

City of Hudson, Ohio

**Single Audit
For the Year Ended December 31, 2014**



Dave Yost • Auditor of State

Members of Council
City of Hudson
115 Executive Parkway
Hudson, Ohio 44236

We have reviewed the *Independent Auditor's Report* of the City of Hudson, Summit County, prepared by Ciuni & Panichi, Inc., for the audit period January 1, 2014 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 20, 2015

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City of Hudson, Ohio

For the Year Ended December 31, 2014

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City of Hudson, Ohio

For the Year Ended December 31, 2014

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Independent Auditor's Report

Members of the City Council
City of Hudson, Ohio

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, Ohio (the "City"), as of and for the year ended December 31, 2014, 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 the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Members of the City Council
City of Hudson, Ohio

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Street Construction Funds for the year then ended in accordance with 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 that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Ciuni & Paricki, Inc.

Cleveland, Ohio
June 25, 2015

City of Hudson, Ohio

Management's Discussion and Analysis (Unaudited)

For the Year Ended December 31, 2014

The discussion and analysis of the City of Hudson's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2014. 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 2014?" They are prepared on the accrual basis of accounting, including all assets and deferred outflows of resources and liabilities and deferred inflows of resources, 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 will also need to be evaluated.

- *The Statement of Net Position.* This Statement (page 12) reports all assets and deferred outflows of resources and liabilities and deferred inflows of resources of the City as of December 31, 2014. The difference between all elements 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 13) reports the results of all activities of the City for the year ended December 31, 2014. 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, 2014

- 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 – Enterprise funds are used to account for operations that are financed and operated in a manner similar 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, Storm Sewer Fund, and Golf Course Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 23 through 30.

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

City of Hudson, Ohio

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

For the Year Ended December 31, 2014

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, Information Services Fund and Medical Self-Insurance 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 31 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 \$108,531,380 in governmental activities and \$34,986,702 in business-type activities as of December 31, 2014. The largest portion of net position reflects its investment 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. Table 1 provides a summary of the City's net position for 2014 compared to 2013 balances.

City of Hudson, Ohio

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

For the Year Ended December 31, 2014

Table 1
Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets:						
Current assets	\$ 34,834,918	\$ 41,502,511	\$ 20,717,392	\$ 21,227,015	\$ 55,552,310	\$ 62,729,526
Investment in joint venture	-	-	170,011	556,025	170,011	556,025
Capital assets, net	<u>108,575,962</u>	<u>107,606,295</u>	<u>32,656,719</u>	<u>33,023,364</u>	<u>141,232,681</u>	<u>140,629,659</u>
Total assets	<u>143,410,880</u>	<u>149,108,806</u>	<u>53,544,122</u>	<u>54,806,404</u>	<u>196,955,002</u>	<u>203,915,210</u>
Deferred outflows of resources	<u>735,975</u>	<u>859,791</u>	<u>950,937</u>	<u>1,040,447</u>	<u>1,686,912</u>	<u>1,900,238</u>
Liabilities:						
Current and other liabilities	1,516,781	3,509,513	2,789,380	2,709,762	4,306,161	6,219,275
Long-term liabilities						
Due within one year	4,496,571	5,001,098	2,492,362	2,452,528	6,988,933	7,453,626
Due in more than one year	<u>24,871,683</u>	<u>28,341,994</u>	<u>14,226,615</u>	<u>16,031,320</u>	<u>39,098,298</u>	<u>44,373,314</u>
Total liabilities	<u>30,885,035</u>	<u>36,852,605</u>	<u>19,508,357</u>	<u>21,193,610</u>	<u>50,393,392</u>	<u>58,046,215</u>
Deferred inflows of resources	<u>4,730,440</u>	<u>4,546,796</u>	-	-	<u>4,730,440</u>	<u>4,546,796</u>
Net position:						
Net investment in capital assets	87,801,805	84,504,455	18,500,854	17,399,480	106,302,659	101,903,935
Restricted	9,951,843	11,079,000	-	-	9,951,843	11,079,000
Unrestricted	<u>10,777,732</u>	<u>12,985,741</u>	<u>16,485,848</u>	<u>17,253,761</u>	<u>27,263,580</u>	<u>30,239,502</u>
Total net position	\$ <u>108,531,380</u>	\$ <u>108,569,196</u>	\$ <u>34,986,702</u>	\$ <u>34,653,241</u>	\$ <u>143,518,082</u>	\$ <u>143,222,437</u>

An additional portion of the City's net position (6.9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$27,263,580 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 \$6,667,593 decrease in current assets. This was primarily due to a decrease in cash balances in the governmental funds.

For governmental activities, there was a \$1,992,732 decrease in current liabilities. This was primarily due to a decrease in accounts payable and retainage payable.

There was also a decrease of \$3,470,311 in long-term liabilities due in more than one year primarily due scheduled debt repayments.

Net investment in capital assets increased \$3,297,350 due to an increase in capital assets less related debt and accumulated depreciation on those items. The restricted net position decreased \$1,251,045 primarily due to decreases in the fund balances of the restricted funds. The net result of the changes in net position was a decrease of \$37,816 in net position.

City of Hudson, Ohio

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

For the Year Ended December 31, 2014

Within the business-type activities, assets decreased \$1,262,282 primarily due to a decrease in cash and cash equivalents. Long-term liabilities due in more than one year decreased \$1,804,705 primarily due to the debt payments. Net investment in capital assets increased \$1,101,374 due to an increase in capital assets less related debt and accumulated depreciation on those items. The balance of the unrestricted net position decreased \$767,913 primarily due to decreases in the fund balances of the unrestricted funds.

Table 2 below, indicates the changes in net position for the years ended December 31, 2014 and 2013.

Table 2
Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Program Revenues:						
Charges for services and sales	\$ 1,391,630	\$ 1,277,438	\$ 24,769,396	\$ 23,994,395	\$ 26,161,026	\$ 25,271,833
Operating grants and contributions	139,609	46,323	-	-	139,609	46,323
Capital grants and contributions	1,193,166	1,832,158	-	-	1,193,166	1,832,158
General Revenues:						
Taxes	21,803,259	21,962,873	-	-	21,803,259	21,962,873
Grants and entitlements not restricted to specific programs	2,945,367	5,365,065	-	-	2,945,367	5,365,065
Investment income (loss)	595,416	203,120	(383,512)	(694)	211,904	202,426
Miscellaneous income	554,983	592,959	320,152	336,547	875,135	929,506
Transfers - in	-	-	<u>2,890,000</u>	<u>2,900,000</u>	<u>2,890,000</u>	<u>2,900,000</u>
Total revenues	<u>28,623,430</u>	<u>31,279,936</u>	<u>27,596,036</u>	<u>27,230,248</u>	<u>56,219,466</u>	<u>58,510,184</u>
Program Expenses:						
General government	6,833,125	7,610,661	-	-	6,833,125	7,610,661
Security of persons and property	6,753,119	6,466,923	-	-	6,753,119	6,466,923
Public health	1,061,610	1,074,671	-	-	1,061,610	1,074,671
Leisure time services	1,582,700	1,340,385	-	-	1,582,700	1,340,385
Community and economic development	1,320,960	1,332,617	-	-	1,320,960	1,332,617
Transportation	7,245,251	7,438,324	-	-	7,245,251	7,438,324
Interest and fiscal charges	974,481	1,323,930	-	-	974,481	1,323,930
Water system	-	-	1,461,719	1,623,347	1,461,719	1,623,347
Wastewater system	-	-	3,442,033	3,415,901	3,442,033	3,415,901
Electric system	-	-	19,914,317	18,528,486	19,914,317	18,528,486
Storm Sewer system	-	-	1,131,012	1,154,881	1,131,012	1,154,881
Golf Course	-	-	1,313,494	1,496,230	1,313,494	1,496,230
Transfers - out	<u>2,890,000</u>	<u>2,900,000</u>	<u>-</u>	<u>-</u>	<u>2,890,000</u>	<u>2,900,000</u>
Total program expenses	<u>28,661,246</u>	<u>29,487,511</u>	<u>27,262,575</u>	<u>26,218,845</u>	<u>55,923,821</u>	<u>55,706,356</u>
Change in net position	(37,816)	1,792,425	333,461	1,011,403	295,645	2,803,828
Net position, beginning of the year - restated	<u>108,569,196</u>	<u>106,776,771</u>	<u>34,653,241</u>	<u>33,641,838</u>	<u>143,222,437</u>	<u>140,418,609</u>
Net position, end of the year	\$ <u>108,531,380</u>	\$ <u>108,569,196</u>	\$ <u>34,986,702</u>	\$ <u>34,653,241</u>	\$ <u>143,518,082</u>	\$ <u>143,222,437</u>

City of Hudson, Ohio

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

For the Year Ended December 31, 2014

Governmental Activities

The City's income tax is the largest contributor of revenues sources in governmental activities accounting for 61.2 percent of total revenues. Property and other local taxes generate 15.0 percent and grants and entitlements generate 10.3 percent of total revenues.

Community and economic development expenses accounts for 4.6 percent of governmental expenses, general government accounts for 23.84 percent of governmental expenses, security of persons and property accounts for 23.56 percent of governmental expenses, and transportation costs represent 25.3 percent of governmental expenses, respectively.

Governmental activities decreased the City's net position by \$37,816. Total revenues decreased \$2,290,718 primarily due to a decrease in grants and entitlements not restricted to specific programs, which decreased \$2,419,698 due to a decrease in inheritance tax and state and county funding. Lastly, the investment income of the City increased \$392,296 due to increased maturities.

The decrease in overall net position of \$37,816 as compared to the increase of \$1,792,425 in 2013 was due to the decrease in grants and entitlements not restricted to specific programs.

Business-Type Activities

The City's business-type activities are the Water, Wastewater, Electric, Storm Sewer, and Golf Course Funds. Charges for services generated 89.7 percent of all revenues in the business-type activities.

Business-type activities increased the City's net position by \$333,461. Charges for services and sales increased \$775,001 due to increased sales in water, wastewater and electric. Expenses increased \$1,043,730 due primarily to an increase in Electric Fund expenses.

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 \$23,515,581, a decrease of \$5,382,697 in comparison with the prior year, primarily due to the spending down of bond proceeds.

City of Hudson, Ohio

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

For the Year Ended December 31, 2014

Approximately 51.5 percent of this total amount or \$12,104,028, 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 \$8,768,779, while the total fund balance was \$12,783,956. The fund balance for the General Fund decreased by \$2,739,270 or 17.6 percent from the prior year due to a combination of several items including a decrease in intergovernmental revenues and an 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 increased \$273,428. The increase is due to an increase in transfers in.

