



Dave Yost • Auditor of State

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**CITY OF HUDSON
SUMMIT COUNTY**

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SUMMIT COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Hudson
Summit County
115 Executive Parkway - Suite 400
Hudson, Ohio 44236

To the City Council:

Report on the Financial Statements

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, Summit County, Ohio (the City), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, Summit County, Ohio, as of December 31, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Street Construction Funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Federal Award Expenditures Schedule presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The Schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling Schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

August 23, 2012

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For The Year Ended December 31, 2012

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, 2012. 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 Position and Statement of Activities (referred collectively as the government-wide statements) provide information about the activities of the entire City and present a longer-term view of the City's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. The proprietary funds' statements are prepared on the same basis as the government-wide statements. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the City of Hudson as a Whole

Statement of Net Position and the Statement of Activities

These government-wide statements answer the question, "How did the City as a whole do financially during 2012"? 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 position and the changes in net position. 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 Position.* This Statement (page 15) reports all assets and liabilities of the City as of December 31, 2012. The difference between total assets and total liabilities is reported as net position. Increases in net position generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This Statement (page 16) of the results of all activities of the City for the year ended December 31, 2012. Changes in net position are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

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

Reporting the City of Hudson's Most Significant Funds

Fund Financial Statements

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

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

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

The City of Hudson's Water Fund, Wastewater Fund, Electric Fund, and Storm Sewer Fund, are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 25 through 28.

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

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

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

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

A Fiduciary Fund statement is on page 29 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 position 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 \$106,776,771 in governmental activities and \$33,641,838 in business-type activities as of December 31, 2012. The largest portion of net position reflects its invested in capital assets (i.e.; land, buildings, equipment and machinery, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The next largest portion of the City's net position reflects its unrestricted portion. Net position is presented in the following table:

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

Table 1
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets						
Current Assets	\$ 36,256,800	\$ 35,096,325	\$ 20,411,180	\$ 20,963,793	\$ 56,667,980	\$ 56,060,118
Investment in Joint Venture	-	-	556,025	604,341	556,025	604,341
Capital Assets, Net	<u>106,893,138</u>	<u>106,837,193</u>	<u>33,484,747</u>	<u>33,052,034</u>	<u>140,377,885</u>	<u>139,889,227</u>
Total Assets	<u>143,149,938</u>	<u>141,933,518</u>	<u>54,451,952</u>	<u>54,620,168</u>	<u>197,601,890</u>	<u>196,553,686</u>
Liabilities						
Current and Other Liabilities	6,337,382	10,909,230	2,405,332	2,782,162	8,742,714	13,691,392
Long-term Liabilities						
Due Within One Year	4,114,403	3,888,366	2,126,437	1,824,292	6,240,840	5,712,658
Due In More Than One Year	<u>25,921,382</u>	<u>24,254,569</u>	<u>16,278,345</u>	<u>17,079,995</u>	<u>42,199,727</u>	<u>41,334,564</u>
Total Liabilities	<u>36,373,167</u>	<u>39,052,165</u>	<u>20,810,114</u>	<u>21,686,449</u>	<u>57,183,281</u>	<u>60,738,614</u>
Net Position						
Net Investment in Capital Assets	82,940,233	81,036,611	16,978,031	16,770,029	99,918,264	97,806,640
Restricted	11,620,301	11,597,273	-	-	11,620,301	11,597,273
Unrestricted	<u>12,216,237</u>	<u>10,247,469</u>	<u>16,663,807</u>	<u>16,163,690</u>	<u>28,880,044</u>	<u>26,411,159</u>
Total Net Position	\$ <u>106,776,771</u>	\$ <u>102,881,353</u>	\$ <u>33,641,838</u>	\$ <u>32,933,719</u>	\$ <u>140,418,609</u>	\$ <u>135,815,072</u>

An additional portion of the City's net position (8.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$28,880,044 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 \$1,160,475 increase in current assets. This was primarily due to an increase in cash balances in the governmental funds due to repayment of advances to the General Fund.

There was an increase of \$1,666,813 in long-term liabilities due in more than one year primarily due to the reduction in long-term liabilities through regularly scheduled payments on bonds and the advanced refunding of bonds and new issuances in 2012 (see Note 14 for further discussion).

Net investment in capital assets increased \$1,903,622 due to increase in capital assets less related debt and accumulated depreciation on those items. The restricted net position increased \$23,028 primarily due to increases in the fund balances of the restricted funds. The net result of the changes in net position was an increase of \$3,895,418 in net position.

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

Within the Business-Type Activities, assets decreased \$168,216 primarily due to a decrease in current assets. Long-term liabilities due in more than one year decreased \$801,650 primarily due to the debt payments. Net investment in capital assets increased \$208,002 due to increase in capital assets less related debt and accumulated depreciation on those items. The balance of the unrestricted net position increased \$500,117 primarily due to the decrease in contractual services in the Wastewater Fund.

Table 2 below, indicates the changes in net position for the year ended December 31, 2012.

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program Revenues						
Charges for services and sales	\$ 1,948,605	\$ 1,693,684	\$ 23,128,801	\$ 22,715,182	\$ 25,077,406	\$ 24,408,866
Operating grants and contributions	25,697	159,587	-	-	25,697	159,587
Capital grants and contributions	3,177,826	525,871	130,000	-	3,307,826	525,871
General Revenues						
Taxes	21,494,172	21,821,858	-	-	21,494,172	21,821,858
Grants and entitlements not restricted to specific programs	5,135,777	6,106,728	-	-	5,135,777	6,106,728
Investment income	368,787	692,342	5,135	6,788	373,922	699,130
Miscellaneous	491,067	367,837	329,519	525,331	820,586	893,168
Transfers in	-	-	2,975,000	3,285,000	2,975,000	3,285,000
Total revenues	<u>32,641,931</u>	<u>31,367,907</u>	<u>26,568,455</u>	<u>26,532,301</u>	<u>59,210,386</u>	<u>57,900,208</u>
Program Expenses						
General government	7,091,681	7,416,782	-	-	7,091,681	7,416,782
Security of persons and property	7,023,900	6,719,395	-	-	7,023,900	6,719,395
Public health	1,070,730	1,047,933	-	-	1,070,730	1,047,933
Leisure time services	1,316,246	1,599,223	-	-	1,316,246	1,599,223
Community and economic development	1,558,321	1,764,318	-	-	1,558,321	1,764,318
Transportation	6,386,598	6,339,679	-	-	6,386,598	6,339,679
Interest and fiscal charges	1,324,037	1,080,761	-	-	1,324,037	1,080,761
Electric system	-	-	18,488,350	18,710,629	18,488,350	18,710,629
Golf course	-	-	1,297,972	1,332,646	1,297,972	1,332,646
Storm sewer system	-	-	1,142,041	1,159,597	1,142,041	1,159,597
Wastewater system	-	-	3,254,023	3,860,487	3,254,023	3,860,487
Water system	-	-	1,677,950	1,575,005	1,677,950	1,575,005
Transfers out	2,975,000	3,285,000	-	-	2,975,000	3,285,000
Total program expenses	<u>28,746,513</u>	<u>29,253,091</u>	<u>25,860,336</u>	<u>26,638,364</u>	<u>54,606,849</u>	<u>55,891,455</u>
Change in net position	\$ <u>3,895,418</u>	\$ <u>2,114,816</u>	\$ <u>708,119</u>	\$ <u>(106,063)</u>	\$ <u>4,603,537</u>	\$ <u>2,008,753</u>

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

Governmental Activities

The City income tax is the largest contributor of revenues sources in governmental activities accounting for 52.3 percent of total revenues. Property and other local taxes generate 13.5 percent and grants and entitlements generate 15.7 percent of total revenues.

Community and economic development expenses accounts for 5.4 percent of governmental expenses, general government accounts for 24.7 percent of governmental expenses, security of persons and property accounts for 24.4 percent of governmental expenses, and transportation costs represent 22.2 percent of governmental expenses, respectively.

Governmental activities increased the City's net position by \$3,895,418. Total revenues increased approximately \$1,274,000 primarily due to capital grants received. Grants and entitlements not restricted to specific programs decreased approximately \$971,000 due to a decrease in inheritance tax and state and county funding. Lastly, the investment income of the City decreased approximately \$324,000 due to low interest rates and having fewer investments.

The increase in overall net position of \$3,895,418 as compared to the increase of \$2,114,816 in 2011 was due to the increase in capital grants and contributions.

Business-Type Activities

The City's business-type activities are the water, wastewater, electric, storm sewer, and golf course departments. Charges for services generated 87.1 percent of all revenues in the business-type activities.

Business-Type Activities increased the City's net position by \$708,119. Charges for services and sales increased \$413,619 due to increased costs related to the corresponding purchase power. Miscellaneous revenues decreased by \$195,812 due primarily to the decrease in renewal energy money received from AMP Ohio. Expenses decreased \$778,028 due primarily to decrease in sewer processing fees and changes in capital asset acquisition.

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 \$24,083,912, an increase of \$5,928,055 in comparison with the prior year, primarily due to expenditures remaining consistent from year to year and the increase in intergovernmental revenue, due to capital grants and contributions.

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

Approximately 61.0 percent of this total amount or \$14,699,857, which represents the *assigned* and *unassigned* classifications, is available for spending at the government's discretion. The remainder of fund balance, *nonspendable*, *restricted*, and *committed*, is reserved to indicate that it is not readily available for new spending since it has already been committed to liquidate contracts and purchase commitments, to pay debt service or for a variety of other restricted purposes.

The General Fund is the primary operating fund of the City of Hudson. At the end of the current year, the General Funds' unassigned balance was \$13,882,043, while the total fund balance was \$14,341,099. The General Fund balance decreased by \$637,895 or 4.3 percent from the prior year due to a combination of several items including the decreases in intergovernmental and interest revenues and increase in operating transfers out.

The other major governmental funds of the City are Street Construction, Street, Sidewalk Construction, and Youth Development Center.

The fund balance for the Street Construction Fund decreased \$7,005. The decrease is due to the increase in expenditures.

The fund balance of the Street, Sidewalk Construction Fund decreased \$499,116. The decrease is due to increase in expenditures.

The fund balance of the Youth Development Center Fund increased \$7,139,931. The increase is due to intergovernmental revenues received and the issuance of bonds for the notes used to purchase the Youth Development Center.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide business-type activity financial statements, but in more detail. Net position in the Water, Wastewater, Electric, and Storm Sewer increased/(decreased) by \$298,250 or 6.9 percent, \$630,331 or 15.0 percent, \$(280,352) or (1.3 percent), and \$2,673 or 0.3 percent, respectively.

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

Budgetary Highlights

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

In the General Fund, the final budgeted revenues as compared to the original budgeted revenue increased by approximately \$1,634,000. The increase was primarily in income tax and intergovernmental revenues due to higher than expected collections.

Actual General Fund expenditures compared to the budget reflected approximately \$782,000 remaining in unencumbered funds as of December 31, 2012. The security of persons and property activity which is largely police accounted for approximately \$171,000 of those unencumbered funds and general government accounted for approximately \$313,000.

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

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

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, 2012, amounts to \$140,377,885 (net of accumulated depreciation). This investment in capital assets includes land; building structures; land improvements; vehicles; furniture, fixtures and equipment; infrastructure; and construction in progress.

