,249,982
Water system	-	-	1,550,788	1,790,674	1,550,788	1,790,674
Transfers out	2,750,000	1,844,363	-	-	2,750,000	1,844,363
Total program expenses	23,937,964	25,505,553	21,173,772	22,803,114	45,111,736	48,308,667
Change in net assets	$ 8,429,320	$ (558,275)	$ 2,411,949	$ 721,691	$ 10,841,269	$ 163,416

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 14 percent and grants and entitlements generate 20 percent of total revenues.

Community and economic development expenses accounts for 5 percent of governmental expenses, general government accounts for 27 percent of governmental expenses, security of persons and property accounts for 23 percent of governmental expenses, and transportation costs represent 20 percent of governmental expenses, respectively.

Governmental activities increased the City's net assets by $8,429,320. Total revenues increased approximately $7.4 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 $218,000. Operating grants and contributions increased approximately $204,000 primarily due to grant for a traffic signal pre-emption system for the Fire Department vehicles.

The increase in overall net assets of $8,429,320 as compared to the decrease of $558,275 in 2005 was due to the increased income tax revenue and City Council-directed reduction in operating expenses.

Business-Type Activities

The City's business-type activities are the water, wastewater, electric, storm sewer and golf course departments. Charges for services generated 88 percent of all revenues in the business-type activities.

Business-Type Activities increased the City's net assets by $2,411,949. Charges for services and sales decreased $483,813 due to decreased consumption and corresponding purchase power. 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 decreased $1,629,342 due to decreased purchase of power for the electric system of $1.7 million.

Individual Funds Summary and Analysis

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

Governmental Funds

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $18,277,570, a increase of $4,237,801 in comparison with the prior year. Approximately 82 percent of this total amount of $18,277,570 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 $9,927,351, while the total fund balance was $10,399,856. 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 51 percent of total General Fund expenditures, while total fund balance represents 54 percent of that same amount. The General Fund balance increased by $2,096,506 or 25 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 Construction, Street Improvements (Service Department), and Library Construction.

The fund balance for the Street Construction Fund increased $334,470. The increase is due to the decreased costs of snow and ice removal from mild winter weather.

The fund balance of the Street Improvements Fund increased $295,330. The increase is primarily due to project costs that have not been recognized at year end.

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 $(16,828) or (.03 percent), $23,315 or 1 percent, $1,994,069 or 12 percent, and $406,869 or 78 percent, respectively.

Budgetary Highlights

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

In the General Fund, the original budgeted revenues as compared to the final budgeted revenue increased by $1,600,000 for income taxes and increased by $1,425,001 for intergovernmental revenues. The income tax revenue estimate increase was due to conservative budgeting when the 2006 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 14.5% 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 2006, the City collected $2,120,934 in estate taxes which is $1,320,934 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 $1,242,000 remaining in unencumbered funds as of December 31, 2006. Security of persons and property which is largely the Police Department activity, accounted for $504,000 of those unencumbered funds and general government accounted for $513,000. 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, 2006, amounts to $66,674,001 (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, 2006, the City had $56,142,523 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 12.

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 $34,190,000 of net indebtedness as of December 31, 2006. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5 percent of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was $30,032,874 as of December 31, 2006. 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 $15,340,950 leaving the City's overall legal debt margin at $76,827,715 as of December 31, 2006.

Future Funding Considerations

During 2006, 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.

During 2006, the City completed its 2007-2011 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 cost of the Season Road interchange project, painting the City's water tower at Milford Road, replacing various safety forces vehicles and equipment, 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, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Equity in pooled cash and cash equivalents	$ 16,982,760	$ 19,088,449	$ 36,071,209
Investment in common stock	13,124	-	13,124
Investments in segregated accounts	2,815	-	2,815
Materials and supplies inventory	131,149	1,478,513	1,609,662
Accounts receivable	339,323	2,471,063	2,810,386
Internal balances	531,008	(531,008)	-
Intergovernmental receivable	1,861,039	3,218	1,864,257
Taxes receivable	8,823,319	-	8,823,319
Special assessments receivable	2,275,315	104,359	2,379,674
Noncurrent assets:			
Investment in joint venture	-	614,702	614,702
Nondepreciable capital assets	12,638,947	3,271,576	15,910,523
Depreciable capital assets, net	22,634,096	28,129,382	50,763,478
Total assets	66,232,895	54,630,254	120,863,149
Liabilities			
Current liabilities:			
Accounts payable	367,269	934,238	1,301,507
Accrued wages and benefits	303,990	122,897	426,887
Intergovernmental payable	169,505	577,506	747,011
Accrued interest payable	120,231	171,741	291,972
Claims Payable	21,292	-	21,292
Deferred revenue	4,669,877	-	4,669,877
Long-term liabilities:			
Due within one year	3,067,817	1,355,730	4,423,547
Due in more than one year	31,922,215	22,197,326	54,119,541
Total liabilities	40,642,196	25,359,438	66,001,634
Net Assets			
Invested in capital assets, net of related debt	9,267,477	11,548,538	20,816,015
Restricted for:			
Capital projects	2,376,210	-	2,376,210
Debt service	889,050	-	889,050
Other purposes	4,179,531	-	4,179,531
Permanent fund	34,924	-	34,924
Unrestricted	8,843,507	17,722,278	26,565,785
Total net assets	$ 25,590,699	$ 29,270,816	$ 54,861,515

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Activities

For the Year Ended December 31, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General government	$ 6,412,877	$ 273,046	$ 3,000	$ (6,136,831)	$ -	$ (6,136,831)
Security of persons and property	5,558,517	485,672	206,893	(4,865,952)	-	(4,865,952)
Public health	527,237	102,765	-	(424,472)	-	(424,472)
Leisure time services	982,805	258,903	-	(723,902)	-	(723,902)
Community and economic development	1,270,102	105,666	25,000	(1,139,436)	-	(1,139,436)
Transportation	4,742,886	1,570	-	(4,741,316)	-	(4,741,316)
Interest and fiscal charges	1,693,540	-	-	(1,693,540)	-	(1,693,540)
Total governmental activities	21,187,964	1,227,622	234,893	(19,725,449)	-	(19,725,449)
Business-type activities:						
Electric system	14,191,520	16,077,373	-	-	1,885,853	1,885,853
Golf course	1,130,359	1,123,395	-	-	(6,964)	(6,964)
Storm sewer system	903,661	10,530	-	-	(893,131)	(893,131)
Wastewater system	3,397,444	1,921,694	-	-	(1,475,750)	(1,475,750)
Water system	1,550,788	1,394,956	-	-	(155,832)	(155,832)
Total business-type activities	21,173,772	20,527,948	-	-	(645,824)	(645,824)
Totals	$ 42,361,736	$ 21,755,570	$ 234,893	(19,725,449)	(645,824)	(20,371,273)

