

**CITY OF HUDSON, OHIO
SUMMIT COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

Members of City Council
City of Hudson

We have reviewed the Independent Auditor's Report of the City of Hudson, Summit County, prepared by Steen & Kennedy, LLC for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 22, 2003

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CITY OF HUDSON, OHIO
SUMMIT COUNTY
General Purpose Financial Statements
For the Year Ended December 31, 2002

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INDEPENDENT ACCOUNTANTS' REPORT

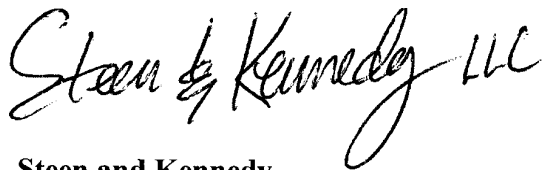
City Council
City of Hudson
27 E. Main Street
Hudson, Ohio 44236

We have audited the accompanying general purpose financial statements of the City of Hudson, Summit County, Ohio (the City) as of and for the year ended December 31, 2002, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Steen and Kennedy
June 30, 2003

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**City of Hudson, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 December 31, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$8,567,377	\$2,761,536	\$1,018,195	\$13,460,306
Cash and Cash Equivalents in Non-Expendable Trust Fund	0	0	0	0
Cash and Cash Equivalents in Segregated Accounts	0	102,898	0	9,975,646
Cash with Fiscal and Escrow Agent	0	0	10,000	0
Investments in Segregated Accounts	0	3,198	0	0
Investments in Common Stock	0	11,925	0	0
Receivables:				
Taxes	4,034,175	2,059,843	1,482,585	0
Accounts	10,351	52,166	0	0
Intergovernmental	1,122,210	429,152	87,377	531,184
Special Assessments	0	0	3,072,955	44,804
Interfund	441,008	0	0	0
Materials and Supplies Inventory	37,753	68,823	0	0
Investment in Joint Venture	0	0	0	0
Fixed Assets, (Net Where Applicable of Accumulated Depreciation)	0	0	0	0
Other Debits				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0
Total Assets and Other Debits	\$14,212,874	\$5,489,541	\$5,671,112	\$24,011,940
<u>Liabilities, Fund Equity and Other Credits</u>				
<u>Liabilities</u>				
Accounts Payable	\$306,967	\$191,633	\$0	\$791,164
Interfund Payable	0	0	0	180,000
Accrued Wages and Benefits	149,103	52,052	0	0
Compensated Absences Payable	30,549	11,730	0	0
Retainage Payable	0	0	0	0
Intergovernmental	266,618	95,347	0	0
Deferred Revenue	3,295,613	2,402,308	4,642,917	44,804
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	0	0	0
Matured Interest Payable	0	0	10,000	0
Accrued Interest Payable	0	0	0	51,212
Notes Payable	0	0	0	11,300,000
Claims Payable	0	0	0	0
OWDA Loan Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
Total Liabilities	4,048,850	2,753,070	4,652,917	12,367,180
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	303,557	289,749	0	2,301,473
Reserved for Inventory	37,753	68,823	0	0
Reserved for Debt Service	0	0	1,018,195	0
Reserved for Principal Trust	0	0	0	0
Reserved for Investments	0	3,198	0	0
Reserved for Common Stock	0	11,925	0	0
Unreserved:				
Undesignated	9,822,714	2,362,776	0	9,343,287
Total Fund Equity and Other Credits	10,164,024	2,736,471	1,018,195	11,644,760
Total Liabilities, Fund Equity and Other Credits	\$14,212,874	\$5,489,541	\$5,671,112	\$24,011,940