Table 3 shows fiscal 2012 balances of Capital Assets as compared to the 2011 balances:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 14,618,513	\$ 14,618,513	\$ 2,362,513	\$ 2,362,513	\$ 16,981,026	\$ 16,981,026
Construction in progress	3,873,933	6,137,517	992,060	534,616	4,865,993	6,672,133
Buildings	9,242,390	9,113,078	5,351,190	5,351,190	14,593,580	14,464,268
Land improvements	3,138,625	1,591,332	2,123,612	2,123,612	5,262,237	3,714,944
Vehicles	6,174,826	5,754,437	2,054,908	2,158,620	8,229,734	7,913,057
Equipment, furniture and fixtures	3,621,891	3,377,856	4,055,799	4,029,815	7,677,690	7,407,671
Infrastructure:						
Roads	122,982,494	118,039,944	-	-	122,982,494	118,039,944
Sidewalks	3,544,274	3,544,274	-	-	3,544,274	3,544,274
Traffic signals	2,960,234	2,682,888	-	-	2,960,234	2,682,888
Water main lines	-	-	14,707,510	14,577,510	14,707,510	14,577,510
Sewer lines	-	-	9,759,700	9,704,319	9,759,700	9,704,319
Storm sewers	-	-	2,584,536	1,871,891	2,584,536	1,871,891
Electric	-	-	8,686,441	8,286,120	8,686,441	8,286,120
Less: accumulated depreciation	<u>(63,264,042)</u>	<u>(58,022,646)</u>	<u>(19,193,522)</u>	<u>(17,948,172)</u>	<u>(82,457,564)</u>	<u>(75,970,818)</u>
Total capital assets	\$ <u>106,893,138</u>	\$ <u>106,837,193</u>	\$ <u>33,484,747</u>	\$ <u>33,052,034</u>	\$ <u>140,377,885</u>	\$ <u>139,889,227</u>

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

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

Debt

At December 31, 2012, the City had \$45,432,733 of long-term bonds, loans and other outstanding obligations, excluding compensated absences and capital leases. Details of the individual obligations can be found in Note 14.

The general obligation indebtedness of the City is subject to two statutory debt limitations referred to as the direct debt limitation: (Section 133.05 ORC). Certain debt, with a repayment source other than general tax revenue is excluded from the definition of net indebtedness. Under that definition, the City has \$27,231,246 of net indebtedness as of December 31, 2012. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5 percent of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was \$28,403,973 as of December 31, 2012. 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 \$25,218,676 leaving the City's overall legal debt margin at \$61,492,521 as of December 31, 2012.

Future Funding Considerations

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

During 2012, the City completed its 2013-2017 Five Year Financial Plan that includes operating and capital cost projections for the City's operating funds. The plan identifies numerous capital expenditures including the reconstruction/resurfacing of streets, replacing various safety forces vehicles and equipment, along with several wastewater, storm sewer and electric system capital improvements.

Contacting the City Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's Finance Department at 330-650-1799 or at 115 Executive Parkway, Suite 400, Hudson, Ohio 44236. Electronic copies of the City's 2012 Budget Book and 2013-2017 Five Year Financial Plan are available at the City's website – <http://www.hudson.oh.us>.

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City of Hudson, Ohio

Statement of Net Position

December 31, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 21,644,790	\$ 15,566,726	\$ 37,211,516
Investment in common stock	19,720	-	19,720
Investments in segregated accounts	2,987	-	2,987
Materials and supplies inventory	643,544	1,544,457	2,188,001
Accounts receivable	614,463	3,736,124	4,350,587
Accrued interest receivable	269,883	2,780	272,663
Internal balances	779,458	(779,458)	-
Intergovernmental receivable	808,846	2,172	811,018
Taxes receivable	10,025,926	-	10,025,926
Special assessments receivable	1,153,912	77,461	1,231,373
Unamortized bond issuance costs	293,271	87,829	381,100
Restricted assets:			
Cash in segregated accounts – Customer Deposits	-	173,089	173,089
Noncurrent assets:			
Investment in joint venture	-	556,025	556,025
Nondepreciable capital assets	18,492,446	3,354,573	21,847,019
Depreciable capital assets, net	<u>88,400,692</u>	<u>30,130,174</u>	<u>118,530,866</u>
Total assets	<u>143,149,938</u>	<u>54,451,952</u>	<u>197,601,890</u>
Liabilities			
Current liabilities:			
Accounts payable	873,273	1,278,182	2,151,455
Accrued wages and benefits	192,665	89,344	282,009
Matured compensated absences	141,453	58,229	199,682
Intergovernmental payable	382,158	675,506	1,057,664
Accrued interest payable	65,360	97,213	162,573
Retainage payable	102,294	33,769	136,063
Claims Payable	20,787	-	20,787
Payable from restricted assets – Customer Deposits	-	173,089	173,089
Deferred revenue	4,559,392	-	4,559,392
Long-term liabilities:			
Due within one year	4,114,403	2,126,437	6,240,840
Due in more than one year	<u>25,921,382</u>	<u>16,278,345</u>	<u>42,199,727</u>
Total liabilities	<u>36,373,167</u>	<u>20,810,114</u>	<u>57,183,281</u>
Net Position			
Net investment in capital assets	82,940,233	16,978,031	99,918,264
Restricted for:			
Capital projects	2,996,040	-	2,996,040
Debt service	2,012,570	-	2,012,570
Street improvements	522,886	-	522,886
Other purposes	6,082,332	-	6,082,332
Permanent fund	6,473	-	6,473
Unrestricted	<u>12,216,237</u>	<u>16,663,807</u>	<u>28,880,044</u>
Total net position	<u>\$ 106,776,771</u>	<u>\$ 33,641,838</u>	<u>\$ 140,418,609</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Activities

For the Year Ended December 31, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 7,091,681	\$ 762,478	\$ 22,433	\$ -
Security of persons and property	7,023,900	536,293	3,264	-
Public health	1,070,730	93,063	-	-
Leisure time services	1,316,246	328,919	-	-
Community and economic development	1,558,321	104,108	-	-
Transportation	6,386,598	123,744	-	3,177,826
Interest and fiscal charges	<u>1,324,037</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>25,771,513</u>	<u>1,948,605</u>	<u>25,697</u>	<u>3,177,826</u>
Business-type activities:				
Electric system	18,488,350	18,061,042	-	-
Golf course	1,297,972	1,171,754	-	-
Storm sewer system	1,142,041	7,458	-	-
Wastewater system	3,254,023	2,102,427	-	130,000
Water system	<u>1,677,950</u>	<u>1,786,120</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>25,860,336</u>	<u>23,128,801</u>	<u>-</u>	<u>130,000</u>
Totals	\$ <u>51,631,849</u>	\$ <u>25,077,406</u>	\$ <u>25,697</u>	\$ <u>3,307,826</u>

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

Total general revenues and transfers

Change in net position

Net position, beginning of year

Net position, end of year

The accompanying notes are an integral part of the financial statements

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (6,306,770)	\$ -	\$ (6,306,770)
(6,484,343)	-	(6,484,343)
(977,667)	-	(977,667)
(987,327)	-	(987,327)
(1,454,213)	-	(1,454,213)
(3,085,028)	-	(3,085,028)
<u>(1,324,037)</u>	<u>-</u>	<u>(1,324,037)</u>
<u>(20,619,385)</u>	<u>-</u>	<u>(20,619,385)</u>
-	(427,308)	(427,308)
-	(126,218)	(126,218)
-	(1,134,583)	(1,134,583)
-	(1,021,596)	(1,021,596)
<u>-</u>	<u>108,170</u>	<u>108,170</u>
<u>-</u>	<u>(2,601,535)</u>	<u>(2,601,535)</u>
<u>(20,619,385)</u>	<u>(2,601,535)</u>	<u>(23,220,920)</u>
4,415,800	-	4,415,800
17,078,372	-	17,078,372
5,135,777	-	5,135,777
368,787	5,135	373,922
491,067	329,519	820,586
<u>(2,975,000)</u>	<u>2,975,000</u>	<u>-</u>
<u>24,514,803</u>	<u>3,309,654</u>	<u>27,824,457</u>
3,895,418	708,119	4,603,537
<u>102,881,353</u>	<u>32,933,719</u>	<u>135,815,072</u>
\$ <u>106,776,771</u>	\$ <u>33,641,838</u>	\$ <u>140,418,609</u>

City of Hudson, Ohio

Balance Sheet Governmental Funds

December 31, 2012

	<u>General</u>	<u>Street Construction</u>	<u>Street Sidewalk Construction</u>	<u>Youth Development Center</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Current assets:						
Equity in pooled cash and cash equivalents	\$ 11,196,088	\$ 175,661	\$ 2,380,664	\$ 341,747	\$ 6,973,099	\$ 21,067,259
Investment in common stock	-	-	-	-	19,720	19,720
Investment in segregated accounts	-	-	-	-	2,987	2,987
Materials and supplies inventory	33,352	301,571	-	-	29,174	364,097
Accounts receivable	9,998	-	19,699	-	584,766	614,463
Accrued interest receivable	227,111	-	5,098	2,452	35,131	269,792
Interfund receivable	1,034,740	-	-	-	-	1,034,740
Intergovernmental receivable	347,145	404,232	-	-	57,469	808,846
Taxes receivable	6,825,644	-	-	-	3,200,282	10,025,926
Special assessments receivable	253,436	-	-	-	900,476	1,153,912
Noncurrent assets:						
Advances to other funds	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Total assets	\$ <u>20,027,514</u>	\$ <u>881,464</u>	\$ <u>2,405,461</u>	\$ <u>344,199</u>	\$ <u>11,803,104</u>	\$ <u>35,461,742</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 126,913	\$ 24,416	\$ 524,971	\$ 54,321	\$ 58,352	\$ 788,973
Accrued wages and benefits	115,646	32,115	-	-	36,024	183,785
Intergovernmental payable	250,193	27,051	-	-	90,673	367,917
Interfund payable	-	-	155,000	-	200,282	355,282
Matured compensated absences	20,422	80,904	-	-	40,127	141,453
Retainage payable	-	-	102,294	-	-	102,294
Deferred revenue	<u>5,173,241</u>	<u>276,508</u>	<u>4,851</u>	<u>2,333</u>	<u>3,981,193</u>	<u>9,438,126</u>
Total liabilities	<u>5,686,415</u>	<u>440,994</u>	<u>787,116</u>	<u>56,654</u>	<u>4,406,651</u>	<u>11,377,830</u>
Fund Balances:						
Nonspendable	133,352	301,571	-	-	35,649	470,572
Restricted	-	138,899	-	-	919,518	1,058,417
Committed	-	-	1,618,345	287,545	5,949,176	7,855,066
Assigned	325,704	-	-	-	517,110	842,814
Unassigned (deficit)	<u>13,882,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>13,857,043</u>
Total fund balances	<u>14,341,099</u>	<u>440,470</u>	<u>1,618,345</u>	<u>287,545</u>	<u>7,396,453</u>	<u>24,083,912</u>
Total liabilities and fund balances	\$ <u>20,027,514</u>	\$ <u>881,464</u>	\$ <u>2,405,461</u>	\$ <u>344,199</u>	\$ <u>11,803,104</u>	\$ <u>35,461,742</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