	Governmental Activities	Business-Type Activities	Total
General revenues:			
Property and other local taxes	4,513,946	112	4,514,058
Municipal income tax	17,626,302	-	17,626,302
Grants and entitlements not restricted to specific programs	6,567,589	-	6,567,589
Investment income	1,636,933	190,986	1,827,919
Miscellaneous income	520,957	114,876	635,833
Gain on sale of assets	39,042	1,799	40,841
Transfers	(2,750,000)	2,750,000	-
Total general revenues and transfers	28,154,769	3,057,773	31,212,542
Change in net assets	8,429,320	2,411,949	10,841,269
Net assets, beginning of year, restated	17,161,379	26,858,867	44,020,246
Net assets, end of year	$ 25,590,699	$ 29,270,816	$ 54,861,515

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Balance Sheet
Governmental Funds

December 31, 2006

	General	Street Construction	Street Improvements	Non-major Governmental Funds	Total Governmental Funds
Assets					
Current assets:					
Equity in pooled cash and cash equivalents	$ 8,225,156	$ 294,537	$ 1,988,071	$ 5,588,085	$ 16,095,849
Investment in common stock	-	-	-	13,124	13,124
Investment in segregated accounts	-	-	-	2,815	2,815
Materials and supplies inventory	23,456	56,595	-	12,457	92,508
Accounts receivable	82,370	-	1,573	255,368	339,311
Interfund receivable	724,630	-	-	-	724,630
Intergovernmental receivable	1,337,056	406,426	-	117,557	1,861,039
Taxes receivable	5,954,833	-	-	2,868,486	8,823,319
Special assessments receivable	-	-	-	2,275,315	2,275,315
Noncurrent assets:					
Advances to other funds	100,000	-	-	-	100,000
Total assets	$ 16,447,501	$ 757,558	$ 1,989,644	$ 11,133,207	$ 30,327,910
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 178,670	$ 50,689	$ 49,476	$ 51,582	$ 330,417
Accrued wages and benefits	190,752	31,588	-	67,150	289,490
Intergovernmental payable	102,258	14,019	-	46,653	162,930
Interfund payable	-	-	155,000	138,622	293,622
Deferred revenue	5,575,965	263,263	-	5,134,653	10,973,881
Total liabilities	6,047,645	359,559	204,476	5,438,660	12,050,340
Fund Balances:					
Reserved for encumbrances	349,049	70,094	1,588,962	187,928	2,196,033
Reserved for advance	100,000	-	-	-	100,000
Reserved for principal trust	-	-	-	6,473	6,473
Reserved for inventory	23,456	56,595	-	12,457	92,508
Reserved for common stock	-	-	-	13,124	13,124
Reserved for debt service	-	-	-	889,050	889,050
Unreserved, undesignated, reported in:					
General fund	9,927,351	-	-	-	9,927,351
Special revenue funds	-	271,310	-	3,986,327	4,257,637
Capital project funds	-	-	196,206	569,737	765,943
Permanent fund	-	-	-	29,451	29,451
Total fund balances	10,399,856	397,999	1,785,168	5,694,547	18,277,570
Total liabilities and fund balances	$ 16,447,501	$ 757,558	$ 1,989,644	$ 11,133,207	$ 30,327,910

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, 2006

Total Governmental Funds Balances		$ 18,277,570
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		34,354,016
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Taxes	$ 3,244,635	
Special assessments	2,275,315	
Charges for services	182,159	
Intergovernmental	601,895	
Total		6,304,004
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(120,231)
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		1,685,509
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	(31,285,000)	
Special assessment bonds	(2,075,000)	
Compensated absences	(1,394,603)	
Capital leases payable	(155,566)	
Total		(34,910,169)
Net assets of governmental activities		$ 25,590,699

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, 2006

	General	Street Construction	Street Improvements	Non-major Governmental Funds	Total Governmental Funds
Revenues:					
Property and other local taxes	$ 2,430,396	$ -	$ -	$ 1,962,683	$ 4,393,079
Municipal income tax	12,620,183	-	-	3,495,562	16,115,745
Intergovernmental	4,430,317	838,339	-	854,210	6,122,866
Charges for services	347,571	1,045	1,570	685,018	1,035,204
Fines and forfeitures	74,892	-	-	68,582	143,474
Special assessments	-	-	-	297,635	297,635
Interest	1,437,144	-	30,494	140,297	1,607,935
Other	143,131	11,474	299,687	130,154	584,446
Total revenues	21,483,634	850,858	331,751	7,634,141	30,300,384
Expenditures:					
Current:					
Security of persons and property	3,254,817	-	-	2,086,929	5,341,746
Public health	296,416	-	-	195,401	491,817
Leisure time services	-	-	-	864,508	864,508
Community and economic development	1,212,578	-	-	34,640	1,247,218
Transportation	-	2,168,775	166,034	-	2,334,809
General government	4,441,296	-	-	92,226	4,533,522
Capital outlay	258,656	13,302	3,310,283	988,525	4,570,766
Debt Service:					
Principal retirement	-	-	-	2,275,000	2,275,000
Interest and fiscal charges	-	-	-	1,708,153	1,708,153
Total expenditures	9,463,763	2,182,077	3,476,317	8,245,382	23,367,539
Excess of revenues over (under) expenditures	12,019,871	(1,331,219)	(3,144,566)	(611,241)	6,932,845
Other financing sources (uses):					
Proceeds from sale of assets	12,960	15,689	-	26,307	54,956
Transfers - in	-	1,650,000	3,666,275	2,138,228	7,454,503
Transfers - out	(9,936,325)	-	(226,379)	(41,799)	(10,204,503)
Total other financing sources (uses)	(9,923,365)	1,665,689	3,439,896	2,122,736	(2,695,044)
Net change in fund balances	2,096,506	334,470	295,330	1,511,495	4,237,801
Fund balance at beginning of year	8,303,350	63,529	1,489,838	4,183,052	14,039,769
Fund balance at end of year	$ 10,399,856	$ 397,999	$ 1,785,168	$ 5,694,547	$ 18,277,570