See accompanying notes to the general purpose financial statements

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$20,076,675	\$790,069	\$869,798	\$0	\$0	\$47,543,956
0	0	32,728	0	0	32,728
49,089	0	713	0	0	10,128,346
0	0	0	0	0	10,000
0	0	0	0	0	3,198
0	0	0	0	0	11,925
0	0	684,503	0	0	8,261,106
2,632,514	1,677	4,250	0	0	2,700,958
0	0	40,001	0	0	2,209,924
54,878	0	0	0	0	3,172,637
0	0	0	0	0	441,008
1,202,601	48,725	0	0	0	1,357,902
455,938	0	0	0	0	455,938
24,340,656	3,021,652	0	22,314,024	0	49,676,332
0	0	0	0	884,999	884,999
0	0	0	0	133,196	133,196
0	0	0	0	26,360,716	26,360,716
0	0	0	0	2,870,691	2,870,691
<u>\$48,812,351</u>	<u>\$3,862,123</u>	<u>\$1,631,993</u>	<u>\$22,314,024</u>	<u>\$30,249,602</u>	<u>\$156,255,560</u>
\$2,175,969	\$23,256	\$43,990	\$0	\$0	\$3,532,979
261,008	0	0	0	0	441,008
61,699	5,891	0	0	0	268,745
563,297	68,227	0	0	1,129,602	1,803,405
49,089	0	0	0	0	49,089
151,092	9,165	0	0	0	522,222
54,878	0	8,673	0	0	10,449,193
0	0	1,203,932	0	0	1,203,932
0	0	342,670	0	0	342,670
0	0	0	0	0	10,000
95,440	0	0	0	0	146,652
2,920,000	0	0	0	0	14,220,000
0	10,404	0	0	0	10,404
7,095,943	0	0	0	0	7,095,943
11,615,000	0	0	0	26,535,000	38,150,000
0	0	0	0	2,585,000	2,585,000
<u>25,043,415</u>	<u>116,943</u>	<u>1,599,265</u>	<u>0</u>	<u>30,249,602</u>	<u>80,831,242</u>
0	0	0	22,314,024	0	22,314,024
5,518,549	0	0	0	0	5,518,549
18,250,387	3,745,180	0	0	0	21,995,567
0	0	0	0	0	2,894,779
0	0	0	0	0	106,576
0	0	0	0	0	1,018,195
0	0	6,473	0	0	6,473
0	0	0	0	0	3,198
0	0	0	0	0	11,925
0	0	26,255	0	0	21,555,032
<u>23,768,936</u>	<u>3,745,180</u>	<u>32,728</u>	<u>22,314,024</u>	<u>0</u>	<u>75,424,318</u>
<u>\$48,812,351</u>	<u>\$3,862,123</u>	<u>\$1,631,993</u>	<u>\$22,314,024</u>	<u>\$30,249,602</u>	<u>\$156,255,560</u>

City of Hudson, Ohio
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended December 31, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<u>Revenues</u>				
Municipal Income Tax	\$7,031,845	\$0	\$0	\$0
Property and Other Taxes	2,043,420	1,951,977	1,393,325	0
Charges for Services	124,292	301,755	0	0
Licenses and Permits	94,039	7,196	0	0
Fines and Forfeitures	0	2,400	0	0
Intergovernmental	3,900,405	1,088,959	167,910	634,660
Special Assessments	0	41,831	248,475	8,006
Investment Income	1,258,033	75,918	0	326,180
Other	283,426	72,616	0	205,614
Total Revenues	14,735,460	3,542,652	1,809,710	1,174,460
<u>Expenditures</u>				
Current:				
General Government	4,368,242	0	41,236	0
Security of Persons and Property	2,928,922	1,251,635	0	0
Public Health and Welfare	615,718	242,503	0	0
Transportation	0	2,153,005	0	0
Community Environment	313,173	8,359	0	0
Leisure Time Activities	0	650,386	0	0
Capital Outlay	1,008,235	762,016	0	9,215,492
Debt Service:				
Principal Retirement	0	75,000	1,005,000	0
Interest and Fiscal Charges	0	154,740	1,186,041	205,525
Total Expenditures	9,234,290	5,297,644	2,232,277	9,421,017
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,501,170	(1,754,992)	(422,567)	(8,246,557)
<u>Other Financing Sources (Uses)</u>				
Proceeds of Bonds	0	0	0	5,515,000
Proceeds of Notes	0	0	0	33,911
Operating Transfers - In	431,261	1,671,500	724,724	4,171,653
Operating Transfers - Out	(6,975,637)	(235,577)	(75,450)	(441,074)
Total Other Financing Sources (Uses)	(6,544,376)	1,435,923	649,274	9,279,490
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(1,043,206)	(319,069)	226,707	1,032,933
Fund Balances at Beginning of Year (Restated, See Note 3)	11,201,113	3,085,740	791,488	10,611,827
Increase (Decrease) in Reserve for Inventory	6,117	(30,200)	0	0
Fund Balances at End of Year	\$10,164,024	\$2,736,471	\$1,018,195	\$11,644,760

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)
\$7,031,845
5,388,722
426,047
101,235
2,400
5,791,934
298,312
1,660,131
<u>561,656</u>
<u>21,262,282</u>
4,409,478
4,180,557
858,221
2,153,005
321,532
650,386
10,985,743
1,080,000
<u>1,546,306</u>
<u>26,185,228</u>
<u>(4,922,946)</u>
5,515,000
33,911
6,999,138
<u>(7,727,738)</u>
<u>4,820,311</u>
(102,635)
25,690,168
<u>(24,083)</u>
<u><u>\$25,563,450</u></u>