December 31, 2012

Total Governmental Funds Balances \$ 24,083,912

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 106,048,167

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

Taxes	\$ 2,555,087	
Special assessments	1,153,912	
Charges for services	442,246	
Interest	256,721	
Intergovernmental	<u>470,768</u>	
Total		4,878,734

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (65,360)

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 position 1,550,148

In the statement of activities, bond issuance costs are amortized over the term of the bonds, whereas in governmental funds a bond issuance expenditures is reported when bonds are issued. 293,271

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	(27,231,246)	
Special assessment bonds	(1,063,408)	
Ohio Public Works Commission loan	(125,749)	
Compensated absences	<u>(1,591,698)</u>	
Total		<u>(30,012,101)</u>

Net position of governmental activities \$ 106,776,771

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, 2012

	<u>General</u>	<u>Street Construction</u>	<u>Street Sidewalk Construction</u>	<u>Youth Development Center</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property and other local taxes	\$ 2,276,483	\$ -	\$ -	\$ -	\$ 2,225,110	\$ 4,501,593
Municipal income tax	13,273,400	-	-	-	3,651,421	16,924,821
Intergovernmental	2,990,305	846,043	682,826	2,495,000	611,769	7,625,943
Charges for services	468,588	-	123,744	-	814,073	1,406,405
Fines and forfeitures	55,333	-	-	-	1,134	56,467
Special assessments	55,751	-	-	-	282,640	338,391
Interest	257,406	-	6,204	6,137	34,473	304,220
Other	<u>86,886</u>	<u>45,471</u>	<u>19,699</u>	<u>-</u>	<u>178,007</u>	<u>330,063</u>
Total revenues	<u>19,464,152</u>	<u>891,514</u>	<u>832,473</u>	<u>2,501,137</u>	<u>7,798,627</u>	<u>31,487,903</u>
Expenditures:						
Current:						
Security of persons and property	4,045,241	-	-	-	2,612,548	6,657,789
Public health	857,861	-	-	-	202,559	1,060,420
Leisure time services	-	-	-	-	1,140,814	1,140,814
Community and economic development	1,260,489	-	-	-	394,379	1,654,868
Transportation	-	2,596,355	-	-	-	2,596,355
General government	4,532,900	-	-	88,230	62,716	4,683,846
Capital outlay	354,286	16,232	3,631,589	57,259	1,399,009	5,458,375
Debt Service:						
Principal retirement	-	-	-	-	3,102,148	3,102,148
Interest and fiscal charges	-	-	-	46,500	1,192,796	1,239,296
Issuance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,810</u>	<u>43,051</u>	<u>125,861</u>
Total expenditures	<u>11,050,777</u>	<u>2,612,587</u>	<u>3,631,589</u>	<u>274,799</u>	<u>10,150,020</u>	<u>27,719,772</u>
Excess of revenues over (under) expenditures	<u>8,413,375</u>	<u>(1,721,073)</u>	<u>(2,799,116)</u>	<u>2,226,338</u>	<u>(2,351,393)</u>	<u>3,768,131</u>
Other financing sources (uses):						
Proceeds from sale of assets	12,927	14,068	-	-	5,651	32,646
Transfers - in	-	1,700,000	2,300,000	142,000	2,610,878	6,752,878
Transfers - out	(9,064,197)	-	-	-	(663,681)	(9,727,878)
Proceeds from issuance of debt	-	-	-	4,735,000	2,804,000	7,539,000
Premium on issuance of debt	-	-	-	36,593	59,986	96,579
Payment on refunded bond escrow agent	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,533,301)</u>	<u>(2,533,301)</u>
Total other financing sources (uses)	<u>(9,051,270)</u>	<u>1,714,068</u>	<u>2,300,000</u>	<u>4,913,593</u>	<u>2,283,533</u>	<u>2,159,924</u>
Net change in fund balances	(637,895)	(7,005)	(499,116)	7,139,931	(67,860)	5,928,055
Fund balance (deficit) at beginning of year	<u>14,978,994</u>	<u>447,475</u>	<u>2,117,461</u>	<u>(6,852,386)</u>	<u>7,464,313</u>	<u>18,155,857</u>
Fund balance at end of year	\$ <u>14,341,099</u>	\$ <u>440,470</u>	\$ <u>1,618,345</u>	\$ <u>287,545</u>	\$ <u>7,396,453</u>	\$ <u>24,083,912</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 5,928,055

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

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

Capital outlay	\$ 4,957,082	
Depreciation	<u>(5,391,879)</u>	
Total		(434,797)

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. (32,585)

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	(85,793)	
Municipal income taxes	153,551	
Special assessments	(120,808)	
Charges for services	143,216	
Interest	64,567	
Intergovernmental	<u>(217,865)</u>	
Total		(63,132)

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

General obligation bonds issued	(7,539,000)	
Premium on bonds issued	<u>(96,579)</u>	
Total		(7,635,579)

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

General obligation bonds	5,169,000	
Special assessment bonds	185,962	
Ohio Public Works Commission loan	7,186	
Loss on refunding	273,301	
Compensated absences	<u>143,899</u>	
Total		5,779,348

(Continued)

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

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

Accretion on capital appreciation bonds	(62,532)	
Accrued interest on debt	8,508	
Amortization of premium	125,763	
Amortization of loss on refunding	(125,561)	
Amortization of issuance costs	<u>(30,919)</u>	
Total		(84,741)

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

438,849

Change in Net Position of Governmental Activities

\$ 3,895,418

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, 2012

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Property and other local taxes	\$ 2,560,045	\$ 2,560,045	\$ 2,276,483	\$ (283,562)
Income taxes	12,381,350	12,845,450	12,845,440	(10)
Charges for services	391,008	454,468	468,638	14,170
Fines and forfeitures	32,407	48,722	52,364	3,642
Intergovernmental	2,261,932	3,160,525	3,361,155	200,630
Special assessment	34,503	51,872	55,751	3,879
Interest	227,694	342,320	367,913	25,593
Other	59,685	89,735	96,442	6,707
Total revenues	<u>17,948,624</u>	<u>19,553,137</u>	<u>19,524,186</u>	<u>(28,951)</u>
Expenditures:				
Current:				
General government	5,039,834	5,189,849	4,876,375	313,474
Security of persons and property	4,237,823	4,253,552	4,083,030	170,522
Public health	830,209	888,760	871,939	16,821
Community and economic development	1,499,305	1,499,305	1,342,336	156,969
Capital outlay	<u>457,278</u>	<u>514,642</u>	<u>390,810</u>	<u>123,832</u>
Total expenditures	<u>12,064,449</u>	<u>12,346,108</u>	<u>11,564,490</u>	<u>781,618</u>
Excess of revenues over expenditures	<u>5,884,175</u>	<u>7,207,029</u>	<u>7,959,696</u>	<u>752,667</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	8,000	12,028	12,927	899
Transfers – out	(9,567,197)	(9,064,197)	(9,064,197)	-
Advances – in	2,250,000	2,275,000	2,275,000	-
Advances – out	<u>(75,000)</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(7,384,197)</u>	<u>(6,852,169)</u>	<u>(6,851,270)</u>	<u>899</u>
Net change in fund balance	(1,500,022)	354,860	1,108,426	753,566
Fund balance at beginning of fiscal year	8,967,680	8,967,680	8,967,680	-
Prior fiscal year encumbrances appropriated	<u>621,958</u>	<u>621,958</u>	<u>621,958</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>8,089,616</u>	\$ <u>9,944,498</u>	\$ <u>10,698,064</u>	\$ <u>753,566</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For The Year Ended December 31, 2012

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Intergovernmental	\$ 817,075	\$ 856,551	\$ 859,058	\$ 2,507
Other	<u>43,246</u>	<u>45,480</u>	<u>45,471</u>	<u>(9)</u>
Total revenues	<u>860,321</u>	<u>902,031</u>	<u>904,529</u>	<u>2,498</u>
Expenditures:				
Current:				
Transportation	2,465,895	2,717,689	2,636,594	81,095
Capital outlay	<u>28,830</u>	<u>29,670</u>	<u>29,014</u>	<u>656</u>
Total Expenditures	<u>2,494,725</u>	<u>2,747,359</u>	<u>2,665,608</u>	<u>81,751</u>
Excess of revenues over (under) expenditures	<u>(1,634,404)</u>	<u>(1,845,328)</u>	<u>(1,761,079)</u>	<u>84,249</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	13,380	14,068	14,068	-
Transfers - in	<u>1,600,000</u>	<u>1,700,000</u>	<u>1,700,000</u>	<u>-</u>
Total other financing sources (uses)	<u>1,613,380</u>	<u>1,714,068</u>	<u>1,714,068</u>	<u>-</u>
Net change in fund balance	(21,024)	(131,260)	(47,011)	84,249
Fund balance at beginning of fiscal year	95,219	95,219	95,219	-
Prior fiscal year encumbrances appropriated	<u>42,880</u>	<u>42,880</u>	<u>42,880</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>117,075</u>	\$ <u>6,839</u>	\$ <u>91,088</u>	\$ <u>84,249</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Fund Net Position Proprietary Funds

December 31, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>	<u>All Other Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
Assets							
Current assets:							
Equity in pooled cash							
And cash equivalents \$	327,130	\$ 1,288,722	\$ 12,711,165	\$ 1,212,926	\$ 26,783	\$ 15,566,726	\$ 577,531
Accounts receivable	289,477	372,393	3,074,211	-	43	3,736,124	-
Special assessments receivable	77,461	-	-	-	-	77,461	-
Accrued interest receivable	-	2,780	-	-	-	2,780	91
Intergovernmental receivable	-	-	-	-	2,172	2,172	-
Materials and supplies							
Inventory	293,073	7,855	1,185,479	44,298	13,752	1,544,457	279,447
Restricted assets:							
Cash in segregated accounts	-	-	173,089	-	-	173,089	-
Total current assets	987,141	1,671,750	17,143,944	1,257,224	42,750	21,102,809	857,069
Noncurrent assets:							
Unamortized bond premium	50,162	-	15,732	10,905	11,030	87,829	-
Investment in joint venture	-	-	556,025	-	-	556,025	-
Nondepreciable capital assets	269,448	623,733	258,591	194,576	2,008,225	3,354,573	11,967
Depreciable capital assets, net	8,940,046	8,964,470	7,985,385	2,414,406	1,825,867	30,130,174	833,004
Total noncurrent assets	9,259,656	9,588,203	8,815,733	2,619,887	3,845,122	34,128,601	844,971
Total assets	10,246,797	11,259,953	25,959,677	3,877,111	3,887,872	55,231,410	1,702,040
Liabilities							
Current liabilities:							
Accounts payable	11,540	63,807	1,162,674	27,623	12,538	1,278,182	84,300
Claims payable	-	-	-	-	-	-	20,787
Accrued wages and benefits	24,428	3,378	41,511	12,874	7,153	89,344	8,880
Intergovernmental payable	21,087	539,295	81,287	18,935	14,902	675,506	14,241
Retainage payable	11,291	22,478	-	-	-	33,769	-
Due to other funds	-	-	-	80,350	599,108	679,458	-
Accrued interest payable	13,564	69,898	4,501	6,589	2,661	97,213	-
Matured compensated absences	-	-	58,229	-	-	58,229	-
Payable from restricted assets – customer deposits	-	-	173,089	-	-	173,089	-
Compensated absences payable	170,933	7,892	280,154	17,213	77,711	553,903	10,264
Capital lease payable	-	-	-	-	44,631	44,631	-
OWDA loans payable	-	481,903	-	-	-	481,903	-
General obligation bonds payable	474,000	183,000	152,000	131,000	106,000	1,046,000	-
Total current liabilities	726,843	1,371,651	1,953,445	294,584	864,704	5,211,227	138,472
Long-term liabilities							
(net of current portion):							
Advances from other funds	-	100,000	-	-	-	100,000	-
Compensated absences payable	165,058	49,910	433,123	53,576	45,883	747,550	13,420
Capital lease payable	-	-	-	-	46,368	46,368	-
OWDA loans payable	-	2,721,049	-	-	-	2,721,049	-
General obligation bonds payable	4,744,513	2,188,675	2,014,647	2,705,640	1,109,903	12,763,378	-
Total long-term liabilities	4,909,571	5,059,634	2,447,770	2,759,216	1,202,154	16,378,345	13,420
Total liabilities	5,636,414	6,431,285	4,401,215	3,053,800	2,066,858	21,589,572	151,892
Net Position							
Net investment in capital assets	3,990,981	4,013,576	6,077,329	368,955	2,527,190	16,978,031	844,971
Unrestricted (deficit)	619,402	815,092	15,481,133	454,356	(706,176)	16,663,807	705,177
Total net position	\$ 4,610,383	\$ 4,828,668	\$ 21,558,462	\$ 823,311	\$ 1,821,014	\$ 33,641,838	\$ 1,550,148