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, 2006

Net Change in Fund Balances - Total Governmental Funds			$ 4,237,801
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	$ 1,600,013	
	Depreciation	(997,087)	
	Total		602,926
In the Statement of Activities, a gain or loss is reported for each disposal, whereas, in the Governmental Funds, only report the disposal of capital assets to the extent proceeds are received from the sale.			(16,498)
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	120,867	
	Municipal income taxes	1,510,557	
	Special assessments	(343,387)	
	Charges for services	94,696	
	Intergovernmental	57,927	
	Total		1,440,660
Repayment of Bond Principal is an expenditure in the Governmental Funds, but the repayment reduces Long-Term Liabilities in the Statement of Net Assets.			2,275,000
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	(57,528)	
	Capital leases	52,006	
	Accrued interest on debt	14,613	
	Total		9,091
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			(119,660)
Change in Net Assets of Governmental Activities			$ 8,429,320

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For The Year Ended December 31, 2006

	Budgeted Amounts			Variance with final budget
	Original	Final	Actual	over (under)
Revenues:				
Property and other local taxes	$ 2,442,231	$ 2,442,231	$ 2,425,901	$ (16,330)
Income taxes	11,001,933	12,601,933	12,665,883	63,950
Charges for services	603,240	353,240	347,254	(5,986)
Fines and forfeitures	72,000	72,000	73,286	1,286
Intergovernmental	2,654,836	4,079,837	4,032,973	(46,864)
Interest	750,000	1,150,000	1,190,364	40,364
Other	7,589	7,589	151,642	144,053
Total revenues	17,531,829	20,706,830	20,887,303	180,473
Expenditures:				
Current:				
General government	5,290,983	5,304,495	4,791,750	512,745
Security of persons and property	3,851,110	3,833,598	3,329,981	503,617
Public health	280,654	280,654	280,654	-
Community and economic development	1,474,340	1,492,298	1,307,360	184,938
Capital outlay	302,151	364,310	323,474	40,836
Total expenditures	11,199,238	11,275,355	10,033,219	1,242,136
Excess of revenues over expenditures	6,332,591	9,431,475	10,854,084	1,422,609
Other financing sources (uses):				
Proceeds from sale of capital assets	-	-	12,960	12,960
Transfers - out	(9,180,050)	(10,086,325)	(9,936,325)	150,000
Advances - out	-	(35,000)	(41,694)	(6,694)
Total other financing sources (uses)	(9,180,050)	(10,121,325)	(9,965,059)	156,266
Net change in fund balance	(2,847,459)	(689,850)	889,025	1,578,875
Fund balance at beginning of fiscal year	6,896,852	6,896,852	6,896,852	-
Prior fiscal year encumbrances appropriated	497,025	296,123	296,123	-
Decertification of prior year encumbrances	-	200,902	200,902	-
Fund balance at end of fiscal year	$ 4,546,418	$ 6,704,027	$ 8,282,902	$ 1,578,875

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, 2006

	Budgeted Amounts			Variance with final budget
	Original	Final	Actual	over (under)
Revenues:				
Intergovernmental	$ 865,764	$ 865,764	$ 845,936	$ (19,828)
Charges for services	-	-	1,045	1,045
Other	-	11,000	11,474	474
Total revenues	865,764	876,764	858,455	(18,309)
Expenditures:				
Current:				
Transportation	2,536,601	2,534,610	2,356,322	178,288
Capital outlay	4,000	13,302	13,302	-
Total Expenditures	2,540,601	2,547,912	2,369,624	178,288
Excess of revenues over (under) expenditures	(1,674,837)	(1,671,148)	(1,511,169)	159,979
Other financing sources (uses)				
Transfers - in	1,650,000	1,650,000	1,650,000	-
Proceeds from sale of capital assets	-	-	15,689	15,689
Total other financing sources (uses):	1,650,000	1,650,000	1,665,689	15,689
Net change in fund balance	(24,837)	(21,148)	154,520	175,668
Fund balance at beginning of fiscal year	7,745	7,745	7,745	-
Prior fiscal year encumbrances appropriated	13,517	7,917	7,917	-
Decertification of prior year encumbrances	-	5,600	5,600	-
Fund balance at end of fiscal year	$ (3,575)	$ 114	$ 175,782	$ 175,668

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Fund Net Assets
Proprietary Funds