City of Hudson, Ohio
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Year Ended December 31, 2002

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Municipal Income Tax	\$7,200,000	\$6,987,960	(\$212,040)
Property and Other Taxes	2,080,806	2,051,790	(29,016)
Charges for Services	130,000	124,292	(5,708)
Licenses and Permits	85,000	89,092	4,092
Intergovernmental	4,040,887	4,275,600	234,713
Special Assessments	0	0	0
Investment Income	950,000	930,627	(19,373)
Other	0	274,759	274,759
Total Revenues	14,486,693	14,734,120	247,427
<u>Expenditures</u>			
Current:			
General Government	4,892,309	4,490,088	402,221
Security of Persons and Property	3,160,099	3,017,374	142,725
Public Health and Welfare	623,508	621,329	2,179
Transportation	0	0	0
Community Environment	361,237	357,629	3,608
Leisure Time Activities	0	0	0
Capital Outlay	1,143,487	1,116,500	26,987
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
Total Expenditures	10,180,640	9,602,920	577,720
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,306,053	5,131,200	825,147
<u>Other Financing Sources (Uses)</u>			
Other Financing Sources	0	6,039	6,039
Proceeds of Notes	0	0	0
Proceeds of Bonds	0	0	0
Advances - In	181,000	261,000	80,000
Advances - Out	0	0	0
Operating Transfers - In	321,000	431,260	110,260
Operating Transfers - Out	(8,250,103)	(6,975,636)	1,274,467
Total Other Financing Sources (Uses)	(7,748,103)	(6,277,337)	1,470,766
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	(3,442,050)	(1,146,137)	2,295,913
Fund Balances at Beginning of Year (Restated, See Note 3)	8,292,917	8,292,917	0
Prior Year Encumbrances Appropriated	573,871	573,871	0
Fund Balances at End of Year	\$5,424,738	\$7,720,651	\$2,295,913

See accompanying notes to the general purpose financial statements

Governmental Fund Types

Special Revenue Funds			Debt Service Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0
1,973,272	1,960,596	(12,676)	1,393,584	1,399,698	6,114
238,750	304,720	65,970	0	0	0
6,400	9,210	2,810	0	0	0
1,312,329	1,331,333	19,004	167,999	167,910	(89)
0	0	0	264,805	248,475	(16,330)
57,586	63,785	6,199	0	0	0
43,844	72,348	28,504	0	0	0
<u>3,632,181</u>	<u>3,741,992</u>	<u>109,811</u>	<u>1,826,388</u>	<u>1,816,083</u>	<u>(10,305)</u>
0	0	0	66,501	41,417	25,084
1,398,572	1,278,284	120,288	0	0	0
235,711	232,887	2,824	0	0	0
2,360,907	2,299,366	61,541	0	0	0
8,359	8,359	0	0	0	0
838,195	702,866	135,329	0	0	0
941,841	831,966	109,875	0	0	0
75,000	75,000	0	1,005,000	1,005,000	0
103,740	103,740	0	1,186,041	1,186,041	0
<u>5,962,325</u>	<u>5,532,468</u>	<u>429,857</u>	<u>2,257,542</u>	<u>2,232,458</u>	<u>25,084</u>
<u>(2,330,144)</u>	<u>(1,790,476)</u>	<u>539,668</u>	<u>(431,154)</u>	<u>(416,375)</u>	<u>14,779</u>
0	268	268	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
(261,000)	(261,000)	0	0	0	0
1,550,000	1,671,500	121,500	122,485	724,724	602,239
(235,578)	(235,578)	0	(75,450)	(75,450)	0
<u>1,053,422</u>	<u>1,175,190</u>	<u>121,768</u>	<u>47,035</u>	<u>649,274</u>	<u>602,239</u>
(1,276,722)	(615,286)	661,436	(384,119)	232,899	617,018
2,427,247	2,427,247	0	785,296	785,296	0
570,132	570,132	0	0	0	0
<u>\$1,720,657</u>	<u>\$2,382,093</u>	<u>\$661,436</u>	<u>\$401,177</u>	<u>\$1,018,195</u>	<u>\$617,018</u>

(continued)

City of Hudson, Ohio
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis) (Continued)
All Governmental Fund Types
For the Year Ended December 31, 2002