The fund balance of the Street Sidewalk Construction Fund decreased \$924,304. The decrease is due to an increase in expenditures.

The fund balance of the Youth Development Center Fund increased \$528,461. The increase is due to a transfer in.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide and business-type activity financial statements, but in more detail. Net position in the Water, Wastewater, Electric, Storm Sewer, and Golf Course increased/(decreased) by \$474,572 or 9.8 percent, \$501,534 or 9.2 percent, \$(846,695) or (3.9 percent), \$177,383 or 20.2 percent, and \$26,667 or 1.6 percent, respectively.

Budgetary Highlights

As required by state statute, City Council (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 \$1,409,000. The increase was primarily in municipal income tax and intergovernmental revenues due to higher than expected collections.

Actual General Fund expenditures compared to the budget reflected approximately \$832,000 remaining in unencumbered funds as of December 31, 2014. The general government activity accounted for approximately \$403,000 of those unencumbered funds and security of persons and property accounted for approximately \$212,000.

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, 2014

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, 2014, amounts to \$141,232,681 (net of accumulated depreciation). This investment in capital assets includes land; buildings; land improvements; vehicles; furniture, fixtures and equipment; infrastructure; and construction in progress.

Table 3 shows fiscal 2014 balances of capital assets as compared to the 2013 balances:

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 14,618,513	\$ 14,618,513	\$ 2,362,513	\$ 2,362,513	\$ 16,981,026	\$ 16,981,026
Construction in progress	5,216,885	5,435,572	1,428,756	1,046,995	6,645,641	6,482,567
Buildings	9,350,174	9,242,390	5,362,784	5,362,784	14,712,958	14,605,174
Land improvements	4,691,583	3,177,729	2,123,612	2,123,612	6,815,195	5,301,341
Vehicles	7,182,203	6,620,889	2,011,283	2,011,283	9,193,486	8,632,172
Equipment, furniture and fixtures	3,969,055	3,573,855	4,098,682	4,070,030	8,067,737	7,643,885
Infrastructure:						
Roads	130,530,182	126,787,126	-	-	130,530,182	126,787,126
Sidewalks	3,752,625	3,752,625	-	-	3,752,625	3,752,625
Traffic signals	2,960,234	2,960,234	-	-	2,960,234	2,960,234
Water main lines	-	-	14,732,235	14,707,510	14,732,235	14,707,510
Sewer lines	-	-	10,254,649	10,003,292	10,254,649	10,003,292
Storm water lines	-	-	2,891,745	2,659,711	2,891,745	2,659,711
Electric	-	-	9,319,834	9,122,585	9,319,834	9,122,585
Less: accumulated depreciation	<u>(73,695,492)</u>	<u>(68,562,638)</u>	<u>(21,929,374)</u>	<u>(20,446,951)</u>	<u>(95,624,866)</u>	<u>(89,009,589)</u>
Total capital assets, net	\$ <u>108,575,962</u>	\$ <u>107,606,295</u>	\$ <u>32,656,719</u>	\$ <u>33,023,364</u>	\$ <u>141,232,681</u>	\$ <u>140,629,659</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, 2014

Debt

At December 31, 2014, the City had \$42,066,759 of long-term bonds, loans and other outstanding obligations, excluding AMP Ohio payable, capital leases, and compensated absences. 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 of the Ohio Revised Code). 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 \$26,290,479 of net indebtedness as of December 31, 2014. 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 \$26,863,594 as of December 31, 2014. 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 \$24,680,032 leaving the City's overall legal debt margin at \$62,758,362 as of December 31, 2014.

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 2014, the City completed its 2015-2019 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 2014 Budget Book and 2015-2019 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, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 21,295,417	\$ 15,890,443	\$ 37,185,860
Investment in common stock	22,968	-	22,968
Investments in segregated accounts	2,987	-	2,987
Materials and supplies inventory	487,381	1,445,498	1,932,879
Accounts receivable	311,135	3,865,057	4,176,192
Accrued interest receivable	509,018	2,172	511,190
Internal balances	785,678	(785,678)	-
Intergovernmental receivable	693,820	-	693,820
Property taxes receivable	4,994,881	-	4,994,881
Municipal income taxes receivable	5,096,074	-	5,096,074
Special assessments receivable	635,559	22,617	658,176
Restricted assets:			
Cash in segregated accounts – customer deposits	-	277,283	277,283
Noncurrent assets:			
Investment in joint venture	-	170,011	170,011
Nondepreciable capital assets	19,835,398	3,791,269	23,626,667
Depreciable capital assets, net	<u>88,740,564</u>	<u>28,865,450</u>	<u>117,606,014</u>
Total assets	<u>143,410,880</u>	<u>53,544,122</u>	<u>196,955,002</u>
Deferred outflows of resources:			
Deferred charges on refunding	<u>735,975</u>	<u>950,937</u>	<u>1,686,912</u>
Liabilities:			
Current liabilities:			
Accounts payable	725,530	1,562,189	2,287,719
Accrued wages and benefits	284,380	100,033	384,413
Intergovernmental payable	416,924	778,005	1,194,929
Accrued interest payable	56,989	71,870	128,859
Retainage payable	15,213	-	15,213
Claims payable	17,745	-	17,745
Payable from restricted assets – customer deposits	-	277,283	277,283
Long-term liabilities:			
Due within one year	4,496,571	2,492,362	6,988,933
Due in more than one year	<u>24,871,683</u>	<u>14,226,615</u>	<u>39,098,298</u>
Total liabilities	<u>30,885,035</u>	<u>19,508,357</u>	<u>50,393,392</u>
Deferred inflows of resources:			
Property taxes	<u>4,730,440</u>	<u>-</u>	<u>4,730,440</u>
Net position:			
Net investment in capital assets	87,801,805	18,500,854	106,302,659
Restricted for:			
Capital projects	1,517,078	-	1,517,078
Debt service	1,610,447	-	1,610,447
Street improvements	437,198	-	437,198
Other purposes	6,380,647	-	6,380,647
Permanent fund	6,473	-	6,473
Unrestricted	<u>10,777,732</u>	<u>16,485,848</u>	<u>27,263,580</u>
Total net position	<u>\$ 108,531,380</u>	<u>\$ 34,986,702</u>	<u>\$ 143,518,082</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, 2014

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 6,833,125	\$ 490,888	\$ 111,003	\$ -
Security of persons and property	6,753,119	384,175	28,606	-
Public health	1,061,610	108,720	-	-
Leisure time services	1,582,700	313,831	-	-
Community and economic development	1,320,960	94,016	-	-
Transportation	7,245,251	-	-	1,193,166
Interest and fiscal charges	<u>974,481</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>25,771,246</u>	<u>1,391,630</u>	<u>139,609</u>	<u>1,193,166</u>
Business-type activities:				
Water system	1,461,719	1,864,717	-	-
Wastewater system	3,442,033	2,439,022	-	-
Electric system	19,914,317	19,299,603	-	-
Storm Sewer system	1,131,012	8,395	-	-
Golf Course	<u>1,313,494</u>	<u>1,157,659</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>27,262,575</u>	<u>24,769,396</u>	<u>-</u>	<u>-</u>
Totals	\$ <u>53,033,821</u>	\$ <u>26,161,026</u>	\$ <u>139,609</u>	\$ <u>1,193,166</u>

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

Total general revenues and transfers

Change in net position

Net position, beginning of year - restated

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>
\$ (6,231,234)	\$ -	\$ (6,231,234)
(6,340,338)	-	(6,340,338)
(952,890)	-	(952,890)
(1,268,869)	-	(1,268,869)
(1,226,944)	-	(1,226,944)
(6,052,085)	-	(6,052,085)
<u>(974,481)</u>	<u>-</u>	<u>(974,481)</u>
<u>(23,046,841)</u>	<u>-</u>	<u>(23,046,841)</u>
-	402,998	402,998
-	(1,003,011)	(1,003,011)
-	(614,714)	(614,714)
-	(1,122,617)	(1,122,617)
<u>-</u>	<u>(155,835)</u>	<u>(155,835)</u>
<u>-</u>	<u>(2,493,179)</u>	<u>(2,493,179)</u>
<u>(23,046,841)</u>	<u>(2,493,179)</u>	<u>(25,540,020)</u>
4,280,710	-	4,280,710
17,522,549	-	17,522,549
2,945,367	-	2,945,367
595,416	(383,512)	211,904
554,983	320,152	875,135
<u>(2,890,000)</u>	<u>2,890,000</u>	<u>-</u>
<u>23,009,025</u>	<u>2,826,640</u>	<u>25,835,665</u>
(37,816)	333,461	295,645
<u>108,569,196</u>	<u>34,653,241</u>	<u>143,222,437</u>
\$ <u>108,531,380</u>	\$ <u>34,986,702</u>	\$ <u>143,518,082</u>