December 31, 2006

	Water	Wastewater	Electric	Storm Sewer	All other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Assets							
Current assets:							
Equity in pooled cash and cash equivalents	$ 2,019,306	$ 1,495,352	$ 12,131,282	$ 3,421,983	$ 20,526	$ 19,088,449	$ 886,911
Accounts receivable	178,597	248,357	2,040,782	3,102	225	2,471,063	12
Special assessments receivable	104,359	-	-	-	-	104,359	-
Intergovernmental receivable	1,609	1,609	-	-	-	3,218	-
Materials and supplies inventory	215,082	9,069	1,201,818	38,067	14,477	1,478,513	38,641
Total current assets	2,518,953	1,754,387	15,373,882	3,463,152	35,228	23,145,602	925,564
Noncurrent assets:							
Investment in joint venture	-	-	614,702	-	-	614,702	-
Nondepreciable capital assets	829,301	3,050	392,783	38,217	2,008,225	3,271,576	11,967
Depreciable capital assets, net	9,389,827	8,839,508	6,726,931	925,396	2,247,720	28,129,382	907,060
Total noncurrent assets	10,219,128	8,842,558	7,734,416	963,613	4,255,945	32,015,660	919,027
Total assets	12,738,081	10,596,945	23,108,298	4,426,765	4,291,173	55,161,262	1,844,591
Liabilities							
Current liabilities:							
Accounts payable	18,551	32,857	867,804	8,644	6,382	934,238	36,852
Claims payable	-	-	-	-	-	-	21,292
Accrued wages and benefits	14,738	17,504	66,829	13,002	10,824	122,897	14,500
Intergovernmental payable	10,546	516,041	35,811	5,550	9,558	577,506	6,575
Due to other funds	-	-	-	80,350	350,658	431,008	-
Accrued interest payable	23,827	121,133	9,873	10,023	6,885	171,741	-
Compensated absences payable	67,656	5,347	226,402	11,175	38,306	348,886	50,949
Capital lease payable	-	-	-	-	7,759	7,759	-
OWDA loans payable	-	379,085	-	-	-	379,085	-
General obligation bonds payable	295,000	35,000	105,000	80,000	105,000	620,000	-
Total current liabilities	430,318	1,106,967	1,311,719	208,744	535,372	3,593,120	130,168
Long-term liabilities (net of current portion):							
Advances from other funds	-	100,000	-	-	-	100,000	-
Compensated absences payable	123,244	11,270	249,290	3,376	-	387,180	28,914
Capital lease payable	-	-	-	-	26,708	26,708	-
OWDA loans payable	-	5,343,438	-	-	-	5,343,438	-
General obligation bonds payable	6,545,000	2,010,000	2,850,000	3,285,000	1,750,000	16,440,000	-
Total long-term liabilities	6,668,244	7,464,708	3,099,290	3,288,376	1,776,708	22,297,326	28,914
Total liabilities	7,098,562	8,571,675	4,411,009	3,497,120	2,312,080	25,890,446	159,082
Net Assets							
Invested in capital assets, net of related debt	3,379,128	1,075,035	4,164,714	563,183	2,366,478	11,548,538	919,027
Unrestricted	2,260,391	950,235	14,532,575	366,462	(387,385)	17,722,278	766,482
Total net assets	$ 5,639,519	$ 2,025,270	$ 18,697,289	$ 929,645	$ 1,979,093	$ 29,270,816	$ 1,685,509

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, 2006

	Water	Wastewater	Electric	Storm Sewer	All other Enterprise Funds	Totals	Government Activities - Internal Service Funds
Operating revenues:							
Charges for services	$ 1,394,956	$ 1,921,694	$ 16,077,373	$ 10,530	$ 1,123,395	$ 20,527,948	$ 1,507,629
Other	79,234	3,950	20,307	-	11,385	114,876	65,705
Total operating revenues	1,474,190	1,925,644	16,097,680	10,530	1,134,780	20,642,824	1,573,334
Operating Expenses:							
Personal services	439,592	614,345	2,132,737	427,792	537,149	4,151,615	461,272
Materials and supplies	123,199	19,870	135,615	66,428	247,978	593,090	321,380
Contractual services	345,957	2,151,092	11,348,825	166,323	75,527	14,087,724	402,842
Claims	-	-	-	-	-	-	202,162
Other	512	-	3,496	6	48,365	52,379	-
Depreciation	288,566	246,647	442,751	26,440	140,122	1,144,526	305,922
Total operating expenses	1,197,826	3,031,954	14,063,424	686,989	1,049,141	20,029,334	1,693,578
Operating income (loss)	276,364	(1,106,310)	2,034,256	(676,459)	85,639	613,490	(120,244)
Non-operating revenues (expenses):							
Investment income	59,961	44,365	86,557	-	103	190,986	-
Special assessments	112	-	-	-	-	112	-
Interest and fiscal charges	(352,962)	(365,490)	(128,096)	(216,672)	(81,218)	(1,144,438)	-
Gain (loss) on disposal of capital assets	(303)	750	1,352	-	-	1,799	584
Total non-operating revenues (expenses)	(293,192)	(320,375)	(40,187)	(216,672)	(81,115)	(951,541)	584
Income (loss) before transfers	(16,828)	(1,426,685)	1,994,069	(893,131)	4,524	(338,051)	(119,660)
Transfers - in	-	1,450,000	-	1,300,000	-	2,750,000	-
Change in net assets	(16,828)	23,315	1,994,069	406,869	4,524	2,411,949	(119,660)
Net assets at beginning of year, restated	5,656,347	2,001,955	16,703,220	522,776	1,974,569	26,858,867	1,805,169
Net assets at end of year	$ 5,639,519	$ 2,025,270	$ 18,697,289	$ 929,645	$ 1,979,093	$ 29,270,816	$ 1,685,509

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, 2006

	Water	Wastewater	Electric	Storm Sewer	All Other Enterprise Funds	Total Enterprise Funds	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities:							
Cash received from customers	$ 1,374,161	$ 1,902,986	$ 16,187,791	$ 7,428	$ 1,123,395	$ 20,595,761	$ 1,507,629
Cash payments to employees for services	(549,144)	(639,763)	(2,151,914)	(416,944)	(532,849)	(4,290,614)	(456,872)
Cash payments for goods and services	(518,816)	(2,093,490)	(12,001,673)	(290,482)	(379,643)	(15,284,104)	(720,292)
Cash payments for claims	-	-	-	-	-	-	(204,458)
Other operating revenues	77,625	2,341	106,646	-	11,577	198,189	65,717
Other operating expenses	(512)	-	(3,385)	(6)	(68,216)	(72,119)	-
Net cash provided by (used for) operating activities	383,314	(827,926)	2,137,465	(700,004)	154,264	1,147,113	191,724
Cash Flows from Noncapital Financing Activities:							
Advance-in	-	-	-	-	35,000	35,000	-
Transfer-in	-	1,450,000	-	1,300,000	-	2,750,000	-
Net cash provided by (used for) noncapital financing activities	-	1,450,000	-	1,300,000	35,000	2,785,000	-
Cash Flows from Capital and Related Financing Activities:							
Acquisition of capital assets	(56,247)	(360,531)	(433,684)	(123,867)	(54,090)	(1,028,419)	(4,636)
Proceeds from sale of capital assets	800	750	1,352	-	-	2,902	1,466
Special assessments	7,518	-	-	-	-	7,518	-
Principal payments	(260,000)	(389,221)	(100,000)	(55,000)	(114,870)	(919,091)	-
Interest payments	(360,280)	(372,484)	(131,913)	(218,145)	(82,505)	(1,165,327)	-
Net cash used for capital and related financing activities	(668,209)	(1,121,486)	(664,245)	(397,012)	(251,465)	(3,102,417)	(3,170)
Cash Flows from Investing Activities:							
Interest on investments	59,723	45,168	-	-	213	105,104	-
Net increase (decrease) cash and cash equivalents	(225,172)	(454,244)	1,473,220	202,984	(61,988)	934,800	188,554
Cash and cash equivalents at beginning of year	2,244,478	1,949,596	10,658,062	3,218,999	82,514	18,153,649	698,357
Cash and cash equivalents at end of year	$ 2,019,306	$ 1,495,352	$ 12,131,282	$ 3,421,983	$ 20,526	$ 19,088,449	$ 886,911
Non-cash capital financing activities:							
Acquisition of capital assets through capital lease	$ -	$ -	$ -	$ -	$ 42,672	$ 42,672	$ -