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

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

For the Year Ended December 31, 2012

	Water	Wastewater	Electric	Storm Sewer	All Other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Operating revenues:							
Charges for services	\$ 1,786,120	\$ 2,102,427	\$ 18,061,042	\$ 7,458	\$ 1,171,754	\$ 23,128,801	\$ 2,013,491
Other	60,080	1,792	146,956	12,256	108,435	329,519	129,210
Total operating revenues	<u>1,846,200</u>	<u>2,104,219</u>	<u>18,207,998</u>	<u>19,714</u>	<u>1,280,189</u>	<u>23,458,320</u>	<u>2,142,701</u>
Operating expenses:							
Personal services	584,266	646,954	2,743,290	756,774	688,304	5,419,588	520,521
Materials and supplies	179,624	10,253	107,365	119,696	276,656	693,594	526,887
Contractual services	344,679	2,126,434	15,090,385	72,032	140,697	17,774,227	210,802
Claims	-	-	-	-	-	-	309,854
Other	4,719	-	43,536	-	33,896	82,151	-
Depreciation	336,471	316,584	449,004	100,778	140,840	1,343,677	136,136
Total operating expenses	<u>1,449,759</u>	<u>3,100,225</u>	<u>18,433,580</u>	<u>1,049,280</u>	<u>1,280,393</u>	<u>25,313,237</u>	<u>1,704,200</u>
Operating income (loss)	<u>396,441</u>	<u>(996,006)</u>	<u>(225,582)</u>	<u>(1,029,566)</u>	<u>(204)</u>	<u>(1,854,917)</u>	<u>438,501</u>
Non-operating revenues (expenses):							
Investment income	-	5,135	-	-	-	5,135	81
Equity in profit of joint venture	-	-	(48,316)	-	-	(48,316)	-
Bond issuance costs	(22,672)	(35,984)	(14,001)	(35,646)	(2,105)	(110,408)	-
Interest and fiscal charges	(210,834)	(117,814)	(24,788)	(57,115)	(15,474)	(426,025)	-
Gain (loss) on disposal of capital assets	5,315	-	32,335	-	-	37,650	267
Total non-operating (expenses)	<u>(228,191)</u>	<u>(148,663)</u>	<u>(54,770)</u>	<u>(92,761)</u>	<u>(17,579)</u>	<u>(541,964)</u>	<u>348</u>
Income (loss) before transfers and contributions	168,250	(1,144,669)	(280,352)	(1,122,327)	(17,783)	(2,396,881)	438,849
Capital contribution	130,000	-	-	-	-	130,000	-
Transfers – in	-	1,775,000	-	1,125,000	75,000	2,975,000	-
Change in net position	298,250	630,331	(280,352)	2,673	57,217	708,119	438,849
Net position at beginning of year	<u>4,312,133</u>	<u>4,198,337</u>	<u>21,838,814</u>	<u>820,638</u>	<u>1,763,797</u>	<u>32,933,719</u>	<u>1,111,299</u>
Net position at end of year	<u>\$ 4,610,383</u>	<u>\$ 4,828,668</u>	<u>\$ 21,558,462</u>	<u>\$ 823,311</u>	<u>\$ 1,821,014</u>	<u>\$ 33,641,838</u>	<u>\$ 1,550,148</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2012

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>	<u>Storm Sewer</u>	<u>All Other Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities Internal Service Funds</u>
Cash Flows from Operating Activities:							
Cash received from customers	\$ 1,766,191	\$ 2,124,402	\$ 18,314,544	\$ 7,458	\$ 1,171,754	\$ 23,384,349	\$ 2,013,553
Cash payments to employees for services	(533,097)	(639,178)	(2,712,263)	(745,642)	(682,728)	(5,312,908)	(544,636)
Cash payments for goods and services	(537,305)	(2,451,795)	(15,369,573)	(254,356)	(437,427)	(19,050,456)	(717,196)
Cash payments for claims	-	-	-	-	-	-	(307,246)
Other operating revenues	41,263	89,693	359,771	72,402	106,263	669,392	129,210
Other operating expenses	(4,719)	-	(63,137)	-	(34,745)	(102,601)	-
Net cash provided by (used for) operating activities	<u>732,333</u>	<u>(876,878)</u>	<u>529,342</u>	<u>(920,138)</u>	<u>123,117</u>	<u>(412,224)</u>	<u>573,685</u>
Cash Flows from Noncapital Financing Activities:							
Transfer-in	-	1,775,000	-	1,125,000	75,000	2,975,000	-
Cash Flows from Capital and Related Financing Activities:							
Acquisition of capital assets	(269,448)	(658,646)	(61,593)	(662,088)	-	(1,651,775)	(659,463)
Proceeds from sale of capital assets	10,700	-	28,735	-	-	39,435	267
Proceeds from sale of bonds	1,121,000	2,342,000	914,000	2,310,000	139,000	6,826,000	-
Premium from bonds	29,847	42,732	13,204	20,780	6,572	113,135	-
Payment to refunded bond escrow agent	(814,996)	(1,805,868)	(1,037,513)	(2,287,164)	(171,186)	(6,116,727)	-
Bond issuance costs	(22,672)	(35,984)	(14,001)	(35,646)	(2,105)	(110,408)	-
Principal payments	(413,038)	(538,009)	(154,000)	(154,000)	(151,960)	(1,411,007)	-
Interest payments	(193,827)	(106,233)	(16,367)	(45,126)	(11,587)	(373,140)	-
Net cash used for capital and related financing activities	<u>(552,434)</u>	<u>(760,008)</u>	<u>(327,535)</u>	<u>(853,244)</u>	<u>(191,266)</u>	<u>(2,684,487)</u>	<u>(659,196)</u>
Cash Flows from Investing Activities:							
Interest on investments	-	4,783	-	-	-	4,783	58
Net increase (decrease) cash and cash equivalents	179,899	142,897	201,807	(648,382)	6,851	(116,928)	(85,453)
Cash and cash equivalents at beginning of year	<u>147,231</u>	<u>1,145,825</u>	<u>12,682,447</u>	<u>1,861,308</u>	<u>19,932</u>	<u>15,856,743</u>	<u>662,984</u>
Cash and cash equivalents at end of year	\$ <u><u>327,130</u></u>	\$ <u><u>1,288,722</u></u>	\$ <u><u>12,884,254</u></u>	\$ <u><u>1,212,926</u></u>	\$ <u><u>26,783</u></u>	\$ <u><u>15,739,815</u></u>	\$ <u><u>577,531</u></u>

(Continued)

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Cash Flows Proprietary Funds (continued)

For the Year Ended December 31, 2012

	Water	Wastewater	Electric	Storm Sewer	All Other Enterprise Funds	Totals	Governmental Activities - Internal Service Funds
Reconciliation of operating income (loss) to net cash from operating activities:							
Operating income (loss)	\$ 396,441	\$ (996,006)	\$ (225,582)	\$ (1,029,566)	\$ (204)	\$ (1,854,917)	\$ 438,501
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	336,471	316,584	449,004	100,778	140,840	1,343,677	136,136
(Increase) Decrease in Operating Assets:							
Accounts receivables	(19,929)	21,976	265,092	-	-	267,139	62
Materials and supplies inventory	16,961	446	132,529	13,852	(378)	163,410	(18,768)
Intergovernmental receivable	-	-	-	-	(2,172)	(2,172)	-
Special assessments receivable	3,883	-	-	-	-	3,883	-
Increase (Decrease) in Operating Liabilities:							
Accounts payable	(63,954)	31,927	(169,052)	(6,642)	(19,510)	(227,231)	38,975
Accrued wages and benefits	15,129	(4,865)	10,793	3,784	1,480	26,321	2,207
Compensated absences payable	33,977	17,070	(40,042)	7,381	5,160	23,546	(25,711)
Intergovernmental payable	2,063	(286,488)	(521)	(2,294)	(2,099)	(289,339)	(335)
Retainage payable	11,291	22,478	-	(7,431)	-	26,338	-
Matured compensated absences	-	-	58,229	-	-	58,229	-
Customer deposits	-	-	48,892	-	-	48,892	-
Claims payable	-	-	-	-	-	-	2,608
Total adjustments	<u>335,892</u>	<u>119,128</u>	<u>754,924</u>	<u>109,428</u>	<u>123,321</u>	<u>1,442,693</u>	<u>135,184</u>
Net cash provided by (used for) operating activities	\$ <u>732,333</u>	\$ <u>(876,878)</u>	\$ <u>529,342</u>	\$ <u>(920,138)</u>	\$ <u>123,117</u>	\$ <u>(412,224)</u>	\$ <u>573,685</u>
Non-cash capital financing activities:							
Acquisition of capital assets through contributed capital	\$ 130,000	\$ -	\$ -	\$ -	\$ -	\$ 130,000	\$ -
Amortization of premium on general obligation bonds	(9,320)	(5,711)	(3,686)	(2,719)	(2,526)	(23,962)	-
Amortization of loss on refunding	<u>24,651</u>	<u>28,521</u>	<u>12,481</u>	<u>17,847</u>	<u>6,010</u>	<u>89,510</u>	<u>-</u>

The accompanying notes are an integral part of the financial statements

City of Hudson, Ohio

Statement of Fiduciary Net Position Fiduciary Funds

December 31, 2012

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 596,050
Taxes receivable	<u>2,394,013</u>
Total Assets	\$ <u>2,990,063</u>
Liabilities:	
Intergovernmental payable	\$ 121,986
Undistributed Monies	254,254
Deposits Held and Due to Others	219,810
Deferred revenue	<u>2,394,013</u>
Total Liabilities	\$ <u>2,990,063</u>

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

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City of Hudson, Ohio

Notes to Basic Financial Statements

For The Year Ended December 31, 2012

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 22 and 23.