City of Hudson, Ohio

Balance Sheet Governmental Funds

December 31, 2014

	<u>General</u>	<u>Street Construction</u>	<u>Street Sidewalk Construction</u>	<u>Youth Development Center</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Current assets:						
Equity in pooled cash and cash equivalents	\$ 9,180,256	\$ 231,353	\$ 1,563,525	\$ 15,484	\$ 9,497,824	\$ 20,488,442
Investment in common stock	-	-	-	-	22,968	22,968
Investments in segregated accounts	-	-	-	-	2,987	2,987
Materials and supplies inventory	27,694	193,037	-	-	26,376	247,107
Accounts receivable	11,022	1,600	-	-	298,466	311,088
Accrued interest receivable	412,294	-	-	201	96,403	508,898
Interfund receivable	1,201,319	-	-	-	-	1,201,319
Intergovernmental receivable	286,920	371,824	-	-	35,076	693,820
Property taxes receivable	2,820,424	-	-	-	2,174,457	4,994,881
Municipal income taxes receivable	4,030,407	-	-	-	1,065,667	5,096,074
Special assessments receivable	108,674	-	-	-	526,885	635,559
Noncurrent assets:						
Advances to other funds	<u>566,667</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>566,667</u>
Total assets	<u>\$ 18,645,677</u>	<u>\$ 797,814</u>	<u>\$ 1,563,525</u>	<u>\$ 15,685</u>	<u>\$ 13,747,109</u>	<u>\$ 34,769,810</u>
Liabilities, deferred inflows of resources and fund balances:						
Liabilities:						
Accounts payable	\$ 129,027	\$ 16,436	\$ 150,188	\$ -	\$ 253,467	\$ 549,118
Accrued wages and benefits	205,535	25,715	-	-	44,273	275,523
Intergovernmental payable	229,871	37,450	39,749	-	93,506	400,576
Interfund payable	-	38,812	155,000	233,333	126,219	553,364
Retainage payable	-	-	15,213	-	-	15,213
Advances from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>466,667</u>	<u>-</u>	<u>466,667</u>
Total liabilities	<u>564,433</u>	<u>118,413</u>	<u>360,150</u>	<u>700,000</u>	<u>517,465</u>	<u>2,260,461</u>
Deferred inflows of resources:						
Property taxes	2,671,104	-	-	-	2,059,336	4,730,440
Unavailable revenue	<u>2,626,184</u>	<u>225,437</u>	<u>-</u>	<u>198</u>	<u>1,411,509</u>	<u>4,263,328</u>
Total deferred inflows of resources	<u>5,297,288</u>	<u>225,437</u>	<u>-</u>	<u>198</u>	<u>3,470,845</u>	<u>8,993,768</u>
Fund balances:						
Nonspendable	594,361	193,037	-	-	32,849	820,247
Restricted	-	260,927	-	-	868,663	1,129,590
Committed	-	-	1,203,375	-	8,258,341	9,461,716
Assigned	3,420,816	-	-	-	623,946	4,044,762
Unassigned (deficit)	<u>8,768,779</u>	<u>-</u>	<u>-</u>	<u>(684,513)</u>	<u>(25,000)</u>	<u>8,059,266</u>
Total fund balances	<u>12,783,956</u>	<u>453,964</u>	<u>1,203,375</u>	<u>(684,513)</u>	<u>9,758,799</u>	<u>23,515,581</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 18,645,677</u>	<u>\$ 797,814</u>	<u>\$ 1,563,525</u>	<u>\$ 15,685</u>	<u>\$ 13,747,109</u>	<u>\$ 34,769,810</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, 2014

Total governmental funds balances \$ 23,515,581

*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 107,155,436

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

Taxes	\$ 2,577,792	
Special assessments	635,559	
Charges for services	173,343	
Interest	496,427	
Intergovernmental	<u>380,207</u>	
Total		4,263,328

In the Statement of Activities, interest is accrued on outstanding bonds,
whereas in governmental funds, an interest expenditure is reported when
due. (56,989)

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 2,224,818

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

General obligation bonds	(26,290,479)	
Special assessment bonds	(673,993)	
Ohio Public Works Commission loan	(111,377)	
Deferred charges on refunding	735,975	
Compensated absences	<u>(2,230,920)</u>	
Total		<u>(28,570,794)</u>

Net position of governmental activities \$ 108,531,380

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, 2014

	<u>General</u>	<u>Street Construction</u>	<u>Street Sidewalk Construction</u>	<u>Youth Development Center</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Property and other local taxes	\$ 2,254,244	\$ -	\$ -	\$ -	\$ 2,018,383	\$ 4,272,627
Municipal income tax	13,208,503	-	-	-	3,629,326	16,837,829
Intergovernmental	1,578,420	868,040	1,163,166	30,000	615,727	4,255,353
Charges for services	403,821	-	-	-	773,870	1,177,691
Fines and forfeitures	73,977	-	-	-	1,175	75,152
Special assessments	52,294	-	-	-	248,157	300,451
Interest	282,265	-	2,328	961	74,023	359,577
Other	<u>236,105</u>	<u>26,841</u>	<u>-</u>	<u>-</u>	<u>87,135</u>	<u>350,081</u>
Total revenues	<u>18,089,629</u>	<u>894,881</u>	<u>1,165,494</u>	<u>30,961</u>	<u>7,447,796</u>	<u>27,628,761</u>
Expenditures:						
Current:						
General government	4,639,398	-	-	-	38,312	4,677,710
Security of persons and property	4,161,636	-	-	-	2,383,233	6,544,869
Public health	889,220	-	-	-	213,331	1,102,551
Leisure time services	-	-	-	-	1,183,812	1,183,812
Community and economic development	1,214,459	-	-	-	207,226	1,421,685
Transportation	-	3,171,638	12,418	-	-	3,184,056
Capital outlay	326,150	39,335	2,923,224	-	3,899,288	7,187,997
Debt service:						
Principal retirement	-	-	-	-	3,903,205	3,903,205
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,500</u>	<u>909,549</u>	<u>927,049</u>
Total expenditures	<u>11,230,863</u>	<u>3,210,973</u>	<u>2,935,642</u>	<u>17,500</u>	<u>12,737,956</u>	<u>30,132,934</u>
Excess of revenues over (under) expenditures	<u>6,858,766</u>	<u>(2,316,092)</u>	<u>(1,770,148)</u>	<u>13,461</u>	<u>(5,290,160)</u>	<u>(2,504,173)</u>
Other financing sources (uses):						
Proceeds from sale of assets	2,053	7,020	-	-	2,403	11,476
Transfers - in	-	2,582,500	1,369,000	515,000	2,966,745	7,433,245
Transfers - out	<u>(9,600,089)</u>	<u>-</u>	<u>(523,156)</u>	<u>-</u>	<u>(200,000)</u>	<u>(10,323,245)</u>
Total other financing sources (uses)	<u>(9,598,036)</u>	<u>2,589,520</u>	<u>845,844</u>	<u>515,000</u>	<u>2,769,148</u>	<u>(2,878,524)</u>
Net change in fund balances	(2,739,270)	273,428	(924,304)	528,461	(2,521,012)	(5,382,697)
Fund balance at beginning of year	<u>15,523,226</u>	<u>180,536</u>	<u>2,127,679</u>	<u>(1,212,974)</u>	<u>12,279,811</u>	<u>28,898,278</u>
Fund balance at end of year	\$ <u>12,783,956</u>	\$ <u>453,964</u>	\$ <u>1,203,375</u>	\$ <u>(684,513)</u>	\$ <u>9,758,799</u>	\$ <u>23,515,581</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, 2014

Net change in fund balances - total governmental funds \$ (5,382,697)

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlay	\$ 6,341,000	
Depreciation	<u>(5,586,823)</u>	
Total		754,177

In the Statement of Activities, a gain or loss is reported for each disposal, whereas, the governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. (28,974)

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	8,083	
Municipal income taxes	684,721	
Special assessments	(301,186)	
Charges for services	30,176	
Interest	235,839	
Intergovernmental	<u>(202,229)</u>	
Total		455,404

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	3,699,000	
Special assessment bonds	197,019	
Ohio Public Works Commission loan	7,186	
Compensated absences	<u>32,850</u>	
Total		3,936,055

(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, 2014

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	15,209	
Amortization of loss on refunding	(123,816)	
Amortization of premiums	<u>123,707</u>	
Total		(47,432)

Internal service funds are used by management to charge costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

275,651

Change in net position of governmental activities

\$ (37,816)

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 (Non-GAAP Budgetary Basis) and Actual General Fund

For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Property and other local taxes	\$ 2,276,456	\$ 2,276,456	\$ 2,254,244	\$ (22,212)
Municipal income tax	13,267,162	13,941,691	13,918,994	(22,697)
Intergovernmental	1,570,712	2,056,267	2,047,097	(9,170)
Charges for services	360,727	405,492	403,821	(1,671)
Fines and forfeitures	48,033	72,860	72,804	(56)
Special assessment	34,501	52,394	52,294	(100)
Interest	161,601	233,451	244,939	11,488
Other	<u>153,541</u>	<u>242,645</u>	<u>232,725</u>	<u>(9,920)</u>
Total revenues	<u>17,872,733</u>	<u>19,281,256</u>	<u>19,226,918</u>	<u>(54,338)</u>
Expenditures:				
Current:				
General government	5,177,118	5,463,523	5,060,465	403,058
Security of persons and property	4,269,229	4,321,864	4,110,101	211,763
Public health	929,989	942,986	899,086	43,900
Community and economic development	1,346,092	1,389,350	1,275,725	113,625
Capital outlay	<u>546,145</u>	<u>546,145</u>	<u>431,972</u>	<u>114,173</u>
Total expenditures	<u>12,268,573</u>	<u>12,663,868</u>	<u>11,777,349</u>	<u>886,519</u>
Excess of revenues over expenditures	<u>5,604,160</u>	<u>6,617,388</u>	<u>7,449,569</u>	<u>832,181</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	1,354	2,053	2,053	-
Transfers - out	(9,008,589)	(9,600,089)	(9,600,089)	-
Advances - in	<u>35,000</u>	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total other financing sources (uses)	<u>(8,972,235)</u>	<u>(9,558,036)</u>	<u>(9,558,036)</u>	<u>-</u>
Net change in fund balance	(3,368,075)	(2,940,648)	(2,108,467)	832,181
Fund balance at beginning of fiscal year	10,933,989	10,933,989	10,933,989	-
Prior fiscal year encumbrances appropriated	<u>448,105</u>	<u>448,105</u>	<u>448,105</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>8,014,019</u>	\$ <u>8,441,446</u>	\$ <u>9,273,627</u>	\$ <u>832,181</u>