(Continued)

City of Hudson, Ohio

Statement of Cash Flows
Proprietary Funds (continued)

For the Year Ended December 31, 2006

	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 from operating activities:							
Operating income (loss)	$ 276,364	$ (1,106,310)	$ 2,034,256	$ (676,459)	$ 85,639	$ 613,490	$ (120,244)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	288,566	246,647	442,751	26,440	140,122	1,144,526	305,922
(Increase) Decrease in Operating Assets:							
Accounts receivables	(20,795)	(18,708)	196,757	(3,102)	190	154,342	12
Materials and supplies inventory	(2,565)	(692)	(149,889)	111	703	(152,332)	5,271
Intergovernmental receivable	(1,609)	(1,609)	-	-	-	(3,218)	-
Increase (Decrease) in Operating Liabilities:							
Accounts payable	(46,863)	(19,942)	(366,552)	(57,967)	(56,482)	(547,806)	(5,773)
Accrued wages and benefits	(2,030)	(1,920)	196	(207)	573	(3,388)	76
Compensated absences payable	(96,586)	(18,132)	8,232	14,550	8,815	(83,121)	10,355
Intergovernmental payable	(11,168)	92,740	(28,286)	(3,370)	(25,296)	24,620	(5,968)
Claims payable	-	-	-	-	-	-	2,073
Total adjustments	106,950	278,384	103,209	(23,545)	68,625	533,623	311,968
Net cash provided by (used for) operating activities	$ 383,314	$ (827,926)	$ 2,137,465	$ (700,004)	$ 154,264	$ 1,147,113	$ 191,724

City of Hudson, Ohio

Statement of Fiduciary Net Assets
Fiduciary Funds

December 31, 2006

		Agency
Assets:		
Equity in pooled cash and cash equivalents	$	1,113,217
Cash and cash equivalents in segregated accounts		1,475
Taxes receivable		1,758,116
Intergovernmental receivable		1,461
Total Assets	$	2,874,269
Liabilities:		
Accounts payable	$	48,396
Intergovernmental payable		74,195
Undistributed Monies		351,143
Deposits Held and Due to Others		642,419
Deferred revenue		1,758,116
Total Liabilities	$	2,874,269

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

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 19 and 20.

Note 2: Summary of Significant Accounting Politics

The basic financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies 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.

Note 2: Summary of Significant Accounting Politics (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.

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.

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.

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, 2006, but which were levied to finance year 2007 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.

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 Appropriated Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the 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.

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 statues, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the year 2006 amounted to $1,437,144, which includes $343,477 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.

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 5, 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.

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:

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

J. Compensated Absences

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

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.

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 2006.

R. Estimates

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

S. Reclassification

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

Note 3: Changes in Accounting Principles and Restatement of Prior Year Balances

A. Changes in Accounting Principles

For 2006, the City implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 clarifies when net assets should be restricted based on enabling legislation.

GASB Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

Note 3: Changes in Accounting Principles and Restatement of Prior Year Balances (continued)

A. Changes in Accounting Principles (continued)

Implementation of GASB Statement No. 46 and No. 47 did not affect the presentation of the financial statements of the City.

B. Restatement of Prior Year Balances

	Governmental Activities	Business-Type Activities
Net assets, December 31, 2005	$ 16,840,345	$ 27,201,140
Restatement of accounts receivable	-	(524,062)
Restatement of compensated absences	321,034	181,789
Fund balance, December 31, 2005, restated	$ 17,161,379	$ 26,858,867

The December 31, 2005 governmental activities and business-type activities net assets have been restated due to adjustments made in the calculation of compensated absences based upon the change made in prior years in the pay-out of accumulated sick leave.

The enterprise funds net assets at December 31, 2005 were also restated due to the above mentioned items. The December 31, 2005 net assets were restated for the Water Fund, Waste Water Fund, Electric Fund, and Other Enterprise Funds from $5,635,415 to $5,656,347, $2,053,592 to $2,001,955, $17,052,205 to $16,703,220, and $1,937,152 to $1,974,569, respectively. The Internal Service Fund net assets were also restated due to the adjustments made in the calculation of compensated absences. The December 31, 2005 net assets were restated from $1,794,627 to $1,805,169.

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.

Note 4: Budgetary Basis of Accounting (continued)

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	General Fund	Street Construction
GAAP Basis	$ 2,096,506	$ 334,470
Net Adjustment for Revenue Accruals	(596,331)	7,597
Net Adjustment for Expenditure Accruals	(160,584)	(68,792)
Encumbrances	(450,566)	(118,755)
Budget Basis	$ 889,025	$ 154,520

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.

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 eight days after purchase; and

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

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

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 $15,199,371 and the bank balance was $14,826,965. Of the bank balance $2,166,945 was covered by Federal depository insurance and $12,660,020 was uninsured. Of the remaining bank balance, $1,800,000 was collateralized with securities held by the pledging institution's agent in the City's name and $10,860,020 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, 2006, the city had the following investments:

		Maturities (in years)	
	Fair Value	Less than 1	1 - 4
Corporate Bonds	$ 343,311	$ 343,311	$ -
Federal Home Loan Bank	10,590,879	4,424,583	6,166,296
Federal National Mortgage Association	5,064,495	1,624,099	3,440,396
Federal Home Loan Mortgage Corporation	5,692,627	396,584	5,296,043
Federal Farm Credit Bank	295,218	-	295,218
Common Stock (donated)	13,124	13,124	-
Series E Bonds	2,815	-	2,815
Total Portfolio	$ 22,002,469	$ 6,801,701	$ 15,200,768

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.