Note 2: Summary of Significant Accounting Policies

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position 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 Position 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 Position 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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

Governmental Funds

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

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 Sidewalk Construction - The street sidewalk construction capital projects fund accounts for the costs of the City's annual street and sidewalk maintenance and construction program.

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

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

Proprietary Funds

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

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

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

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

The other enterprise funds accounts for the cost of operating the City's golf course.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. 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 Position.

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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

C. Measurement Focus (continued)

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 Position. The Statement of Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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, 2012, but which were levied to finance year 2013 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetaries

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

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews the estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetaries (continued)

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 2012.

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

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

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

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

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 financial statements.

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

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 2012 amounted to \$257,406, which includes \$85,989 assigned from other City funds.

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

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

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

G. Interfund Balances

On fund financial statements, interfund loans are classified as "Interfund Receivable/Payable" on the balance sheet. Long-term interfund loans are classified as "Advances to/from Other Funds" on the Balance Sheet and are equally offset as part of nonspendable fund balance which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, 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 Position 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 Position and in the respective funds.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	50 years	50 years
Land improvements	15 to 50 years	15 to 50 years
Vehicles	5 to 8 years	5 to 8 years
Equipment, furniture and fixtures	5 to 30 years	5 to 30 years
Infrastructure	30 to 65 years	30 to 65 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

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.

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

L. Fund Balance

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

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

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

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 2: Summary of Significant Accounting Policies (continued)

L. Fund Balance (continued)

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

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

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

M. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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 position are available.

N. Operating Revenues and Expenses

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

O. Contributions of Capital

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

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 2012.

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. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through August 23, 2013, the date the financial statements were available to be issued.

Note 3: Changes in Accounting Principles

For fiscal year 2012, the City implemented Governmental Accounting Standards Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

GASB Statement No. 62 incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements which do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City. The implementation of this statement has no impact on the City’s financial statements or disclosures.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 3: Changes in Accounting Principles (continued)

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011 and have been implemented by the City. The City's financial statements have been updated to reflect the implementation of this standard.

Note 4: Budgetary Basis of Accounting

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

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

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

	Net Change In Fund Balance	
	<u>General Fund</u>	<u>Street Construction</u>
GAAP Basis	\$ (637,895)	\$ (7,005)
Net Adjustment for Revenue Accruals	1,028,722	13,015
Fair Market Value Adjustment	96,458	-
Net Adjustment for Expenditure Accruals	(187,147)	31,552
Encumbrances	<u>(401,566)</u>	<u>(84,573)</u>
Budget Basis	\$ <u>1,108,426</u>	\$ <u>(47,011)</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 5: Fund Balances

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

	<u>General Fund</u>	<u>Street Construction</u>	<u>Street Sidewalk Construction</u>	<u>Nonmajor Development Center</u>	<u>Total Governmental Funds</u>	<u>Governmental Funds</u>
Nonspendable:						
Inventory	\$ 33,352	\$ 301,571	\$ -	\$ -	\$ 29,174	\$ 364,097
Interfund loan receivable	100,000	-	-	-	-	100,000
Principal trust	-	-	-	-	6,475	6,475
Total nonspendable	<u>133,352</u>	<u>301,571</u>	<u>-</u>	<u>-</u>	<u>35,649</u>	<u>470,572</u>
Restricted for:						
Streets and highways	-	138,899	-	-	30,418	169,316
Cemetery	-	-	-	-	149,925	149,925
Law enforcement and education	-	-	-	-	38,160	38,160
Court computer fees	-	-	-	-	18,427	18,427
Debt service	-	-	-	-	578,834	578,834
Capital improvements	-	-	-	-	103,754	103,754
Total restricted	<u>-</u>	<u>138,899</u>	<u>-</u>	<u>-</u>	<u>919,518</u>	<u>1,058,417</u>
Committed to:						
Community and economic development	-	-	-	-	2,866,833	2,866,833
Fire District and EMS	-	-	-	-	1,845,948	1,845,948
Cemetery improvement	-	-	-	-	4,163	4,163
Storm sewer assessment	-	-	-	-	329,047	329,047
Tree trust	-	-	-	-	25,761	25,761
Playground trust	-	-	-	-	15,030	15,030
Poor endowment trust	-	-	-	-	34,926	34,926
Veterans memorial	-	-	-	-	17,706	17,706
Other purposes	-	-	-	-	9,392	9,392
Capital improvements	-	-	1,618,345	287,545	800,370	2,706,260
Total committed	<u>-</u>	<u>-</u>	<u>1,618,345</u>	<u>287,545</u>	<u>5,949,176</u>	<u>7,855,066</u>
Assigned to:						
Other purposes	325,704	-	-	-	-	325,704
Bond retirement	-	-	-	-	517,110	517,110
Total assigned	<u>325,704</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>517,110</u>	<u>842,814</u>
Unassigned (deficit)	<u>13,882,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(25,000)</u>	<u>13,857,043</u>
Total fund balance	\$ <u>14,341,099</u>	\$ <u>440,470</u>	\$ <u>1,618,345</u>	\$ <u>287,545</u>	\$ <u>7,396,453</u>	\$ <u>24,083,912</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 6: Deposits and Investments

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

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

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

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

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

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 6: Deposits and Investments (continued)

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

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

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

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

Deposits

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

At year-end, the carrying amount of the City's deposits was \$30,233,496 and the bank balance was \$31,111,591. Of the bank balance \$4,760,306 was covered by Federal depository insurance and \$26,351,285 was uninsured. Of the remaining bank balance, \$26,351,285 was collateralized with securities held by the pledging institution's agent in the City's name. At year end, the City had \$1,400 in cash on hand.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 6: Deposits and Investments (continued)

Investments

Investments are reported at fair value. As of December 31, 2012, the city had the following investments:

	Fair Value	Maturities (in years)	
		Less than 1	1 - 4
Common Stock (donated)	\$ 19,720	\$ 19,720	\$ -
Federal Home Loan Bank	2,043,175	1,003,795	1,039,380
Federal Home Loan Mortgage Corporation	508,595	508,595	-
Federal National Mortgage Association	5,175,713	403,448	4,772,265
Money Market	18,276	18,276	-
Series E Bonds	2,987	2,987	-
Total Portfolio	\$ 7,768,466	\$ 1,956,821	\$ 5,811,645

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

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

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

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2012:

Investment Issuer	Percentage of Investments
Common Stock (donated)	0.25%
Federal Home Loan Bank	26.30
Federal Home Loan Mortgage Corporation	6.55
Federal National Mortgage Association	66.62
Money Market	0.24
Series E Bonds	0.04
Total	100.00%

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 7: Receivables

Receivables at December 31, 2012, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenues. All accounts, taxes, special assessments and intergovernmental receivables are deemed collectible in full.

Note 8: Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property taxes collected in 2012 are levied after October 1, 2011, on assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes collected in 2012 were intended to finance 2012 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 88% of cost). Public utility property taxes paid in 2012 became a lien December 31, 2011, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

2012 tangible personal property taxes are levied after October 1, 2011, on the value as of December 31, 2011. Collections are made in 2012. In prior year, tangible personal property used in business (except for public utilities) was assessed at 25 percent of its true value. The tangible personal property tax is being phased out - the assessment percentage for all property including inventory for 2009 is zero.

The full tax rate for all City operations for the year ended December 31, 2012, was \$7.97 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2012 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 719,386,060
Commercial/Industrial/Mineral	101,783,670
Public Utilities	121,120
Tangible Personal Property Valuation:	
Public Utilities	<u>4,530,070</u>
Total Valuation	\$ <u><u>825,820,920</u></u>

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 9: Income Tax

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to Regional Income Tax Agency (RITA) either monthly or quarterly as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, disbursement of the revenue received from income taxes is as follows: first, all expenses of collecting the tax and of administering and enforcing the income tax ordinance are paid. Then, the balance remaining after payment of the expenses is deposited in the general fund for street construction, maintenance and repair, capital improvements and general municipal operations, or as such other fund or funds as Council may, from time to time, establish or designate. The City of Hudson voters approved an increase in the income tax rate from one percent to two percent effective January 1, 2005, with 15 percent of such additional one percent increase being designated for funding of the Fire Department; with nine percent of such additional one percent increase being designated for funding of Emergency Medical Services; with 15 percent of such additional one percent increase being designated for funding of the Park System; and with 13.5 percent of such additional one percent increase being designated for community learning centers in the City, in cooperation with the Hudson City School District. For 2012, municipal income tax revenue was \$17,078,372, which represents the City's portion net of amount due to Hudson City School District.

Note 10: Special Assessments

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 11: Capital Assets

	Balance <u>12/31/11</u>	Additions	Disposals	Balance <u>12/31/12</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 14,618,513	\$ -	\$ -	\$ 14,618,513
Construction in progress	<u>6,137,517</u>	<u>4,456,604</u>	<u>(6,720,188)</u>	<u>3,873,933</u>
Total capital assets, not being depreciated	<u>20,756,030</u>	<u>4,456,604</u>	<u>(6,720,188)</u>	<u>18,492,446</u>
Capital assets, being depreciated:				
Buildings	9,113,078	129,312	-	9,242,390
Land improvements	1,591,332	1,547,293	-	3,138,625
Vehicles	5,754,437	639,941	(219,552)	6,174,826
Equipment, furniture and fixtures	3,377,856	343,687	(99,652)	3,621,891
Infrastructure				
Roads	118,039,944	4,942,550	-	122,982,494
Sidewalks	3,544,274	-	-	3,544,274
Traffic signals	<u>2,682,888</u>	<u>277,346</u>	<u>-</u>	<u>2,960,234</u>
Total capital assets, being depreciated	<u>144,103,809</u>	<u>7,880,129</u>	<u>(319,204)</u>	<u>151,664,734</u>
Less accumulated depreciation:				
Buildings	(2,171,427)	(233,934)	-	(2,405,361)
Land improvements	(371,821)	(160,169)	-	(531,990)
Vehicles	(3,846,362)	(496,208)	218,251	(4,124,319)
Equipment, furniture and fixtures	(2,250,206)	(217,396)	68,368	(2,399,234)
Infrastructure				
Roads	(46,855,312)	(4,180,912)	-	(51,036,224)
Sidewalks	(1,087,189)	(118,395)	-	(1,205,584)
Traffic signals	<u>(1,440,329)</u>	<u>(121,001)</u>	<u>-</u>	<u>(1,561,330)</u>
Total accumulated depreciation	<u>(58,022,646)</u>	<u>(5,528,015)</u>	<u>286,619</u>	<u>(63,264,042)</u>
Total capital assets, being depreciated, net	<u>86,081,163</u>	<u>2,352,114</u>	<u>(32,585)</u>	<u>88,400,692</u>
Governmental activities capital assets, net	\$ <u>106,837,193</u>	\$ <u>6,808,718</u>	\$ <u>(6,752,773)</u>	\$ <u>106,893,138</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 523,658
Security of persons and property	478,239
Public health	19,036
Transportation	4,301,053
Community and economic development	3,616
Leisure time services	<u>202,413</u>
Total	\$ <u>5,528,015</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 11: Capital Assets (continued)