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

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City of Hudson, Ohio

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

For the Year Ended December 31, 2014

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Intergovernmental	\$ 860,864	\$ 862,625	\$ 862,600	\$ (25)
Other	<u>25,413</u>	<u>26,098</u>	<u>25,465</u>	<u>(633)</u>
Total revenues	<u>886,277</u>	<u>888,723</u>	<u>888,065</u>	<u>(658)</u>
Expenditures:				
Current:				
Transportation	2,795,310	3,607,454	3,443,309	164,145
Capital outlay	<u>42,800</u>	<u>42,800</u>	<u>39,459</u>	<u>3,341</u>
Total Expenditures	<u>2,838,110</u>	<u>3,650,254</u>	<u>3,482,768</u>	<u>167,486</u>
Excess of revenues over (under) expenditures	<u>(1,951,833)</u>	<u>(2,761,531)</u>	<u>(2,594,703)</u>	<u>166,828</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	7,006	7,020	7,020	-
Transfers – in	<u>1,700,000</u>	<u>2,582,500</u>	<u>2,582,500</u>	<u>-</u>
Total other financing sources (uses)	<u>1,707,006</u>	<u>2,589,520</u>	<u>2,589,520</u>	<u>-</u>
Net change in fund balance	(244,827)	(172,011)	(5,183)	166,828
Fund balance at beginning of fiscal year	83,337	83,337	83,337	-
Prior fiscal year encumbrances appropriated	<u>91,281</u>	<u>91,281</u>	<u>91,281</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>(70,209)</u>	\$ <u>2,607</u>	\$ <u>169,435</u>	\$ <u>166,828</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, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 616,189	\$ 1,057,987	\$ 12,963,523
Materials and supplies inventory	291,292	8,381	1,078,261
Accounts receivable	307,116	413,814	3,144,065
Accrued interest receivable	-	2,172	-
Due from other funds	-	-	-
Special assessments receivable	22,617	-	-
Restricted assets:			
Cash in segregated accounts	-	-	<u>277,283</u>
Total current assets	<u>1,237,214</u>	<u>1,482,354</u>	<u>17,463,132</u>
Noncurrent assets:			
Investment in joint venture	-	-	170,011
Nondepreciable capital assets	673,624	758,275	279,577
Depreciable capital assets, net	<u>8,299,309</u>	<u>8,842,125</u>	<u>7,645,286</u>
Total noncurrent assets	<u>8,972,933</u>	<u>9,600,400</u>	<u>8,094,874</u>
Total assets	<u>10,210,147</u>	<u>11,082,754</u>	<u>25,558,006</u>
Deferred outflows of resources:			
Deferred charges on refunding	<u>277,188</u>	<u>170,305</u>	<u>142,839</u>
Liabilities:			
Current liabilities:			
Accounts payable	191,848	33,350	1,299,436
Accrued wages and benefits	21,935	2,875	55,832
Intergovernmental payable	24,066	636,289	84,293
Interfund payable	979	-	6,116
Accrued interest payable	10,942	49,214	3,771
Claims payable	-	-	-
Payable from restricted assets – customer deposits	-	-	277,283
AMP Ohio payable	-	-	281,557
Compensated absences payable	272,802	10,037	175,212
OWDA loans payable	-	522,037	-
General obligation bonds payable	<u>515,942</u>	<u>188,000</u>	<u>138,000</u>
Total current liabilities	<u>1,038,514</u>	<u>1,441,802</u>	<u>2,321,500</u>
Long-term liabilities (net of current portion):			
Advances from other funds	-	100,000	-
Compensated absences payable	93,515	58,380	522,290
OWDA loans payable	-	1,697,443	-
General obligation bonds payable	<u>4,033,440</u>	<u>2,028,600</u>	<u>1,901,076</u>
Total long-term liabilities	<u>4,126,955</u>	<u>3,884,423</u>	<u>2,423,366</u>
Total liabilities	<u>5,165,469</u>	<u>5,326,225</u>	<u>4,744,866</u>
Net position:			
Net investment in capital assets	4,700,739	5,334,625	5,747,069
Unrestricted (deficit)	<u>621,127</u>	<u>592,209</u>	<u>15,208,910</u>
Total net position	<u>\$ 5,321,866</u>	<u>\$ 5,926,834</u>	<u>\$ 20,955,979</u>

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

	<u>Storm Sewer</u>	<u>Golf Course</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Funds</u>
\$	1,218,222	\$ 34,522	\$ 15,890,443	\$ 806,975
	49,852	17,712	1,445,498	240,274
	-	62	3,865,057	47
	-	-	2,172	120
	-	-	-	45,907
	-	-	22,617	-
	-	-	<u>277,283</u>	-
	<u>1,268,074</u>	<u>52,296</u>	<u>21,503,070</u>	<u>1,093,323</u>
	-	-	170,011	-
	71,568	2,008,225	3,791,269	11,967
	<u>2,528,998</u>	<u>1,549,732</u>	<u>28,865,450</u>	<u>1,408,559</u>
	<u>2,600,566</u>	<u>3,557,957</u>	<u>32,826,730</u>	<u>1,420,526</u>
	<u>3,868,640</u>	<u>3,610,253</u>	<u>54,329,800</u>	<u>2,513,849</u>
	<u>318,889</u>	<u>41,716</u>	<u>950,937</u>	<u>-</u>
	30,054	7,501	1,562,189	176,412
	12,088	7,303	100,033	8,857
	14,939	18,418	778,005	16,348
	79,659	598,924	685,678	8,184
	5,798	2,145	71,870	-
	-	-	-	17,745
	-	-	277,283	-
	-	-	281,557	-
	38,072	95,703	591,826	52,266
	-	-	522,037	-
	<u>152,000</u>	<u>103,000</u>	<u>1,096,942</u>	<u>-</u>
	<u>332,610</u>	<u>832,994</u>	<u>5,967,420</u>	<u>279,812</u>
	-	-	100,000	-
	43,381	137,118	854,684	9,219
	-	-	1,697,443	-
	<u>2,756,785</u>	<u>954,587</u>	<u>11,674,488</u>	<u>-</u>
	<u>2,800,166</u>	<u>1,091,705</u>	<u>14,326,615</u>	<u>9,219</u>
	<u>3,132,776</u>	<u>1,924,699</u>	<u>20,294,035</u>	<u>289,031</u>
	176,335	2,542,086	18,500,854	1,420,526
	878,418	(814,816)	16,485,848	804,292
\$	<u><u>1,054,753</u></u>	\$ <u><u>1,727,270</u></u>	\$ <u><u>34,986,702</u></u>	\$ <u><u>2,224,818</u></u>

City of Hudson, Ohio

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

For the Year Ended December 31, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>
Operating revenues:			
Charges for services	\$ 1,864,717	\$ 2,439,022	\$ 19,299,603
Other	<u>71,574</u>	<u>2,043</u>	<u>154,033</u>
Total operating revenues	<u>1,936,291</u>	<u>2,441,065</u>	<u>19,453,636</u>
Operating expenses:			
Personal services	573,700	620,466	2,529,507
Materials and supplies	146,321	247	116,110
Contractual services	253,367	2,324,384	16,565,047
Claims	-	-	-
Other	1,132	-	56,603
Depreciation	<u>329,784</u>	<u>321,814</u>	<u>595,716</u>
Total operating expenses	<u>1,304,304</u>	<u>3,266,911</u>	<u>19,862,983</u>
Operating income (loss)	<u>631,987</u>	<u>(825,846)</u>	<u>(409,347)</u>
Non-operating revenues (expenses):			
Investment income (loss)	-	2,502	(386,014)
Interest and fiscal charges	(159,000)	(175,122)	(57,749)
Gain on disposal of capital assets	<u>1,585</u>	<u>-</u>	<u>6,415</u>
Total non-operating revenues (expenses)	<u>(157,415)</u>	<u>(172,620)</u>	<u>(437,348)</u>
Income (loss) before transfers	474,572	(998,466)	(846,695)
Transfers - in	<u>-</u>	<u>1,500,000</u>	<u>-</u>
Change in net position	474,572	501,534	(846,695)
Net position at beginning of year - restated	<u>4,847,294</u>	<u>5,425,300</u>	<u>21,802,674</u>
Net position at end of year	\$ <u>5,321,866</u>	\$ <u>5,926,834</u>	\$ <u>20,955,979</u>

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

	<u>Storm Sewer</u>	<u>Golf Course</u>	<u>Totals</u>	<u>Governmental Activities – Internal Service Funds</u>
\$	8,395	\$ 1,157,659	\$ 24,769,396	\$ 2,348,300
	<u>-</u>	<u>92,502</u>	<u>320,152</u>	<u>215,667</u>
	<u>8,395</u>	<u>1,250,161</u>	<u>25,089,548</u>	<u>2,563,967</u>
	722,014	699,123	5,144,810	664,291
	72,646	261,889	597,213	593,944
	149,358	148,699	19,440,855	208,436
	-	-	-	577,462
	-	32,991	90,726	-
	<u>98,093</u>	<u>137,016</u>	<u>1,482,423</u>	<u>250,916</u>
	<u>1,042,111</u>	<u>1,279,718</u>	<u>26,756,027</u>	<u>2,295,049</u>
	<u>(1,033,716)</u>	<u>(29,557)</u>	<u>(1,666,479)</u>	<u>268,918</u>
	-	-	(383,512)	52
	(88,901)	(33,776)	(514,548)	-
	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>6,681</u>
	<u>(88,901)</u>	<u>(33,776)</u>	<u>(890,060)</u>	<u>6,733</u>
	(1,122,617)	(63,333)	(2,556,539)	275,651
	<u>1,300,000</u>	<u>90,000</u>	<u>2,890,000</u>	<u>-</u>
	177,383	26,667	333,461	275,651
	<u>877,370</u>	<u>1,700,603</u>	<u>34,653,241</u>	<u>1,949,167</u>
\$	<u><u>1,054,753</u></u>	\$ <u><u>1,727,270</u></u>	\$ <u><u>34,986,702</u></u>	\$ <u><u>2,224,818</u></u>

City of Hudson, Ohio

Statement of Cash Flows Proprietary Funds

For the Year Ended December 31, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>
Cash flows from operating activities:			
Cash received from customers	\$ 1,866,260	\$ 2,438,395	\$ 19,248,578
Cash received from interfund services provided	-	-	-
Cash payments to employees for services	(562,884)	(609,474)	(2,532,369)
Cash payments for goods and services	(231,913)	(2,314,332)	(16,744,215)
Cash payments for claims	-	-	-
Cash payments for interfund services used	-	-	-
Other operating revenues	73,591	2,043	177,364
Other operating expenses	<u>(1,283)</u>	<u>-</u>	<u>(81,522)</u>
Net cash provided by (used for) operating activities	<u>1,143,771</u>	<u>(483,368)</u>	<u>67,836</u>
Cash flows from noncapital financing activities:			
Transfer - in	<u>-</u>	<u>1,500,000</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(428,901)	(408,350)	(163,112)
Proceeds from sale of capital assets	1,585	-	6,415
Principal payments	(502,981)	(689,569)	(136,000)
Interest payments	<u>(144,888)</u>	<u>(162,874)</u>	<u>(49,266)</u>
Net cash used for capital and related financing activities	<u>(1,075,185)</u>	<u>(1,260,793)</u>	<u>(341,963)</u>
Cash flows from investing activities:			
Interest on investments	<u>-</u>	<u>1,384</u>	<u>-</u>
Net increase (decrease) cash and cash equivalents	68,586	(242,777)	(274,127)
Cash and cash equivalents at beginning of year	<u>547,603</u>	<u>1,300,764</u>	<u>13,514,933</u>
Cash and cash equivalents at end of year	\$ <u><u>616,189</u></u>	\$ <u><u>1,057,987</u></u>	\$ <u><u>13,240,806</u></u>