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, 2006:

Investment Issuer	Percentage of Investments
Corporate Bonds	1.56%
Federal Home Loan Bank	48.14
Federal National Mortgage Association	23.02
Federal Home Loan Mortgage Corporation	25.87
Federal Farm Credit Bank	1.34
Common Stock (donated)	0.06
Series E Bonds	0.01
Total	100.00%

Note 6: Receivables

Receivables at December 31, 2006, 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 2006 are levied after October 1, 2005, on assessed value as of January 1, 2005, 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 2006 were intended to finance 2006 operations.

Note 7: Property Taxes (continued)

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 2006 became a lien December 31, 2005, are levied after October 1, 2005, and are collected in 2006 with real property taxes. 2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2004. Tangible personal property assessments are 25% of actual value.

The full tax rate for all City operations for the year ended December 31, 2006, was $6.60 per $1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

		Total Assessed Value
Real Property Valuation:		
Residential/Agriculture	$	724,947,370
Commercial/Industrial/Mineral		106,705,470
Public Utilities		62,700
Tangible Personal Property Valuation:		
General		33,107,850
Public Utilities		11,645,420
Total Valuation	$	876,468,810

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.

Note 8: Income Tax (continued)

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 2006, municipal income tax revenue was $17,626,302.

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 watermain improvements and storm sewer improvements which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 10: Capital Assets

	Balance 12/31/05	Additions	Disposals	Balance 12/31/06
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 9,040,553	$ -	$ -	$ 9,040,553
Construction in progress	2,818,866	797,140	(17,612)	3,598,394
Total capital assets, not being depreciated	11,859,419	797,140	(17,612)	12,638,947
Capital assets, being depreciated:				
Buildings	7,543,403	47,363	-	7,590,766
Land improvements	174,580	-	-	174,580
Vehicles	4,965,075	181,169	(224,017)	4,922,227
Equipment, furniture and fixtures	3,799,276	156,786	(325,404)	3,630,658
Infrastructure	15,540,383	439,803	-	15,980,186
Total capital assets, being depreciated	32,022,717	825,121	(549,421)	32,298,417
Less accumulated depreciation:				
Buildings	(1,244,680)	(151,389)	-	(1,396,069)
Land improvements	(51,839)	(7,089)	-	(58,928)
Vehicles	(3,581,683)	(374,067)	223,094	(3,732,656)
Equipment, furniture and fixtures	(2,565,114)	(263,155)	308,947	(2,519,322)
Infrastructure	(1,450,037)	(507,309)	-	(1,957,346)
Total accumulated depreciation	(8,893,353)	(1,303,009)	532,041	(9,664,321)
Total capital assets, being depreciated, net	23,129,364	(477,888)	(17,380)	22,634,096
Governmental activities capital assets, net	$ 34,988,783	$ 319,252	$ (34,992)	$ 35,273,043

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 10: Capital Assets (continued)

	Balance 12/31/05	Additions	Disposals	Balance 12/31/06
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 2,269,866	$ -	$ -	$ 2,269,866
Construction in progress	1,731,457	181,289	(911,036)	1,001,710
Total capital assets, not being depreciated	4,001,323	181,289	(911,036)	3,271,576
Capital assets being depreciated:				
Buildings	4,199,662	-	-	4,199,662
Land improvements	1,969,842	51,852	-	2,021,694
Vehicles	755,456	237,380	-	992,836
Equipment, furniture and fixtures	5,628,219	71,137	(40,247)	5,659,109
Infrastructure	25,710,785	1,440,472	-	27,151,257
Total capital assets, being depreciated	38,263,964	1,800,841	(40,247)	40,024,558
Less accumulated depreciation:				
Buildings	(1,308,664)	(85,418)	-	(1,394,082)
Land improvements	(286,088)	(99,274)	-	(385,362)
Vehicles	(373,655)	(83,185)	-	(456,840)
Equipment, furniture and fixtures	(2,871,873)	(204,146)	39,144	(3,036,875)
Infrastructure	(5,949,514)	(672,503)	-	(6,622,017)
Total accumulated depreciation	(10,789,794)	(1,144,526)	39,144	(11,895,176)
Total capital assets, being depreciated, net	27,474,170	656,315	(1,103)	28,129,382
Business-type activities capital assets, net	$ 31,475,493	$ 837,604	$ (912,139)	$ 31,400,958

Depreciation expense was charged to governmental functions as follows:

General government	$ 658,191
Security of persons and property	247,592
Public health and welfare	5,970
Transportation	294,937
Community environment	10,678
Leisure time activities	85,641
Total	$ 1,303,009

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 is 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 $21,292 reported in the fund at December 31, 2006, 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:

Year	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2005	$ 16,532	$ 159,192	$ 156,505	$ 19,219
2006	19,219	204,235	202,162	21,292

Note 12: Long – Term Obligations

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

Debt Issue	Original Issue	Date Interest Rate	Original Issue Amount
General Obligation Bonds:			
1992 Multipurpose G.O. Bonds	1992	2.5% - 5.2%	$ 1,300,000
1992 Safety Center G.O. Bonds	1992	2.9% - 6.35%	1,395,000
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
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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2006

Note 12: Long-Term Obligations (continued)