	Balance 12/31/11	Additions	Disposals	Balance 12/31/12
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,362,513	\$ -	\$ -	\$ 2,362,513
Construction in progress	<u>534,616</u>	<u>992,060</u>	<u>(534,616)</u>	<u>992,060</u>
Total capital assets, not being depreciated	<u>2,897,129</u>	<u>992,060</u>	<u>(534,616)</u>	<u>3,354,573</u>
Capital assets being depreciated:				
Buildings	5,351,190	-	-	5,351,190
Land improvements	2,123,612	-	-	2,123,612
Vehicles	2,158,620	-	(103,712)	2,054,908
Equipment, furniture and fixtures	4,029,815	25,984	-	4,055,799
Infrastructure				
Water main lines	14,577,510	130,000	-	14,707,510
Sewer lines	9,704,319	55,381	-	9,759,700
Storm water lines	1,871,891	712,645	-	2,584,536
Electric	<u>8,286,120</u>	<u>400,321</u>	<u>-</u>	<u>8,686,441</u>
Total capital assets, being depreciated	<u>48,103,077</u>	<u>1,324,331</u>	<u>(103,712)</u>	<u>49,323,696</u>
Less accumulated depreciation:				
Buildings	(1,954,337)	(111,420)	-	(2,065,757)
Land improvements	(824,898)	(104,488)	-	(929,386)
Vehicles	(1,534,887)	(152,058)	98,327	(1,588,618)
Equipment, furniture and fixtures	(2,503,989)	(158,796)	-	(2,662,785)
Infrastructure				
Water main lines	(6,073,237)	(295,602)	-	(6,368,839)
Sewer lines	(2,973,623)	(203,400)	-	(3,177,023)
Storm sewer	(262,219)	(61,146)	-	(323,365)
Electric	<u>(1,820,982)</u>	<u>(256,767)</u>	<u>-</u>	<u>(2,077,749)</u>
Total accumulated depreciation	<u>(17,948,172)</u>	<u>(1,343,677)</u>	<u>98,327</u>	<u>(19,193,522)</u>
Total capital assets, being depreciated, net	<u>30,154,905</u>	<u>(19,346)</u>	<u>(5,385)</u>	<u>30,130,174</u>
Business-type activities capital assets, net	\$ <u>33,052,034</u>	\$ <u>972,714</u>	\$ <u>(540,001)</u>	\$ <u>33,484,747</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 12: Risk Management

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

During 2012, the City contracted its medical insurance through a fully insured plan offered by Summa.

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 \$20,787 reported in the fund at December 31, 2012, is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims to be reported. The costs are to be based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any other factors that would modify past experience. The claims liability is based on an estimate supplied by the City's third party administrator. A summary of the fund's claims liability follows:

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2011	\$ 16,481	\$ 300,923	\$ 299,225	\$ 18,179
2012	18,179	312,462	309,854	20,787

Note 13: Note Debt

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

	<u>Balance 12/31/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/12</u>
Governmental Activities:				
Various Purpose Notes, Series 2011, Due 10/2012, 1.0%	\$ 4,650,000	\$ -	\$ (4,650,000)	\$ -

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 14: Long – Term Obligations

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

<u>Debt Issue</u>	<u>Original Issuance Year</u>	<u>Maturity Year</u>	<u>Interest Rate</u>	<u>Original Issuance Amount</u>
Governmental Funds:				
General Obligation Bonds:				
2002 Community Center Expansion G.O. Bonds	2002	2023	2.800% - 6.500%	\$ 330,000
2002 Police Facility Construction G.O. Bonds	2002	2023	2.800% - 6.500%	3,985,000
2002 Road Improvement G.O. Bonds	2002	2023	2.800% - 6.500%	1,200,000
2004 Downtown TIF G.O. Bond	2004	2015	3.000% - 5.000%	7,000,000
2004 Electric Issue G.O. Bonds	2004	2034	3.000% - 5.000%	1,000,000
2004 Milford/RT 91 Construction G.O. Bond	2004	2024	3.000% - 5.000%	4,200,000
2008 Safety Center G.O. Bonds Refunded	2008	2012	3.625% - 5.000%	370,000
2008 Park Improvement G.O. Bonds Refunded	2008	2018	3.250% - 5.000%	4,248,000
2008 Recreation G.O. Bonds Refunded	2008	2019	3.250% - 5.000%	1,947,000
2008 Library Improvement G.O. Bonds Refunded	2008	2019	3.250% - 5.000%	5,580,000
2008 Park Improvement G.O. Bonds Refunded	2008	2019	3.000% - 4.000%	710,000
2008 Library Improvement C.A.B. Bonds Refunded	2008	2019	19.920%	95,000
2011 Park Improvement G.O. Bond Refunded	2011	2018	2.000%	510,000
2011 Community Center Expansion G.O. Bond Refunded	2011	2023	2.000%	175,000
2011 Police Facility Construction G.O. Bond Refunded	2011	2023	2.000%	2,120,000
2011 Road Improvement G.O. Bond Refunded	2011	2023	2.000%	640,000
2011 Street Improvement – Seasons Road G.O. Bond	2011	2031	1.250% - 4.000%	1,175,000
2011 Street Improvement – Atterbury Boulevard G.O. Bond	2011	2031	1.250% - 4.000%	3,770,000
2012 Police Facility Construction G.O. Bond Refunded	2012	2015	2.000%	463,000
2012 Community Center Expansion G.O. Bond Refunded	2012	2015	2.000%	36,000
2012 Milford/RT 91 Construction G.O. Bond Refunded	2012	2024	1.500% - 2.000%	2,305,000
2012 Capital Facilities G.O. Bond	2012	2032	1.500% - 2.500%	4,735,000
Special Assessment Bonds:				
1998 Executive Parkway S.A. Bonds	1998	2018	4.300% - 5.000%	1,060,000
1999 Water Main Construction S.A. Bonds	1999	2019	3.900% - 5.625%	420,000
2008 Sewer Improvements S.A. Bonds Refunded	2008	2016	3.000% - 3.750%	840,000
OPWC Loan	2009	2030	0.000%	143,714

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 14: Long – Term Obligations

<u>Debt Issue</u>	<u>Original Issuance Year</u>	<u>Maturity Year</u>	<u>Interest Rate</u>	<u>Original Issuance Amount</u>
Business Type Funds:				
General Obligation Bonds:				
2002 Golf Course Improvement G.O. Bonds	2002	2023	2.800% - 6.500%	1,645,000
2002 Storm Water Improvement G.O. Bond	2002	2023	2.800% - 6.500%	1,090,000
2002 Substation Construction G.O. Bonds	2002	2023	2.800% - 6.500%	2,230,000
2002 Water System Improvement G.O. Bonds	2002	2023	2.800% - 6.500%	4,035,000
2004 Sewer Improvement G.O. Bonds	2004	2034	3.000% - 5.000%	855,000
2005 Sewer Improvement G.O. Bonds	2005	2035	3.000% - 5.000%	1,230,000
2005 Storm Water Improvement G.O. Bond	2005	2035	3.000% - 5.000%	2,410,000
2005 Water System Improvement G.O. Bonds	2005	2035	3.000% - 5.000%	665,000
2008 Water System Improvement G.O. Bond Refunded	2008	2016	3.000% - 3.750%	1,240,000
2011 Golf Course Improvement G.O. Bond Refunded	2011	2023	2.000%	875,000
2011 Storm Water Improvement G.O. Bond Refunded	2011	2023	2.000%	580,000
2011 Substation Construction G.O. Bond Refunded	2011	2023	2.000%	1,190,000
2011 Water System Improvement G.O. Bond Refunded	2011	2033	2.000%	3,210,000
2012 Water System Improvement G.O. Bond Refunded	2012	2015	2.000%	237,000
2012 Substation Construction G.O. Bond Refunded	2012	2015	2.000%	192,000
2012 Storm Water Improvement G.O. Bond Refunded	2012	2015	2.000%	128,000
2012 Golf Course Improvement G.O. Bond Refunded	2012	2015	2.000%	139,000
2012 Water System Improvement G.O. Bond Refunded	2012	2015	1.500% - 3.000%	604,000
2012 Water System Improvement G.O. Bond	2012	2015	2.000%	280,000
2012 Sewer Improvement G.O. Bond Refunded	2012	2015	1.500% - 3.000%	623,000
2012 Sewer Improvement G.O. Bond Refunded	2012	2015	1.500% - 3.000%	1,114,000
2012 Sewer Improvement G.O. Bond	2012	2015	2.000%	605,000
2012 Electric Issue G.O. Bond Refunded	2012	2015	1.500% - 3.000%	722,000
2012 Storm Water Improvement G.O. Bond Refunded	2012	2015	1.500% - 3.000%	2,182,000
OWDA Loan	1999	2018	4.040%	8,266,307

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 14: Long-Term Obligations (continued)

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

	Balance 12/31/11	Additions	Deletions	Balance 12/31/12	Amount Due in One Year
Governmental Activities:					
General Obligation Bonds:					
2002 Community Center Expansion	\$ 60,000	\$ -	\$ (45,000)	\$ 15,000	\$ 15,000
2002 Police Facility Construction	765,000	-	(580,000)	185,000	185,000
2002 Road Improvement	230,000	-	(55,000)	175,000	55,000
2004 Milford/Rt. 91 Construction	3,035,000	-	(2,015,000)	1,020,000	190,000
2004 Downtown TIF	2,310,000	-	(745,000)	1,565,000	770,000
2008 Safety Center Refunded	70,000	-	(70,000)	-	-
2008 Park Acquisition Refunded	2,993,143	-	(432,000)	2,561,143	445,714
2008 Village South Refunded	1,371,857	-	(198,000)	1,173,857	204,286
2008 Park Improvement Refunded	605,000	-	(70,000)	535,000	65,000
2008 Library Construction Refunded	4,705,000	-	(600,000)	4,105,000	625,000
2011 Park Improvement Refunded	510,000	-	(70,000)	440,000	75,000
2011 Community Center Expansion Refunded	175,000	-	-	175,000	-
2011 Police Facility Construction Refunded	2,120,000	-	(25,000)	2,095,000	25,000
2011 Road Improvement Refunded	640,000	-	(5,000)	635,000	10,000
2011 Street Improvement – Seasons Road	1,175,000	-	(45,000)	1,130,000	50,000
2011 Street Improvement – Atterbury Boulevard	3,770,000	-	(140,000)	3,630,000	155,000
2012 Police Facility Construction Refunded	-	463,000	(13,000)	450,000	3,000
2012 Community Center Expansion Refunded	-	36,000	(1,000)	35,000	1,000
2012 Milford/Rt. 91 Construction Refunded	-	2,305,000	(60,000)	2,245,000	45,000
2012 Capital Improvement	-	4,735,000	-	4,735,000	195,000
2008 Library Construction Refunded					
Capital Appreciation Bonds	95,000	-	-	95,000	-
Appreciation on Bonds	204,966	62,532	-	267,498	-
Premium on general obligation bonds	974,669	96,579	(124,341)	946,907	-
Loss on refunding	(835,306)	(273,301)	125,448	(983,159)	-
Total General Obligation Bonds	<u>24,974,329</u>	<u>7,424,810</u>	<u>(5,167,893)</u>	<u>27,231,246</u>	<u>3,114,000</u>
Special Assessment Bonds:					
1998 Executive Parkway	480,000	-	(60,000)	420,000	60,000
1999 Water Main Construction	225,000	-	(25,000)	200,000	25,000
2008 Sewer Improvement Refunded	539,134	-	(100,962)	438,172	105,000
Premium on special assessment bonds	7,106	-	(1,422)	5,684	-
Loss on refunding	(561)	-	113	(448)	-
Total Special Assessment Bonds	<u>1,250,679</u>	<u>-</u>	<u>(187,271)</u>	<u>1,063,408</u>	<u>190,000</u>
Ohio Public Works Commission Loan:					
2009 Atterbury Boulevard Renovations	132,935	-	(7,186)	125,749	7,186
Other Long-Term Obligations:					
Compensated absences	1,784,992	997,193	(1,166,803)	1,615,382	803,217
Total Governmental Activities - Long-Term Obligations	\$ <u>28,142,935</u>	\$ <u>8,422,003</u>	\$ <u>(6,529,153)</u>	\$ <u>30,035,785</u>	\$ <u>4,114,403</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 14: Long-Term Obligations (continued)