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

<u>Storm Sewer</u>	<u>Golf Course</u>	<u>Totals</u>	<u>Governmental Activities – Internal Service Funds</u>
\$ 8,395	\$ 1,157,659	\$ 24,719,287	\$ -
-	-	-	2,395,167
(717,103)	(699,206)	(5,121,036)	(637,805)
(246,246)	(438,236)	(19,974,942)	(999,962)
-	-	-	(575,676)
-	-	-	(51,888)
-	92,502	345,500	215,620
-	(32,998)	(115,803)	-
<u>(954,954)</u>	<u>79,721</u>	<u>(146,994)</u>	<u>345,456</u>
 <u>1,300,000</u>	 <u>90,000</u>	 <u>2,890,000</u>	 <u>-</u>
(109,026)	-	(1,109,389)	(495,380)
-	-	8,000	6,681
(146,000)	(147,368)	(1,621,918)	-
<u>(74,154)</u>	<u>(30,503)</u>	<u>(461,685)</u>	<u>-</u>
 <u>(329,180)</u>	 <u>(177,871)</u>	 <u>(3,184,992)</u>	 <u>(488,699)</u>
 <u>-</u>	 <u>-</u>	 <u>1,384</u>	 <u>25</u>
15,866	(8,150)	(440,602)	(143,218)
<u>1,202,356</u>	<u>42,672</u>	<u>16,608,328</u>	<u>950,193</u>
 <u>\$ 1,218,222</u>	 <u>\$ 34,522</u>	 <u>\$ 16,167,726</u>	 <u>\$ 806,975</u>

(Continued)

City of Hudson, Ohio

Statement of Cash Flows Proprietary Funds (continued)

For the Year Ended December 31, 2014

	<u>Water</u>	<u>Wastewater</u>	<u>Electric</u>
Reconciliation of operating income (loss) to net cash from operating activities:			
Operating income (loss)	\$ 631,987	\$ (825,846)	\$ (409,347)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	329,784	321,814	595,716
Decrease in AMP Ohio payable			
(Increase) decrease in operating assets:			
Accounts receivables	(324)	(627)	14,336
Materials and supplies inventory	12,238	(833)	53,256
Due from other fund	-	-	-
Special assessments receivable	3,884	-	-
Increase (decrease) in operating liabilities:			
Accounts payable	155,636	4,856	(122,986)
Accrued wages and benefits	(5,141)	243	10,022
Intergovernmental payable	1,052	11,272	26,529
Due to other funds	(288)	(39)	385
Claims payable	-	-	-
Customer deposits	-	-	46,536
AMP Ohio Payable	-	-	(113,305)
Compensated absences payable	<u>14,943</u>	<u>5,792</u>	<u>(33,306)</u>
Total adjustments	<u>511,784</u>	<u>342,478</u>	<u>477,183</u>
Net cash provided by (used for) operating activities	\$ <u>1,143,771</u>	\$ <u>(483,368)</u>	\$ <u>67,836</u>
Non-cash capital financing activities:			
Amortization of premium on general obligation bonds	\$ (9,320)	\$ (5,711)	\$ (3,686)
Amortization of loss on refunding	24,651	28,521	12,481
Increase in capital assets due to AMP Ohio payable	-	-	6,389

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

<u>Storm Sewer</u>	<u>Golf Course</u>	<u>Totals</u>	<u>Governmental Activities – Internal Service Funds</u>
\$ (1,033,716)	\$ (29,557)	\$ (1,666,479)	\$ 268,918
98,093	137,016	1,482,423	250,916
-	-	13,385	(47)
(6,096)	(4,539)	54,026	18,682
-	-	-	12,894
-	-	3,884	-
(17,317)	(23,462)	(3,273)	(234,097)
(1,349)	(2,536)	1,239	(2,982)
2,599	6,349	47,801	6,994
(969)	(245)	(1,156)	-
-	-	-	1,786
-	-	46,536	-
-	-	(113,305)	-
<u>3,801</u>	<u>(3,305)</u>	<u>(12,075)</u>	<u>22,392</u>
<u>78,762</u>	<u>109,278</u>	<u>1,519,485</u>	<u>76,538</u>
\$ <u>(954,954)</u>	\$ <u>79,721</u>	\$ <u>(146,994)</u>	\$ <u>345,456</u>
\$ (2,719)	\$ (2,526)	\$ (23,962)	\$ -
17,847	6,010	89,510	-
-	-	6,389	-

City of Hudson, Ohio

Statement of Fiduciary Net Position Fiduciary Funds

December 31, 2014

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 687,185
Property taxes receivable	2,041,389
Municipal income taxes receivable	<u>368,885</u>
Total assets	\$ <u>3,097,459</u>
Liabilities and deferred inflows of resources:	
Liabilities:	
Accounts payable	\$ 10,885
Intergovernmental payable	1,408
Undistributed monies	107,364
Deposits held and due to others	<u>567,528</u>
Total liabilities	<u>687,185</u>
Deferred inflows of resources:	
Property taxes	1,933,313
Unavailable revenue	<u>476,961</u>
Total deferred inflows of resources	<u>2,410,274</u>
Total liabilities and deferred inflows of resources	\$ <u>3,097,459</u>

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

City of Hudson, Ohio

Notes to Basic Financial Statements

For the Year Ended December 31, 2014

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, respectively.

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.

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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

A. *Basis of Presentation (continued)*

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.

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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City’s major governmental funds:

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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

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

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

Storm Sewer Fund The Storm Sewer Fund accounts for the cost of operating the City's storm sewer system.

Golf Course Fund The Golf Course Fund 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

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 deferred outflows of resources and all liabilities and deferred inflows of resources 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 deferred outflows of resources and current liabilities and deferred inflows of resources 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and 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 inflows/outflows of resources and in the presentation of expenses versus expenditures.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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.

Deferred Outflows/Inflows of Resources In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferred charge on refunding reported in the government-wide and proprietary fund Statements of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statements of Net Position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2014, but which were levied to finance year 2015 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds Balance Sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

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

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

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget (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 Council.

Tax Budget At the first Council meeting in July, the City Manager presents the annual tax budget for the following year to 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 (“Commission”) determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews the estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the 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 2014.

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 Commission, and the total of expenditures and encumbrances may not exceed the appropriations at the legal level of control. Any revisions that alter the appropriations among departments within a fund must first be approved by Council.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

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 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.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during the year 2014 amounted to \$282,265, which includes \$89,565 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 "Investments 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

F. Cash and Cash Equivalents (continued)

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

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 capitalized. Interest incurred during the construction of capital assets is also capitalized.

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets (continued)

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>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 reported as a liability using the vesting method. An accrual for sick leave is made for those employees who are currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. The liability is an estimate based on the City's past experience of making termination payments. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

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

K. Payables, 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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

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 (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 Council. Those committed amounts cannot be used for any other purpose unless the 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 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.

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 Council or a City official delegated that authority by the Council.

Council assigned fund balance to cover a gap between estimated revenue and appropriations in the 2014 appropriated budget.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

L. Fund Balance (continued)

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 deferred outflows of resources and liabilities and deferred inflows of resources. 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 first 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 non-operating.

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.

P. Interfund Activity

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

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 2: Summary of Significant Accounting Policies (continued)

P. Interfund Activity (continued)

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 non-operating 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. Deferred Charge on Refunding

The difference between the reacquisition price (funds required to refund the old debt) of various refunding bonds and the net carrying amount of the old debt, the deferred amount (loss) on refunding, is being amortized as a component of interest expense. This accounting loss is amortized over the remaining life of the old debt or the life of the new debt whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the Statement of Net Position.

R. Bond Premiums and Discounts

On the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are received in the year the bonds are issued.

S. 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 2014.

T. 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.

U. Reclassification

Prior year data presented in the Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations.

V. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through June 25, 2015, the date the financial statements were available to be issued.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For the Year Ended December 31, 2014

Note 3: Changes in Accounting Principles

For 2014, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations* and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

GASB Statement No. 69 establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. The implementation of this Statement did not result in any change in the City's financial statements.

GASB Statement No. 70 establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions (i.e., nonexchange financial guarantees). The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. These changes were incorporated into the City's financial statements; however, there was no effect on the beginning net position/fund balance.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The City has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

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 previously 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 (Non-GAAP Budgetary Basis) and Actual presented for the General Fund and all major special revenue funds 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:

	<u>Net Change In Fund Balance</u>	
	<u>General Fund</u>	<u>Street Construction</u>
GAAP basis	\$ (2,739,270)	\$ 273,428
Net adjustment for revenue accruals	1,155,057	(6,816)
Fair market value adjustment	22,233	-
Net adjustment for expenditure accruals	37,909	(209,877)
Encumbrances	(584,396)	(61,918)
Budgetary basis	\$ <u>(2,108,467)</u>	\$ <u>(5,183)</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

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:

	General Fund	Street Construction	Street Sidewalk Construction	Youth Development Center	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:						
Inventory	\$ 27,694	\$ 193,037	\$ -	\$ -	\$ 26,376	\$ 247,107
Interfund loan receivable	566,667	-	-	-	-	566,667
Principal trust	-	-	-	-	6,473	6,473
Total nonspendable	<u>594,361</u>	<u>193,037</u>	<u>-</u>	<u>-</u>	<u>32,849</u>	<u>820,247</u>
Restricted for:						
Streets and highways	-	260,927	-	-	55,384	316,311
Cemetery	-	-	-	-	130,573	130,573
Law enforcement and education	-	-	-	-	44,855	44,855
Court computer fees	-	-	-	-	18,427	18,427
Debt service	-	-	-	-	474,536	474,536
Capital improvements	-	-	-	-	144,888	144,888
Total restricted	<u>-</u>	<u>260,927</u>	<u>-</u>	<u>-</u>	<u>868,663</u>	<u>1,129,590</u>
Committed to:						
Community and economic development	-	-	-	-	3,214,371	3,214,371
Fire District and EMS	-	-	-	-	2,215,101	2,215,101
Cemetery improvement	-	-	-	-	4,163	4,163
Storm sewer assessment	-	-	-	-	329,047	329,047
Tree trust	-	-	-	-	44,361	44,361
Playground trust	-	-	-	-	15,194	15,194
Poor endowment trust	-	-	-	-	35,430	35,430
Veterans memorial	-	-	-	-	17,421	17,421
Other purposes	-	-	-	-	7,969	7,969
Capital improvements	-	-	1,203,375	-	2,375,284	3,578,659
Total committed	<u>-</u>	<u>-</u>	<u>1,203,375</u>	<u>-</u>	<u>8,258,341</u>	<u>9,461,716</u>
Assigned to:						
2015 Appropriations	2,959,086	-	-	-	-	2,959,086
Other purposes	461,730	-	-	-	-	461,730
Bond retirement	-	-	-	-	623,946	623,946
Total assigned	<u>3,420,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>623,946</u>	<u>4,044,762</u>
Unassigned (deficit)	<u>8,768,779</u>	<u>-</u>	<u>-</u>	<u>(684,513)</u>	<u>(25,000)</u>	<u>8,059,266</u>
Total fund balances	\$ <u>12,783,956</u>	\$ <u>453,964</u>	\$ <u>1,203,375</u>	\$ <u>(684,513)</u>	\$ <u>9,758,799</u>	\$ <u>23,515,581</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

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; and
6. The State Treasurer's investment pool (STAROhio).