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

	Restated Balance 12/31/05	Additions	Deletions	Balance 12/31/06	Amount Due in One Year
Governmental Activities:					
General Obligation Bonds:					
1992 Multipurpose 2.5% to 5.2%, due through 2007	$ 235,000	$ -	$ (115,000)	$ 120,000	$ 120,000
1992 Safety Center 2.9% to 6.35 %, due through 2012	510,000	-	(70,000)	440,000	70,000
1998 Park Acquisition 4.5% to 5.0%, due through 2007	5,115,000	-	(330,000)	4,785,000	345,000
1998 Village South 4.5% to 5.5%, due through 2018	2,590,000	-	(150,000)	2,440,000	160,000
1999 Park Improvement 4.5% to 4.9%, due through 2018	810,000	-	(50,000)	760,000	50,000
2000 Park Improvement 4.5% to 6.125%, due through 2019	860,000	-	(40,000)	820,000	45,000
2000 Library Construction 4.4% to 6.35%, due through 2019	7,770,000	-	(380,000)	7,390,000	395,000
2002 Community Center Expansion 1.65% to 4.65%, due through 2023	310,000	-	(10,000)	300,000	15,000
2002 Police Facility Construction 1.65% to 4.65%, due through 2023	3,705,000	-	(150,000)	3,555,000	150,000
2002 Road Improvement 1.75%, due through 2023	1,110,000	-	(45,000)	1,065,000	45,000
2004 Milford/Rt. 91 Construction 3.00% to 5.00%, due through 2024	4,045,000	-	(160,000)	3,885,000	160,000
2004 Downtown TIF 3.00% to 4.50%, due through 2015	6,365,000	-	(640,000)	5,725,000	650,000
Total General Obligation Bonds	33,425,000	-	(2,140,000)	31,285,000	2,205,000
Special Assessment Bonds:					
1998 Sewer Improvement 4.5% to 5.0%, due through 2016	1,090,000	-	(75,000)	1,015,000	85,000
1998 Executive Parkway 4.3% to 5.0%, due through 2018	785,000	-	(45,000)	740,000	50,000
1999 Water Main Construction 3.9% to 5.625%, due through 2019	335,000	-	(15,000)	320,000	15,000
Total Special Assessment Bonds	2,210,000	-	(135,000)	2,075,000	150,000
Capital lease	207,572	-	(52,006)	155,566	53,818
Compensated absences	1,406,580	754,735	(686,849)	1,474,466	658,999
Total Governmental Activities - Long-Term Obligations	$ 37,249,152	$ 754,735	$ (3,013,855)	$ 34,990,032	$ 3,067,817

Note 12: Long-Term Obligations (continued)

	Restated Balance 1/1/06	Additions	Deletions	Balance 12/31/06	Amount Due in One Year
Business-Type Activities:					
General Obligation Bonds:					
1998 Water System Improvement 4.5% to 5.0%, due through 2016	$ 1,490,000	$ -	$ (110,000)	$ 1,380,000	$ 110,000
2002 Substation Construction 1.75%, due through 2023	2,075,000	-	(80,000)	1,995,000	85,000
2002 Water System Improvement 1.75%, due through 2033	3,890,000	-	(75,000)	3,815,000	80,000
2002 Storm Water Improvement 1.75%, due through 2023	1,010,000	-	(40,000)	970,000	40,000
Golf Course Improvement 4.3% to 5.1%, due through 2019	435,000	-	(45,000)	390,000	45,000
2002 Golf Course Improvement 1.75%, due 11/02	1,525,000	-	(60,000)	1,465,000	60,000
2004 Electric Issue 3.00% to 5.00%, due through 2034	980,000	-	(20,000)	960,000	20,000
2004 Sewer Improvement 3.00% to 5.00%, due through 2034	840,000	-	(15,000)	825,000	15,000
2005 Storm Water Improvement 3.00% to 5.00%, due through 2035	2,410,000	-	(15,000)	2,395,000	40,000
2005 Water System Improvement 3.00% to 5.00%, due through 2035	1,720,000	-	(75,000)	1,645,000	105,000
2005 Sewer Improvement 3.00% to 5.00%, due through 2035	1,230,000	-	(10,000)	1,220,000	20,000
Total General Obligation Bonds	17,605,000	-	(545,000)	17,060,000	620,000
OWDA Loan:					
OWDA Loan 4.04%, due through 2018	6,086,744	-	(364,221)	5,722,523	379,085
Capital lease	-	42,672	(8,205)	34,467	7,759
Compensated absences	819,186	272,606	(355,726)	736,066	348,886
Total Business-Type Activities	$ 24,510,930	$ 315,278	$ (1,273,152)	$ 23,553,056	$ 1,355,730

The annual requirements to amortize all long-term debt outstanding as of December 31, 2006, including interest payments of $24,850,021, are as follows:

	Governmental Activities				Business-Type Activities			
Year ending December 31,	General Obligation		Special Assessments		General Obligation		OWDA Loan	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 2,205,000	$ 1,506,808	$ 150,000	$ 101,779	$ 620,000	$ 765,895	$ 379,085	$ 227,399
2008	2,150,000	1,412,284	160,000	94,851	645,000	740,619	394,555	211,929
2009	2,240,000	1,321,999	160,000	87,356	675,000	718,474	410,656	195,828
2010	2,320,000	1,218,786	170,000	79,751	670,000	694,245	427,413	179,071
2011	2,420,000	1,108,886	175,000	71,579	690,000	669,413	444,856	161,628
2012-2016	11,775,000	3,762,610	1,010,000	220,064	3,805,000	2,887,985	2,511,859	520,561
2017-2021	6,540,000	1,178,653	250,000	22,644	3,110,000	2,107,063	1,154,099	58,870
2022-2026	1,635,000	141,753	-	-	2,625,000	1,375,975	-	-
2027-2031	-	-	-	-	2,430,000	811,063	-	-
2032-thereafter	-	-	-	-	1,790,000	194,200	-	-
Total	$ 31,285,000	$ 11,651,779	$ 2,075,000	$ 678,024	$ 17,060,000	$ 10,964,932	$ 5,722,523	$ 1,555,286

Note 12: 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 receipted 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 13: Lease Obligations

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 $315,720 equal to the present value of the future minimum lease payments in the government-wide financial statements. Principal payments in the current year totaled $52,006 in the Governmental Activities and $8,205 for Business-Type Activities.

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

	Capital Lease		
Year	Governmental Lease Payments	Business-Type Lease Payments	Operating Lease Payments
2007	$ 59,683	$ 9,870	$ 17,106
2008	53,882	9,870	17,106
2009	53,882	9,870	17,106
2010	-	9,870	17,026
2011	-	-	10,156
Total minimum lease payments	167,447	39,480	78,500
Less: amount representing interest	(11,881)	(5,013)	-
Present value of minimum lease payments	$ 155,566	$ 34,467	$ 78,500

Rental expense related to operating leases for equipment totaled $9,011 for the year ended December 31, 2006.