	Balance <u>12/31/11</u>	Additions	Deletions	Balance <u>12/31/12</u>	Amount Due <u>in One Year</u>
Business-Type Activities:					
<u>General Obligation Bonds:</u>					
1998 Golf Course Improvement	\$ 200,000	\$ -	\$ (20,000)	\$ 180,000	\$ 20,000
2002 Substation Construction	430,000	-	(325,000)	105,000	105,000
2002 Water System Improvement	395,000	-	(300,000)	95,000	95,000
2002 Storm Water Improvement	210,000	-	(160,000)	50,000	50,000
2002 Golf Course Improvement	315,000	-	(240,000)	75,000	75,000
2004 Electric Issue	860,000	-	(730,000)	130,000	25,000
2004 Sewer Improvement	735,000	-	(630,000)	105,000	20,000
2005 Storm Water Improvement	2,170,000	-	(1,890,000)	280,000	50,000
2005 Water System Improvement	1,080,000	-	(635,000)	445,000	130,000
2005 Sewer Improvement	1,110,000	-	(965,000)	145,000	25,000
2008 Water System Improvement Refunded	795,866	-	(149,038)	646,828	155,000
2011 Substation Construction Refunded	1,190,000	-	(15,000)	1,175,000	15,000
2011 Water System Improvement Refunded	3,210,000	-	(25,000)	3,185,000	30,000
2011 Storm Water Improvement Refunded	580,000	-	(5,000)	575,000	5,000
2011 Golf Course Improvement Refunded	875,000	-	(10,000)	865,000	10,000
2012 Water System Improvement Refunded	-	237,000	(7,000)	230,000	2,000
2012 Substation Construction Refunded	-	192,000	(6,000)	186,000	2,000
2012 Storm Water Improvement Refunded	-	128,000	(4,000)	124,000	1,000
2012 Golf Course Improvement Refunded	-	139,000	(4,000)	135,000	1,000
2012 Water System Improvement Refunded	-	604,000	(12,000)	592,000	7,000
2012 Water System Improvement	-	280,000	-	280,000	55,000
2012 Sewer Improvement Refunded	-	623,000	(7,000)	616,000	5,000
2012 Sewer Improvement Refunded	-	1,114,000	(23,000)	1,091,000	13,000
2012 Sewer Improvement	-	605,000	-	605,000	120,000
2012 Electric Issue Refunded	-	722,000	(8,000)	714,000	5,000
2012 Storm Water Improvement Refunded	-	2,182,000	(45,000)	2,137,000	25,000
Premium on general obligation bonds	83,334	113,135	(23,962)	172,507	-
Loss on refunding	<u>(412,740)</u>	<u>(806,727)</u>	<u>89,510</u>	<u>(1,129,957)</u>	<u>-</u>
Total General Obligation Bonds	<u>13,826,460</u>	<u>6,132,408</u>	<u>(6,149,490)</u>	<u>13,809,378</u>	<u>1,046,000</u>
<u>OWDA Loan:</u>					
OWDA Loan	<u>3,665,961</u>	<u>-</u>	<u>(463,009)</u>	<u>3,202,952</u>	<u>481,903</u>
<u>Other Long-Term Obligations:</u>					
Capital lease	133,959	-	(42,960)	90,999	44,631
Compensated absences	<u>1,277,907</u>	<u>410,031</u>	<u>(386,485)</u>	<u>1,301,453</u>	<u>553,903</u>
Total Business-Type Activities	\$ <u>18,904,287</u>	\$ <u>6,542,439</u>	\$ <u>(7,041,944)</u>	\$ <u>18,404,782</u>	\$ <u>2,126,437</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 14: Long-Term Obligations (continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2012, including interest payments of \$10,623,137, are as follows:

Year ending December 31,	Governmental Activities					
	General Obligation		Special Assessments		OPWC	
	Principal	Interest	Principal	Interest	Principal	
2013	\$ 3,114,000	\$ 871,320	\$ 190,000	\$ 47,964	\$	7,186
2014	3,244,000	750,863	197,019	40,148		7,186
2015	2,512,000	641,553	206,058	31,680		7,186
2016	2,570,000	555,498	215,095	22,758		7,186
2017	2,665,000	450,948	105,000	13,019		7,186
2018-2022	6,762,000	1,950,790	145,000	9,625		35,930
2023-2027	3,528,000	632,880	-	-		35,930
2028-2030	2,605,000	227,538	-	-		17,959
Total	\$ 27,000,000	\$ 6,081,538	\$ 1,058,172	\$ 165,195	\$	125,749

Year ending December 31,	Business-Type Activities			
	General Obligation		OWDA Loan	
	Principal	Interest	Principal	Interest
2013	\$ 1,046,000	\$ 390,386	\$ 481,903	\$ 124,581
2014	1,073,981	354,963	501,569	104,915
2015	1,096,942	322,915	522,037	84,447
2016	1,009,905	290,155	543,340	63,144
2017	870,000	262,160	565,513	40,971
2018-2022	4,208,000	1,151,985	1,195,073	17,894
2023-2027	2,752,000	718,240	-	-
2028-2032	2,530,000	391,343	-	-
2033-2035	1,080,000	53,113	-	-
Total	\$ 14,766,828	\$ 3,935,259	\$ 3,202,952	\$ 435,951

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

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

In 2008 and 2011, the City defeased a portion of various general obligation bonds and sewer improvement bonds in order to take advantage of lower interest rates. The proceeds of the new bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At December 31, 2012, there are no defeased bonds still outstanding.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 14: Long-Term Obligations (continued)

On March 15, 2012, the City issued \$2,804,000 in general obligation bonds for the purpose of refunding a various general obligation bonds in order to take advantage of lower interest rates. An analysis of the information follows:

	2002 Community <u>Center Expansion</u>	2002 Police Facility <u>Construction</u>	2004 Milford / Route 91 <u>Construction</u>
Outstanding at December 31, 2011	\$ 60,000	\$ 765,000	\$ 3,035,000
Amount refunded	(30,000)	(400,000)	(1,830,000)
Principal payment on non-refunded portion	<u>(15,000)</u>	<u>(180,000)</u>	<u>(185,000)</u>
Outstanding at December 31, 2012	<u>\$ 15,000</u>	<u>\$ 185,000</u>	<u>\$ 1,020,000</u>

The bonds were sold at a premium of \$59,985. Proceeds of \$2,533,301 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. As a result, \$2,260,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

The City decreased its total debt service payments by \$46,040 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$40,350.

On March 15, 2012, the City issued \$5,941,000 in general obligation bonds for the purpose of refunding a various general obligation bonds in order to take advantage of lower interest rates. An analysis of the information follows:

	2002 Substation <u>Construction</u>	2002 Water System <u>Improvement</u>	2002 Storm Water <u>Improvement</u>	2002 Golf Course <u>Improvement</u>
Outstanding at December 31, 2011	\$ 430,000	\$ 395,000	\$ 210,000	\$ 315,000
Amount refunded	(225,000)	(205,000)	(110,000)	(165,000)
Principal payment on non-refunded portion	<u>(100,000)</u>	<u>(95,000)</u>	<u>(50,000)</u>	<u>(75,000)</u>
Outstanding at December 31, 2012	<u>\$ 105,000</u>	<u>\$ 95,000</u>	<u>\$ 50,000</u>	<u>\$ 75,000</u>

	2004 Electric <u>Issue</u>	2004 Sewer <u>Improvement</u>	2005 Water System <u>Improvement</u>	2005 Storm Water <u>Improvement</u>	2005 Sewer <u>Improvement</u>
Outstanding at December 31, 2011	\$ 860,000	\$ 735,000	\$ 1,080,000	\$ 2,170,000	\$ 1,110,000
Amount refunded	(705,000)	(610,000)	(510,000)	(1,840,000)	(940,000)
Principal payment on non-refunded portion	<u>(25,000)</u>	<u>(20,000)</u>	<u>(125,000)</u>	<u>(50,000)</u>	<u>(25,000)</u>
Outstanding at December 31, 2012	<u>\$ 130,000</u>	<u>\$ 105,000</u>	<u>\$ 445,000</u>	<u>\$ 280,000</u>	<u>\$ 145,000</u>

The bonds were sold at a premium of \$61,164. Proceeds of \$6,116,727 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various general obligation bonds. As a result, \$5,310,000 of these bonds are considered defeased and the liability for the refunded portion of these bonds has been removed from the City's financial statements.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 14: Long-Term Obligations (continued)

The City decreased its total debt service payments by \$1,339,386 as a result of the refunding. The City also incurred an economic gain (difference between the present value of the old and new debt service payments) of \$1,066,283.

Note 15: Lease Obligations

The City has entered into capital leases for the acquisition of various equipment and vehicles.

Capital assets acquired by lease have been capitalized as equipment in the amount of \$241,867, accumulated depreciation as of December 31, 2012, for the equipment was \$64,498, leaving a current book value of \$177,369 for equipment. Principal and interest payments in the current year totaled \$42,960 and \$5,211, respectively 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:

Year	Capital Lease	Operating Leases	
	Business-Type Lease Payments	Governmental Lease Payments	Business-Type Lease Payments
2013	\$ 48,171	\$ 8,160	\$ 65,940
2014	48,173	6,081	65,940
2015	-	5,450	-
2016	-	3,030	-
Total minimum lease payments	96,344	22,721	131,880
Less: amount representing interest	(5,345)	-	-
Present value of minimum lease payments	\$ 90,999	\$ 22,721	\$ 131,880

Rental expense related to operating leases for equipment totaled \$273,332 for governmental funds, of which \$265,172 was rented from a related party, and \$65,940 for business-type funds for the year ended December 31, 2012.

Note 16: Related Party Transactions

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 17: Pension Plans

A. *Ohio Public Employees Retirement System*

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

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

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, the members of all three plans were required to contribute 10 percent of their annual salaries. The City's contribution rate of 14.0 percent was allocated to fund pension benefits for members of the traditional plan and combined plan. The pension allocation for the traditional plan was 10.0 percent during calendar year 2012. The pension allocation for the combined plan was 7.95 percent during calendar year 2012.

The City of Hudson's required contributions for pension obligations, excluding healthcare, to the traditional and combined plans for the years ended December 31, 2012, 2011, and 2010 were \$993,972, \$998,349, and \$905,471, respectively; 92.3 percent has been contributed for 2012 and 100 percent for 2010 and 2011. Contributions to the member-directed plan for 2012 were \$41,439 made by the City of Hudson and \$29,600 made by the plan members.