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

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 Ohio Revised Code and that has assets exceeding five hundred million dollars, to which the notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
2. Bankers acceptances of banks that are insured by the 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 FDIC, 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 \$20,299,260 and the bank balance was \$20,804,351. Of the bank balance \$6,585,311 was covered by FDIC and \$14,215,748 was uninsured and 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, 2014

Note 6: Deposits and Investments (continued)

Investments

Investments are reported at fair value. As of December 31, 2014, the City had the following investments:

	Fair Value	Maturities (in years)	
		Less than 1	1 - 4
Common Stock (donated)	\$ 22,968	\$ 22,968	\$ -
Federal Farm Credit Bank	4,761,169	-	4,761,169
Federal Home Loan Bank	3,918,960	-	3,918,960
Federal Home Loan Mortgage Corporation	2,948,211	-	2,948,211
Federal National Mortgage Association	6,221,328	-	6,221,328
Series E Bonds	2,987	2,987	-
Total Portfolio	\$ <u>17,875,623</u>	\$ <u>25,955</u>	\$ <u>17,849,668</u>

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City's investment policy also limits security purchases to those that mature not later than five years from purchase 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 the portfolio be diversified both by types of investment and issuer. All investments of the City are registered and carry a rating AA+ 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, 2014:

Investment Issuer	Percentage of Investments
Common Stock (donated)	0.13%
Federal Farm Credit Bank	26.63
Federal Home Loan Bank	21.92
Federal Home Loan Mortgage Corporation	16.49
Federal National Mortgage Association	34.80
Series E Bonds	0.03
Total	<u>100.00%</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 7: Receivables

Receivables at December 31, 2014, 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 and public utility property located in the City. Real property taxes collected in 2014 are levied after October 1, 2013, on assessed value as of January 1, 2013, 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 2014 were intended to finance 2014 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at varying percentages of true value. Public utility property taxes paid in 2014 that became a lien on December 31, 2013, are levied after October 1, 2013, and are collected in 2014 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2014, was \$7.76 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2014 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 723,752,880
Commercial/Industrial/Mineral	103,615,990
Public Utilities	148,010
Tangible Personal Property Valuation:	
Public Utilities	<u>5,229,730</u>
Total Valuation	\$ <u><u>832,746,610</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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

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 the 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 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 2014, municipal income tax revenue was \$17,522,549, 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, 2014

Note 11: Capital Assets

	<u>Balance</u> <u>12/31/13</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/14</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 14,618,513	\$ -	\$ -	\$ 14,618,513
Construction in progress	<u>5,435,572</u>	<u>4,131,284</u>	<u>(4,349,971)</u>	<u>5,216,885</u>
Total capital assets, not being depreciated	<u>20,054,085</u>	<u>4,131,284</u>	<u>(4,349,971)</u>	<u>19,835,398</u>
Capital assets, being depreciated:				
Buildings	9,242,390	107,784	-	9,350,174
Land improvements	3,177,729	1,513,854	-	4,691,583
Vehicles	6,620,889	1,216,382	(655,068)	7,182,203
Equipment, furniture and fixtures	3,573,855	473,991	(78,791)	3,969,055
Infrastructure				
Roads	126,787,126	3,743,056	-	130,530,182
Sidewalks	3,752,625	-	-	3,752,625
Traffic signals	<u>2,960,234</u>	<u>-</u>	<u>-</u>	<u>2,960,234</u>
Total capital assets, being depreciated	<u>156,114,848</u>	<u>7,055,067</u>	<u>(733,859)</u>	<u>162,436,056</u>
Less accumulated depreciation:				
Buildings	(2,638,855)	(239,390)	-	(2,878,245)
Land improvements	(690,079)	(233,754)	-	(923,833)
Vehicles	(4,574,702)	(634,574)	631,564	(4,577,712)
Equipment, furniture and fixtures	(2,400,667)	(236,553)	73,321	(2,563,899)
Infrastructure				
Roads	(55,263,530)	(4,267,663)	-	(59,531,193)
Sidewalks	(1,326,891)	(119,241)	-	(1,446,132)
Traffic signals	<u>(1,667,914)</u>	<u>(106,564)</u>	<u>-</u>	<u>(1,774,478)</u>
Total accumulated depreciation	<u>(68,562,638)</u>	<u>(5,837,739)</u>	<u>704,885</u>	<u>(73,695,492)</u>
Total capital assets, being depreciated, net	<u>87,552,210</u>	<u>1,217,328</u>	<u>(28,974)</u>	<u>88,740,564</u>
Governmental activities capital assets, net	\$ <u>107,606,295</u>	\$ <u>5,348,612</u>	\$ <u>(4,378,945)</u>	\$ <u>108,575,962</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 600,832
Security of persons and property	406,169
Public health	21,320
Leisure time services	204,592
Transportation	<u>4,604,826</u>
Total	\$ <u>5,837,739</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 11: Capital Assets (continued)

	<u>Balance</u> <u>12/31/13</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/14</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,362,513	\$ -	\$ -	\$ 2,362,513
Construction in progress	<u>1,046,995</u>	<u>565,625</u>	<u>(183,864)</u>	<u>1,428,756</u>
Total capital assets, not being depreciated	<u>3,409,508</u>	<u>565,625</u>	<u>(183,864)</u>	<u>3,791,269</u>
Capital assets being depreciated:				
Buildings	5,362,784	-	-	5,362,784
Land improvements	2,123,612	-	-	2,123,612
Vehicles	2,011,283	-	-	2,011,283
Equipment, furniture and fixtures	4,070,030	28,652	-	4,098,682
Infrastructure				
Water main lines	14,707,510	24,725	-	14,732,235
Sewer lines	10,003,292	251,357	-	10,254,649
Storm water lines	2,659,711	232,034	-	2,891,745
Electric	<u>9,122,585</u>	<u>197,249</u>	<u>-</u>	<u>9,319,834</u>
Total capital assets, being depreciated	<u>50,060,807</u>	<u>734,017</u>	<u>-</u>	<u>50,794,824</u>
Less accumulated depreciation:				
Buildings	(2,177,457)	(111,689)	-	(2,289,146)
Land improvements	(1,032,213)	(102,827)	-	(1,135,040)
Vehicles	(1,676,458)	(127,235)	-	(1,803,693)
Equipment, furniture and fixtures	(2,821,391)	(149,891)	-	(2,971,282)
Infrastructure				
Water main lines	(6,664,131)	(295,105)	-	(6,959,236)
Sewer lines	(3,383,663)	(210,497)	-	(3,594,160)
Storm sewer	(385,570)	(65,774)	-	(451,344)
Electric	<u>(2,306,068)</u>	<u>(419,405)</u>	<u>-</u>	<u>(2,725,473)</u>
Total accumulated depreciation	<u>(20,446,951)</u>	<u>(1,482,423)</u>	<u>-</u>	<u>(21,929,374)</u>
Total capital assets, being depreciated, net	<u>29,613,856</u>	<u>(748,406)</u>	<u>-</u>	<u>28,865,450</u>
Business-type activities capital assets, net	\$ <u>33,023,364</u>	\$ <u>(182,781)</u>	\$ <u>(183,864)</u>	\$ <u>32,656,719</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

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 2014, 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 \$17,745 reported in the fund at December 31, 2014, 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>
2013	\$ 20,787	\$ 298,647	\$ 303,475	\$ 15,959
2014	15,959	275,391	273,605	17,745

Note 13: Note Debt

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

	<u>Balance 12/31/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/14</u>
Governmental Activities:				
Various Purpose Notes, Series 2013, Due 7/2015, 0.25%	\$ <u>1,400,000</u>	<u>-</u>	\$ <u>(1,400,000)</u>	\$ <u>-</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 13: Note Debt (continued)

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 note was issued to pay costs of improving City property constituting the former Cuyahoga County Youth Development Center by performing site clearance, improvement and preparation and placing the site in a condition for use and operation for City purposes.

Note 14: Long-term Obligations

The original issue date, interest rates, and original issuance amount for each of the City's bonds 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 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 Milford/RT 91 Construction G.O. Bond	2004	2024	3.000% - 5.000%	4,200,000
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
2013 Street Improvement G.O. Bond	2013	2023	2.000% - 3.000%	5,000,000
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, 2014

Note 14: Long-term Obligations (continued)

<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:				
1998 Golf Course Improvement G.O. Bonds	1998	2019	4.300% - 5.000%	\$ 690,000
2004 Electric Issue G.O. Bonds	2004	2034	3.000% - 5.000%	1,000,000
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%	1,720,000
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, 2014

Note 14: Long-term Obligations (continued)