Note 14: 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 both 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) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, 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 13.70 percent of covered payroll, of which 4.5 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, 2006, 2005, and 2004 were $794,612, $813,399, and $765,255, respectively, equal to the required contributions for each year. The full amount has been contributed for years 2004 and 2005, and 96.6% has been contributed for 2006. Contributions to the member-directed plan for 2006 were $25,397 made by the City of Hudson and $16,684 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.

Note 14: 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' contributions for the years ended December 31, 2006, 2005, and 2004 for police officers and firefighters were $151,394, $145,598, and $222,278, respectively, equal to the required contributions for each year. The full amount has been contributed for years 2004 and 2005, and 96.5% has been contributed for 2006.

Note 15: 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 2006 employer contribution rate was 13.70 percent of covered payroll; 4.5 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, 2005, include a rate of return on investments of 6.5 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 increases 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 0.50 percent to 6 percent for the next nine years. In subsequent years (10 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, not to exceed a 12 percent corridor.

Note 15: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

At December 31, 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214. The City's actual contributions for 2006, which were used to fund post employment benefits, were $390,924. The actual contribution and the actuarially-required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were $11.1 billion. The actuarially-accrued liability and the unfunded actuarially-accrued liability were $31.3 billion and $20.2 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 access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22, if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of 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 2005 and 2006. 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, 2005, the date of the last actuarial valuation available, was 13,922 for police officers and 10,537 for firefighters. The City's actual contributions for 2006 that were used to fund post employment benefits were $138,276 for police officers and $7,447 for firefighters. OP&F's total health care expenses for the year ending December 31, 2005, the date of the last actuarial valuation available, was $108,039,449, which was net of member contributions of $55,271,881.

Note 16: 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, 2006, the total liability for unpaid compensated absences was $2,210,532.

Note 17: 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, 2006.

Note 17: 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, 2006.

Note 18: Interfund Transactions

Interfund Receivable/Payable for the year ended December 31, 2006 consisted of the following:

Receivable Fund	Payable Fund	Amount
General Fund	Street Improvements	$ 155,000
General Fund	Non-Major Governmental Fund	138,622
General Fund	Storm Sewer Fund	80,350
General Fund	Non-Major Enterprise Funds	350,658
		$ 724,630

Long-term interfund loans are classified as "advances to/from other funds" and consist of the following at December 31, 2006:

Receivable Fund	Payable Fund	Amount
General Fund	Wastewater	$ 100,000

Advances to/from for the year ended December 31, 2006 consisted of the following:

Advance from	Advance to	Amount
General Fund	Non-Major Enterprise Funds	$ 35,000
General Fund	Non-Major Governmental Funds	6,694
		$ 41,694

As of December 31, 2006, interfund transfers were as follows:

	Transfer In:					
	Street Construction	Street Improvements	Non-Major Governmental	Sewer	Storm Water	Total
Transfer out:						
General Fund	$ 1,650,000	$ 3,666,275	$ 1,870,050	$ 1,450,000	$ 1,300,000	$ 9,936,325
Street Improvements	-	-	226,379	-	-	226,379
Non-Major Governmental	-	-	41,799	-	-	41,799
	$ 1,650,000	$ 3,666,275	$ 2,138,228	$ 1,450,000	$ 1,300,000	$ 10,204,503

Note 18: Interfund Transactions (continued)

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 19: 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, 2006, Hudson has met their debt coverage obligation.

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

Note 19: Joint Venture (continued)

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

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 $614,702 at December 31, 2006. 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 20: 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 2006, the City paid $144,886 for premiums. Financial information can be obtained by contacting the fiscal agent: City of Bedford Heights, Finance Director, 5661 Perkins Road, Bedford Heights, Ohio 44146.

Note 21: Outstanding Contractual Commitments

The City has the following outstanding contractual commitments for various construction projects at December 31, 2006:

Contractor	Contract and Contingency	Amount Expended	Amount Remaining
AAA Pipe Cleaning	$ 34,430	$ -	$ 34,430
American Suncraft Construction	493,350	-	493,350
Asphalt Fabrics & Specialties	90,784	79,230	11,554
Bochert Excavating	52,278	33,352	18,926
City of Stow	45,375	-	45,375
City of Stow	89,937	17,342	72,595
City of Stow	55,000	42,026	12,974
City of Stow	2,252	-	2,252
Hysong Paving Company	113,747	88,328	25,419
Mitchell Communications	12,328	7,885	4,443
Norfolk Southern Railway	66,140	-	66,140
Ohio Farmers Insurance Company	1,032,185	741,903	290,282
Ohio Farmers Insurance Company	486,933	247,546	239,387
Ohio Farmers Insurance Company	100,000	96,000	4,000
Perram Electric	47,678	39,698	7,980
Perram Electric	47,678	39,698	7,980
Shelly & Sands, Inc	1,886,170	1,775,263	110,907
Shelly & Sands, Inc	19,907	-	19,907
Signal Service	88,456	75,969	12,487
United Survey	152,851	-	152,851
Vito Gironda Construction Co.	186,150	124,494	61,656
Vito Gironda Construction Co.	457,696	354,015	103,681
Vito Gironda Construction Co.	93,763	-	93,763
Vito Gironda Construction Co.	129,404	-	129,404
Vito Gironda Construction Co.	133,870	-	133,870
Vito Gironda Construction Co.	261,237	255,459	5,778

Note 22: Compliance

The following funds had original appropriations plus encumbrances in excess of estimated resources plus carryover balances contrary to Section 5705.39, Ohio Revised Code:

	Original
Street Construction	$ 3,575

Ciuni &
Panichi
CPAs and Business Advisors

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

Members of the City Council
Hudson, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 29, 2007, wherein we noted the City adopted *Government Accounting Standards Board Statements No. 46 and 47.* 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

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Members of the City Council
Hudson, Ohio

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*.

We noted certain matters that we reported to management of the City in a separate letter dated June 29, 2007.

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

Ciuni & Panichi, Inc.

Cleveland, Ohio
June 29, 2007

Mary Taylor, CPA
Auditor of State

CITY OF HUDSON

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 14, 2007

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