B. *Ohio Police and Fire Pension Fund*

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 17: 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 the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. The portion of the City's contributions to fund pension obligations was 12.75 percent for police officers and 17.25 percent for firefighters. The City of Hudson's contributions, excluding healthcare, for the years ended December 31, 2012, 2011, and 2010 for police officers and firefighters were \$279,529, \$279,658, and \$279,646, respectively, equal to the required contributions for each year. The full amount has been contributed for years 2010 and 2011, and for 2012 74.3 percent for police and 73.1 percent for firefighters has been contributed, with the remainder being reported as a liability.

Note 18: Postemployment Benefits

A. Ohio Public Employees Retirement System

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

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

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

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 227 East Town Street, Columbus, OH, 43215-4642, or by calling (614)222-5601 or (800)222-7377.

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The 2012 local governmental employer contribution rate was 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 18: Postemployment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the traditional plan was 4.00 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the combined plan was 6.05 percent during calendar year 2012. Effective January 1, 2013, the portion of employer contributions allocated to health care was lowered to 1 percent for both plans, as recommended by OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The City's contributions for health care for the years ended December 31, 2012, 2011, and 2010 were \$393,508, \$398,993, and \$491,337, respectively; 92.3 percent has been contributed for 2012 and 100 percent for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent to the employer contributions toward the health care fund after the end of the transition period.

B. Ohio Police and Fire Pension Fund

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

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

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 18: Postemployment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 1150 and 401(h).

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

The City's total contributions to OP&F for police and fire for the years ending December 31, 2012, 2011, and 2010 were \$399,907, \$400,105, and \$400,096 and \$25,020, \$25,020, and \$25,012, respectively, of which \$138,368, \$138,436, and \$138,433 and \$7,031, \$7,031, and \$7,028, respectively, was allocated to the healthcare plan. The full amount has been contributed for 2011 and 2010. For 2012, 74.3 percent for police and 73.1 percent for firefighters has been contributed, with the remainder being reported as a liability.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 19: Compensated Absences

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

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

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

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

As of December 31, 2012, the total liability for unpaid compensated absences was \$2,916,835.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 20: Contingencies

A. Grants

The City has received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2012.

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, 2012.

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

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

Due to the pending lawsuit against the contractor and the uncertainty regarding proceeds from the sale of the undeveloped property, the amount of the final costs to the participants has not yet been determined. Therefore the City has elected not to record the liability and related expense in the financial statements. If none of the stranded costs are recovered by AMP, the City’s potential liability is \$654,866 (net of AFEC development credits of \$369,054). Any liability not recovered through pending litigation, sale of property, or through participation in replacement projects will be recovered by AMP from participants over a period of time which has not currently been defined.

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 21: Interfund Transactions

Interfund Receivable/Payable for the year ended December 31, 2012 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Street Sidewalk Construction Fund	\$ 155,000
General Fund	Non-Major Governmental Funds	200,282
General Fund	Storm Sewer Fund	80,350
General Fund	All Other Enterprise Funds	<u>599,108</u>
		<u>\$ 1,034,740</u>

Long-term interfund loans are classified as "advances to/from other funds" and consist of the following at December 31, 2012:

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

As of December 31, 2012, interfund transfers were as follows:

	<u>Transfers Out</u>		
	<u>General</u>	<u>Non-Major Governmental</u>	<u>Total</u>
Transfers In:			
Street Construction	\$ 1,700,000	\$ -	\$ 1,700,000
Street Sidewalk Construction	2,300,000	-	2,300,000
Youth Development Center	142,000	-	142,000
Non-Major Governmental	1,947,197	663,681	2,610,878
Wastewater	1,775,000	-	1,775,000
Storm Sewer	1,125,000	-	1,125,000
Non-Major Enterprise	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total	<u>\$ 9,064,197</u>	<u>\$ 663,681</u>	<u>\$ 9,727,878</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The transfers from Non-Major Governmental Funds was a \$200,000 transfer from the Fire District Special Revenue Fund to the Fire Capital Replacement Capital Projects Fund, which was proper in accordance with Ohio Revised Code (ORC) 5705.13(C) and transfers from Seasons Road Interchange Fund and the Atterbury Bridge Replacement Fund for \$374,743 and \$88,938, respectively, to the Bond Retirement Fund were proper in accordance with Ohio Revised Code Sections 5705.14 as the transfers were used to pay off debt related to the Seasons Road Interchange Fund and Atterbury Bridge Replacement Fund and to close the funds to their related bond retirement fund.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 22: Joint Venture

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)

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

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

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

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net position 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, 2012, Hudson has met their debt coverage obligation.

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

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 22: Joint Venture (continued)

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

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$556,025 at December 31, 2012. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.ohioauditor.gov.

Note 23: Shared Risk Pool

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

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

In 2012, the City paid \$157,763 for premiums. Financial information can be obtained by contacting the fiscal agent: City of Bedford Heights, Finance Director, 5661 Perkins Road, Bedford Heights, Ohio 44146.

Note 24: Accountability

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2012

Note 25: Significant Commitments

A. Contracts

The City has the following outstanding contractual commitments for various construction projects at December 31, 2012:

Contractor	Contract and Contingency	Amount Expended	Amount Remaining
ABC Piping	\$ 91,500	\$ 57,280	\$ 34,220
Chagrin Valley Paving	1,245,749	1,125,637	120,113
City of Stow	16,365	10,153	6,212
Geotech Services, Inc.	86,379	69,281	17,098
Hysong Paving Company	30,893	-	30,893
Karvo Paving	600,000	395,733	204,267
Kenmore Construction Company	276,467	140,696	135,571
Lockhart Construction Company	927,454	772,081	155,373
Mar-King Construction	124,188	109,337	14,851
Mark Haynes Construction, Inc.	208,862	190,375	18,487
Ohio Farmers Insurance Company	1,619,118	1,085,450	533,668
Perrin Asphalt Company, Inc.	196,791	193,746	3,045

B. Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

Governmental Funds:		Proprietary Funds:	
General	\$ 325,704	Water	\$ 79,433
Street Construction	60,157	Wastewater	253,516
Street Sidewalk Construction	1,244,752	Electric	410,924
Youth Development Center	121,439	Storm Sewer	118,051
Non-major governmental	<u>269,301</u>	All Other Enterprise	<u>5,264</u>
Total Governmental	<u>\$ 2,021,353</u>	Total Enterprise	867,188
		Internal Service	<u>335,612</u>
		Total Proprietary	<u>\$ 1,202,800</u>

Note 26: Subsequent Event

On July 25, 2013, the City issued \$5,000,000 in bonds for the purpose of improving city streets and issued a \$1,400,000 note for the demolition of the Youth Development Center.

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**CITY OF HUDSON
SUMMIT COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
<i>Passed Through Ohio Department of Transportation</i>			
<u>Highway Planning and Construction</u>			
Stow Road STP Resurfacing Project	88545-23791	20.205	\$ 617,870
Hines Hill Road at Norfolk and Southern Railroad Track Grade Separation Project	80648-16465	20.205	<u>154,615</u>
Total Highway Planning and Construction			772,485
<u>U.S. DEPARTMENT OF JUSTICE</u>			
<i>Passed Through Ohio Governor's Office of Criminal Justice Services</i>			
Bulletproof Vest Partnership Program (BVP)	N/A	16.607	<u>1,584</u>
Totals			<u>\$ 774,069</u>

The accompanying notes to this schedule are an integral part of this schedule.

**CITY OF HUDSON
SUMMIT COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the City of Hudson, Summit County, Ohio, (the City's) federal award programs' expenditures. The Schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Hudson
Summit County
115 Executive Parkway - Suite 400
Hudson, Ohio 44236

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hudson, Summit County, (the City) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 23, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

Entity's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

August 23, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

City of Hudson
Summit County
115 Executive Parkway - Suite 400
Hudson, Ohio 44236

To the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Hudson's (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the City of Hudson's major federal program for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the City's major federal program.

Management's Responsibility

The City's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the City's compliance for each of the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City of Hudson complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which OMB Circular A-133 requires us to report, described in the accompanying schedule of findings as item 2012-002. This finding did not require us to modify our compliance opinion on the major federal program.

The City's response to our noncompliance finding is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

August 23, 2012

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CITY OF HUDSON
SUMMIT COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Highway Planning and Construction CFDA #20.205
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2012-001

Noncompliance/Material Weakness

Ohio Rev. Code Section 5705.42 provides that when the United States government or the state or any department, division, agency, authority, or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purpose by the taxing authority of the subdivision as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection within the meaning of section 5705.41 of the Revised Code. **Auditor of State Bulletin 2000-008** provides that when a local government enters into an on-behalf-of program agreement with another local government or the State (or the federal government, if applicable), whereby the local

**FINDING NUMBER 2012-001
 (Continued)**

government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf-of disbursements are made. **OMB Circular A-133 Subpart C, Section .310 (b) (1) – (3)** requires the auditee to prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

The Ohio Department of Transportation made \$617,870 in federal expenditures directly to contractors on behalf of the City of Hudson for the Stow Road Resurfacing Project. The City did not initially post these payments as memorandum receipts and disbursements. As a result, the City did not initially prepare a Federal Awards Expenditure Schedule to report the Stow Road Resurfacing Project (expenditure of \$617,870); the Hines Hill Road at Norfolk and Southern Railroad Track Grade Separation Project (expenditures of \$154,615) and the Bulletproof Vest Partnership Program (expenditure of \$1,584) which prompted a single audit. The City's ledgers, accompanying financial statements and Federal Awards Expenditures Schedule were subsequently updated to correct these exceptions.

The City should ensure all on behalf payments are recorded as receipts and disbursements on their ledgers. In addition, to reduce the risk of inaccurate reporting of federal expenditures and noncompliance with OMB Circular A-133, Subpart C, §_310(b), due care should be taken in the preparation of the Federal Awards Expenditure Schedule (Schedule). At a minimum, the Schedule should provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. The Schedule should be reviewed after preparation and tied to underlying cash reports of the City for accuracy and evaluated for completeness.

Officials' Response/Corrective Action Plan: The City did not receive information from the Ohio Department of Transportation (ODOT) as to the amounts and dates of 2012 federal expenditures that were made directly to contractors on the City's behalf. Consequently, the City did not initially include the on-behalf payments in its' financial statements. Had the City been made aware of the payments, memorandum receipts and disbursements would have been made in a timely manner. Because we were not made aware of the federal expenditures, they were also not initially included in the Federal Awards Expenditure Schedule.

Our planned corrective action is to have ODOT send a report of federal expenditures made on the City's behalf directly to the City's Finance Director when projects are complete to allow us to post memorandum entries. The City will also request a report from ODOT at the end of each calendar year summarizing all projects to ensure all payments have been recorded starting December 31, 2013. City officials have already met with ODOT's District 4 office and made arrangements to obtain these reports.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2012-002
CFDA Title and Number	Highway, Planning, and Construction Cluster (CFDA #20.205)
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Transportation

Pass-Through Agency	Ohio Department of Transportation
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Noncompliance

Finding Number 2012-001 describes deficiencies in preparing the City's schedule of expenditures of federal awards. We believe this finding also represents material noncompliance under the Office of Management (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .320(a).

Officials' Response/Corrective Action Plan: See Officials' Response within Finding Number 2012-001.

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Dave Yost • Auditor of State

CITY OF HUDSON

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 1, 2013**