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

	Balance 12/31/13	Additions	Retirements	Balance 12/31/14	Amount Due in One Year
Governmental Activities:					
General Obligation Bonds:					
2002 Road Improvement	\$ 120,000	\$ -	\$ (60,000)	\$ 60,000	\$ 60,000
2004 Milford/Rt. 91 Construction	830,000	-	(195,000)	635,000	205,000
2004 Downtown TIF	795,000	-	(795,000)	-	-
2008 Park Acquisition Refunded	2,115,429	-	(459,429)	1,656,000	469,714
2008 Village South Refunded	969,571	-	(210,571)	759,000	215,286
2008 Park Improvement Refunded	470,000	-	(70,000)	400,000	75,000
2008 Library Construction Refunded	3,480,000	-	(640,000)	2,840,000	665,000
2011 Park Improvement Refunded	365,000	-	(70,000)	295,000	75,000
2011 Community Center Expansion Refunded	175,000	-	(5,000)	170,000	5,000
2011 Police Facility Construction Refunded	2,070,000	-	(25,000)	2,045,000	25,000
2011 Road Improvement Refunded	625,000	-	(10,000)	615,000	10,000
2011 Street Improvement – Seasons Road	1,080,000	-	(50,000)	1,030,000	50,000
2011 Street Improvement – Atterbury Boulevard	3,475,000	-	(160,000)	3,315,000	160,000
2012 Police Facility Construction Refunded	447,000	-	(222,000)	225,000	225,000
2012 Community Center Expansion Refunded	34,000	-	(17,000)	17,000	17,000
2012 Milford/Rt. 91 Construction Refunded	2,200,000	-	(45,000)	2,155,000	45,000
2012 Capital Improvement	4,540,000	-	(210,000)	4,330,000	210,000
2013 Street Improvement	5,000,000	-	(455,000)	4,545,000	465,000
2008 Library Construction Refunded					
Capital Appreciation Bonds	95,000	-	-	95,000	-
Appreciation on Bonds	330,030	62,532	-	392,562	-
Premium on General Obligation Bonds	833,202	-	(122,285)	710,917	-
Total General Obligation Bonds	<u>30,049,232</u>	<u>62,532</u>	<u>(3,821,285)</u>	<u>26,290,479</u>	<u>2,977,000</u>
Special Assessment Bonds:					
1998 Executive Parkway	360,000	-	(65,000)	295,000	70,000
1999 Water Main Construction	175,000	-	(25,000)	150,000	25,000
2008 Sewer Improvement Refunded	333,172	-	(107,019)	226,153	111,058
Premium on Special Assessment Bonds	4,262	-	(1,422)	2,840	-
Total Special Assessment Bonds	<u>872,434</u>	<u>-</u>	<u>(198,441)</u>	<u>673,993</u>	<u>206,058</u>
Ohio Public Works Commission Loan:					
2009 Atterbury Boulevard Renovations	<u>118,563</u>	<u>-</u>	<u>(7,186)</u>	<u>111,377</u>	<u>7,186</u>
Other Long-Term Obligations:					
Compensated absences	<u>2,302,863</u>	<u>1,381,159</u>	<u>(1,391,617)</u>	<u>2,292,405</u>	<u>1,306,327</u>
Total Governmental Activities – Long-Term Obligations	\$ <u>33,343,092</u>	\$ <u>1,443,691</u>	\$ <u>(5,418,529)</u>	\$ <u>29,368,254</u>	\$ <u>4,496,571</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 14: Long-term Obligations (continued)

	Balance <u>12/31/13</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/14</u>	Amount Due <u>in One Year</u>
Business-Type Activities:					
General Obligation Bonds:					
1998 Golf Course Improvement	\$ 160,000	\$ -	\$ (25,000)	\$ 135,000	\$ 25,000
2004 Electric Issue	105,000	-	(25,000)	80,000	25,000
2004 Sewer Improvement	85,000	-	(20,000)	65,000	20,000
2005 Storm Water Improvement	230,000	-	(55,000)	175,000	55,000
2005 Water System Improvement	315,000	-	(140,000)	175,000	145,000
2005 Sewer Improvement	120,000	-	(30,000)	90,000	30,000
2008 Water System Improvement Refunded	491,828	-	(157,981)	333,847	163,942
2011 Substation Construction Refunded	1,160,000	-	(15,000)	1,145,000	15,000
2011 Water System Improvement Refunded	3,155,000	-	(30,000)	3,125,000	30,000
2011 Storm Water Improvement Refunded	570,000	-	(5,000)	565,000	10,000
2011 Golf Course Improvement Refunded	855,000	-	(10,000)	845,000	10,000
2012 Water System Improvement Refunded	228,000	-	(113,000)	115,000	115,000
2012 Substation Construction Refunded	184,000	-	(91,000)	93,000	93,000
2012 Storm Water Improvement Refunded	123,000	-	(61,000)	62,000	62,000
2012 Golf Course Improvement Refunded	134,000	-	(66,000)	68,000	68,000
2012 Water System Improvement Refunded	585,000	-	(7,000)	578,000	7,000
2012 Water System Improvement	225,000	-	(55,000)	170,000	55,000
2012 Sewer Improvement Refunded	611,000	-	(5,000)	606,000	5,000
2012 Sewer Improvement Refunded	1,078,000	-	(13,000)	1,065,000	13,000
2012 Sewer Improvement	485,000	-	(120,000)	365,000	120,000
2012 Electric Issue Refunded	709,000	-	(5,000)	704,000	5,000
2012 Storm Water Improvement Refunded	2,112,000	-	(25,000)	2,087,000	25,000
Premium on General Obligation Bonds	<u>148,545</u>	<u>-</u>	<u>(23,962)</u>	<u>124,583</u>	<u>-</u>
Total General Obligation Bonds	<u>13,869,373</u>	<u>-</u>	<u>(1,097,943)</u>	<u>12,771,430</u>	<u>1,096,942</u>
OWDA Loan:					
OWDA loan	<u>2,721,049</u>	<u>-</u>	<u>(501,569)</u>	<u>2,219,480</u>	<u>522,037</u>
Other Long-Term Obligations:					
AMP Ohio payable	388,473	6,389	(113,305)	281,557	281,557
Capital lease	46,368	-	(46,368)	-	-
Compensated absences	<u>1,458,585</u>	<u>486,176</u>	<u>(498,251)</u>	<u>1,446,510</u>	<u>591,826</u>
Total Business-Type Activities	\$ <u>18,483,848</u>	\$ <u>492,565</u>	\$ <u>(2,257,436)</u>	\$ <u>16,718,977</u>	\$ <u>2,492,362</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 14: Long-term Obligations (continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2014, including interest payments of \$8,385,862 are as follows:

Year ending December 31,	<u>Governmental Activities</u>				
	<u>General Obligation</u>		<u>Special Assessments</u>		<u>OPWC</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2015	\$ 2,977,000	\$ 777,903	\$ 206,058	\$ 31,680	\$ 7,186
2016	3,045,000	677,898	215,095	22,758	7,186
2017	3,150,000	523,048	105,000	13,019	7,186
2018	2,675,000	404,073	110,000	7,656	7,186
2019	1,750,000	1,015,448	35,000	1,969	7,186
2020-2024	7,415,000	1,067,680	-	-	35,930
2025-2029	2,690,000	471,688	-	-	35,930
2030-2032	1,485,000	81,250	-	-	3,587
Total	\$ <u>25,187,000</u>	\$ <u>5,018,988</u>	\$ <u>671,153</u>	\$ <u>77,082</u>	\$ <u>111,377</u>

Year ending December 31,	<u>Business-Type Activities</u>				
	<u>General Obligation</u>		<u>OWDA Loan</u>		<u>AMP Ohio</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2015	\$ 1,096,942	\$ 322,915	\$ 522,037	\$ 84,447	\$ 281,557
2016	1,009,905	290,155	543,341	63,143	-
2017	870,000	262,160	565,513	40,971	-
2018	665,000	239,235	588,589	17,894	-
2019	725,000	225,035	-	-	-
2020-2024	3,340,000	911,025	-	-	-
2025-2029	2,295,000	586,920	-	-	-
2030-2034	2,480,000	240,945	-	-	-
2035	165,000	4,950	-	-	-
Total	\$ <u>12,646,847</u>	\$ <u>3,083,340</u>	\$ <u>2,219,480</u>	\$ <u>206,455</u>	\$ <u>281,557</u>

The business-type activities general obligation bonds will be paid with electric, wastewater, water service charges, and golf course revenues. The OWDA loan will be repaid with income tax monies and wastewater service charges from the Wastewater Enterprise Fund. The AMP Ohio payable will be paid from the Electric Fund, see Note 22. Governmental activities 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 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 repaid back from income tax monies.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 14: Long-term Obligations (continued)

In 2012, the City defeased a portion of various general obligation bonds and water, sewer, electric, storm water, and golf course 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, 2014, there is \$6,435,000 of defeased bonds still outstanding.

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, 2014, for the equipment was \$96,747, leaving a current book value of \$145,120 for equipment. Principal and interest payments in the current year totaled \$46,368 and \$1,805, 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:

<u>Year</u>	<u>Operating Leases</u> <u>Governmental</u> <u>Lease Payments</u>
2015	\$ 350,133
2016	<u>69,581</u>
Total minimum lease payments	419,714
Less: amount representing interest	<u>-</u>
Present value of minimum lease payments	\$ <u><u>419,714</u></u>

Rental expense related to operating leases for office space and equipment totaled \$328,242 for governmental funds, of which \$266,331 was rented from a related party, and \$65,940 for business-type funds for the year ended December 31, 2014.

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 voting on this matter. As noted in Note 15, the current year expenditure related to this lease was \$266,331. The current lease addendum ends January 1, 2016.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 17: Pension Plans

A. *Ohio Public Employees Retirement System*

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension 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, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional pension 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 pension 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 2014, the members of all three plans were required to contribute 10 percent of earnable salaries. The City's contribution rate of 14.0 percent was allocated to fund pension benefits for members of the traditional pension plan and combined plan. The pension allocation for the traditional pension and combined plans was 12.0 percent during calendar year 2014.

The City's required contributions for pension obligations, excluding health care, to the traditional pension and combined plans for the years ended December 31, 2014, 2013, and 2012 were \$1,214,892, \$1,279,470, and \$993,972, respectively; 91.92 percent has been contributed for 2014, 99.85 percent for 2013, and 100 percent for 2012. Contributions to the member-directed plan for 2014 were \$46,185 made by the City and \$32,990 made by the plan members.

B. *Ohio Police and Fire Pension Fund*

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. 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. That report is also available on OP&F's website at www.op-f.org.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 17: Pension Plans (continued)

B. Ohio Police and Fire Pension Fund (continued)

From January 1, 2014 thru July 1, 2014, plan members are required to contribute 10.75 percent of their annual covered salary. From July 2, 2014 thru December 31, 2014, plan members were required to contribute 11.5 percent of their annual covered salary. Throughout 2014, the City is required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. The portion of the City's contributions to fund pension obligations was 19.0 percent for police officers and 23.50 percent for firefighters for the year ended December 31, 2014. The City's contributions, excluding health care, for the years ended December 31, 2014, 2013, and 2012 for police officers were \$413,917, \$343,477, and \$279,529, respectively, or 92 percent for 2014. The full amount has been contributed for years 2013 and 2012. For 2014, 92.93 percent for police officers has been contributed, with the remainder reported as a liability in the fund financial statements and the government-wide financial statements within the accrued wages and benefits. There were no firefighters participating in OP&F in 2014.

Note 18: Post-Employment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension 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 health care 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-employment 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 OPERS eligibility requirements.

The Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB Plan to its eligible members and beneficiaries. Authority to establish and amend the OPEB Plan 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, Ohio, 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 18: Post-Employment Benefits (continued)

A. Ohio Public Employees Retirement System (continued)

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 coverage. The 2014 local governmental employer contribution rate was 14.0 percent of earnable salary. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of earnable salary for state and local employer units. Active members do not make contributions to the OPEB plan.

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 pension and combined plan was two percent during calendar year 2014. Effective January 1, 2015, the portion of employer contributions allocated to health care remains at two percent for both plans, as recommended by the 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, 2014, 2013, and 2012 were \$192,972, \$94,295, and \$393,508, respectively; 91.92 percent has been contributed for 2014, 99.85 percent for 2013, and 100 percent for 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a 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 contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing, multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care 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 statutory survivor benefit 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 are codified in Chapter 742 of the Ohio Revised Code.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 18: Post-Employment Benefits (continued)

B. Ohio Police and Fire Pension Fund (continued)

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. That report is also available on OP&F's website at www.op-f.org.

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. The portion of employer contribution allocated to health care was 0.5 percent of covered payroll from January 1, 2014 through December 31, 2014. 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 115 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, 2014, 2013, and 2012 were \$424,966, \$412,298, and \$399,907 and \$0, \$9,970, and \$25,020, respectively, of which \$11,048, \$76,847, and \$138,368 and \$0, \$1,944, and \$7,031, respectively, was allocated to the health care plan. 92.9 percent has been contributed for 2014 and the full amount has been contributed for 2013 and 2012.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

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, 1,000, or 1,440 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, 2014, the total liability for unpaid compensated absences was \$3,738,915.

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, 2014.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 20: Contingencies (continued)

B. Litigation

Several claims and lawsuits are pending against the City. The amount of liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material effect on the overall financial position of the City at December 31, 2014.

Note 21: Interfund Transactions

Interfund receivable/payable for the year ended December 31, 2014, consisted of the following:

	Receivable		
	General Fund	Internal Service Fund	Total
Payable:			
Street Construction	\$ -	\$ 38,812	\$ 38,812
Street Sidewalk Construction	155,000	-	155,000
Youth Development Center	233,333	-	233,333
Nonmajor Governmental	126,219	-	126,219
Water Fund	-	979	979
Electric Fund	-	6,116	6,116
Storm Water Fund	79,659	-	79,659
Golf Course Fund	598,924	-	598,924
Internal Service Fund	8,184	-	8,184
Total	\$ <u>1,201,319</u>	\$ <u>45,907</u>	\$ <u>1,247,226</u>

Long-term interfund loans are classified as "Advances to/from other funds" and consist of the following at December 31, 2014:

Receivable Fund	Payable Fund	Amount
General Fund	Youth Development Center	\$ 466,667
General Fund	Wastewater	<u>100,000</u>
Total		\$ <u>566,667</u>

The advance from the General fund to the Youth Development Center is for manuscript debt issued by the City in accordance with Ohio Revised Code Section 133.29. This advance is expected to be repaid in June of each year with the final payment to be made in June 2017. The interest rate is 0.25% per annum. Principal and interest requirements to retire this long-term advance outstanding at December 31, 2014 are as follows:

Year Ending December 31,	Principal	Interest	Total
2016	\$ 233,333	\$ 875	\$ 234,208
2017	<u>233,334</u>	<u>292</u>	<u>233,626</u>
Totals	\$ <u>466,667</u>	\$ <u>1,167</u>	\$ <u>467,834</u>

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 21: Interfund Transactions (continued)

As of December 31, 2014, interfund transfers were as follows:

	Transfers – Out			Total
	General	Street Sidewalk Construction	Nonmajor Governmental	
Transfers - In:				
Street Construction	\$ 2,582,500	\$ -	\$ -	\$ 2,582,500
Street Sidewalk Construction	1,369,000	-	-	1,369,000
Youth Development Center	515,000	-	-	515,000
Nonmajor Governmental	2,243,589	523,156	200,000	2,966,745
Wastewater	1,500,000	-	-	1,500,000
Storm Sewer	1,300,000	-	-	1,300,000
Golf Course	90,000	-	-	90,000
Total	\$ 9,600,089	\$ 523,156	\$ 200,000	\$ 10,323,245

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 transfer from the Street Sidewalk Construction Fund was a transfer to the Bond Retirement Fund from the Milford SR/91 Connector Fund of \$523,156 and was made in accordance with ORC Section 5705.14 as the transfer was used to pay off related debt and to close the fund to its related Bond Retirement Fund. The transfer from Nonmajor 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).

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 American Municipal Power (AMP).

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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 22: Joint Venture (continued)

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 (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 percent of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2014, Hudson has met their debt coverage obligation.

The Agreement provides that the failure of any OMEGA 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 OMEGA JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro-rata share of the defaulting OMEGA JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting OMEGA JV5 Participants, is equal to the defaulting OMEGA 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 OMEGA JV5 Participant, an accumulated maximum kilowatts equal to 25 percent of such non-defaulting OMEGA JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001, AMP 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 ("BIRCs" 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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. Due to scheduled principal repayments, the resulting note receivable has been reduced at December 31, 2014 to \$57,679,473. AMP will continue to collect debt service from the OMEGA JV5 participants until the note is paid in full.

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 \$170,011 at December 31, 2014. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.ohioauditor.gov.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 22: Joint Venture (continued)

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

The City is a member of AMP and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 6,000 kilowatts of a total 771,281 kilowatts, giving the City a 0.78 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the AMPGS Project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs is \$1,038,626. The City received a credit of \$378,804 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$271,349 related to the AMPGS Projects costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$388,473. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its Electric Enterprise Fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the AMPGS Project will impact the City's liability. These amounts will be recorded as they become estimable. In 2014, the City recorded an additional \$6,389 of costs and made payments totaling \$113,305 leaving a net impaired cost estimate of \$281,557 at December 31, 2014.

The City intends to recover these costs and repay AMP over the next year through a power cost adjustment, thus, this incurred cost has been capitalized and reported as a regulated asset, as allowed by GASB Codification Re10.

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.

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 23: Shared Risk Pool (continued)

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 2014, the City paid \$175,124 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 were deficits in the following capital projects funds: Police State Acquisition Fund of \$25,000 and the Youth Development Center Fund of \$684,513. These deficits were caused by the application of accounting principles generally accepted in the United States of America to these funds. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Note 25: Significant Commitments

A. Contracts

The City has the following outstanding contractual commitments for various construction projects at December 31, 2014:

<u>Contractor</u>	<u>Contract and Contingency</u>	<u>Amount Expended</u>	<u>Amount Remaining</u>
Bourgeois Enterprises, Inc.	\$ 23,760	\$ 22,200	\$ 1,560
Carron Asphalt	1,078,324	983,821	94,503
City of Stow	16,365	14,807	1,558
Hysong Paving Company	30,893	-	30,893
Lockhart Construction Company	956,169	840,817	115,352
Mar-King Construction	124,188	109,337	14,851
Nerone & Sons, Inc.	542,312	165,781	376,531
Perrin Asphalt Company	2,933,449	2,583,277	350,172
Ronyak Paving, Inc.	78,902	56,603	22,299
The Shelly Company	72,018	69,361	2,657

City of Hudson, Ohio

Notes to Basic Financial Statements (continued)

For The Year Ended December 31, 2014

Note 25: Significant Commitments (continued)

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:		
General	\$	461,730
Street Construction		47,106
Street Sidewalk Construction		722,564
Youth Development Center		8,124
Nonmajor Governmental		<u>609,371</u>
Total governmental	\$	<u><u>1,848,895</u></u>

Note 26: Restatement of Prior Year Net Position

During 2014, the City found that contractual services in the Electric Fund had been understated by \$1,188,115 in the prior year. As a result, net position at December 31, 2013 decreased by \$1,188,115 in the Electric Fund from \$22,990,789 to \$21,802,674 and in the Business-Type Activities as a whole from \$35,841,356 to \$34,653,241.

Note 27: Subsequent Event

During 2014, the City was presented with the results of a study performed by the Public Works Department. That study indicated that the current electric rate structure would not sustain the costs of service moving forward. The last comprehensive electric rate study taking into account cost of service and cost of power was passed by the City in 1996. On May 19, 2015, the City passed ordinance 15-58, amending the existing Streets, Utilities, and Public Services Code to adopt an adjusted electric rate structure and schedule of charges. The ordinance took effect and was in force for the billing cycle due and payable on July 10, 2015.

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

Members of the City Council
City of Hudson, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson (the “City”), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated June 25, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Members of the City Council
City of Hudson, Ohio

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cini & Paricki, Inc.

Cleveland, Ohio
June 25, 2015

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by OMB Circular A-133**

Members of the City Council
City of Hudson, Ohio

Report on Compliance for Each Major Federal Program

We have audited the City of Hudson's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Members of the City Council
City of Hudson, Ohio

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 25, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Cimini & Panichi, Inc.

Cleveland, Ohio
June 25, 2015

City of Hudson

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2014

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Transportation:</u>			
Passed through Ohio Department of Transportation			
<u>Highway Planning and Construction</u>			
Safe Routes to Schools	20.205	93606	\$ 210,000
SR 303 Resurfacing	20.205	82914	265,754
Hudson Drive Resurfacing	20.205	92674	254,007
Ravenna St. Resurfacing	20.205	92677	312,882
Hines Hill Road Resurfacing	20.205	92671	12,647
Barlow/Terex Road Resurfacing	20.205	92665	75,832
Norton Road Resurfacing	20.205	88544	<u>32,044</u>
Total U.S. Department of Transportation			1,163,166
<u>U.S. Department of Justice:</u>			
Passed through Ohio Governor's Office of Criminal Justice Services			
Bulletproof Vest Partnership Program (BVP)	16.803	2009-RA-A02-2302	1,001
<u>Department of Homeland Security:</u>			
Direct Program			
Fire Grants	97.044	N/A	<u>22,680</u>
Total Federal Expenditures			\$ <u><u>1,186,847</u></u>

The accompanying notes are an integral part of this schedule

City of Hudson

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2014

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Hudson, Ohio, and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: Matching Requirements

Certain federal programs require that the City contribute non-federal (matching) funds to support the federally funded programs. The City has complied with the matching requirements. The expenditure of non-federal matching funds is not included on the accompanying Schedule.

N/A = Not applicable

City of Hudson

Schedule of Findings

OMB Circular A-133, Section .505

For the Year Ended December 31, 2014

1. Summary of Auditor's Results

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

2. Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

None noted.

3. Findings for Federal Awards

None noted.

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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
SEPTEMBER 1, 2015**