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Municipal Income Tax	\$0	\$0	\$0
Property and Other Taxes	0	0	0
Charges for Services	0	0	0
Licenses and Permits	0	0	0
Intergovernmental	97,000	111,374	14,374
Special Assessments	0	8,006	8,006
Investment Income	296,526	305,960	9,434
Other	0	0	0
Total Revenues	393,526	425,340	31,814
<u>Expenditures</u>			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	26,966,366	12,157,883	14,808,483
Debt Service:			
Principal Retirement	14,725,000	14,725,000	0
Interest and Fiscal Charges	371,186	367,052	4,134
Total Expenditures	42,062,552	27,249,935	14,812,617
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(41,669,026)</u>	<u>(26,824,595)</u>	<u>14,844,431</u>
<u>Other Financing Sources (Uses)</u>			
Other Financing Sources	205,614	205,614	0
Proceeds of Notes	17,464,005	17,483,911	19,906
Proceeds of Bonds	5,515,000	5,515,000	0
Advances - In	0	0	0
Advances - Out	0	0	0
Operating Transfers - In	4,082,366	4,171,653	89,287
Operating Transfers - Out	(441,073)	(441,073)	0
Total Other Financing Sources (Uses)	26,825,912	26,935,105	109,193
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(14,843,114)</u>	<u>110,510</u>	<u>14,953,624</u>
Fund Balances at Beginning of Year (Restated, See Note 3)	15,144,885	15,144,885	0
Prior Year Encumbrances Appropriated	<u>5,247,234</u>	<u>5,247,234</u>	<u>0</u>
Fund Balances at End of Year	<u>\$5,549,005</u>	<u>\$20,502,629</u>	<u>\$14,953,624</u>

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$7,200,000	\$6,987,960	(\$212,040)
5,447,662	5,412,084	(35,578)
368,750	429,012	60,262
91,400	98,302	6,902
5,618,215	5,886,217	268,002
264,805	256,481	(8,324)
1,304,112	1,300,372	(3,740)
43,844	347,107	303,263
<u>20,338,788</u>	<u>20,717,535</u>	<u>378,747</u>
4,958,810	4,531,505	427,305
4,558,671	4,295,658	263,013
859,219	854,216	5,003
2,360,907	2,299,366	61,541
369,596	365,988	3,608
838,195	702,866	135,329
29,051,694	14,106,349	14,945,345
15,805,000	15,805,000	0
1,660,967	1,656,833	4,134
<u>60,463,059</u>	<u>44,617,781</u>	<u>15,845,278</u>
<u>(40,124,271)</u>	<u>(23,900,246)</u>	<u>16,224,025</u>
205,614	211,921	6,307
17,464,005	17,483,911	19,906
5,515,000	5,515,000	0
181,000	261,000	80,000
(261,000)	(261,000)	0
6,075,851	6,999,137	923,286
<u>(9,002,204)</u>	<u>(7,727,737)</u>	<u>1,274,467</u>
<u>20,178,266</u>	<u>22,482,232</u>	<u>2,303,966</u>
(19,946,005)	(1,418,014)	18,527,991
26,650,345	26,650,345	0
<u>6,391,237</u>	<u>6,391,237</u>	<u>0</u>
<u>\$13,095,577</u>	<u>\$31,623,568</u>	<u>\$18,527,991</u>

City of Hudson, Ohio
Combined Statement of Revenues,
Expenses and Changes in Retained Earnings
All Proprietary Fund Types
For the Year Ended December 31, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	
<u>Operating Revenues</u>				
Charges for Services	\$17,789,590	\$1,034,160	\$0	\$18,823,750
Donations	0	0	1,000	1,000
Interest Income	0	0	1,692	1,692
Other Operating Revenues	28,908	61,060	0	89,968
Total Operating Revenues	17,818,498	1,095,220	2,692	18,916,410
<u>Operating Expenses</u>				
Personal Services	3,376,448	243,325	0	3,619,773
Contractual Services	10,494,868	142,579	0	10,637,447
Claims	0	126,099	0	126,099
Materials and Supplies	396,136	189,771	0	585,907
Depreciation	534,709	461,458	0	996,167
Other Operating Expenses	57,364	0	0	57,364
Repairs and Maintenance	910,633	7,661	0	918,294
Total Operating Expenses	15,770,158	1,170,893	0	16,941,051
Operating Income (Loss)	2,048,340	(75,673)	2,692	1,975,359
<u>Non-Operating Revenues (Expenses)</u>				
Rent	103,688	0	0	103,688
Equity Interest in Joint Venture - Operating (Loss)	(41,474)	0	0	(41,474)
Interest Income	41,032	2	0	41,034
(Loss) on Disposal of Fixed Assets	(136,912)	0	0	(136,912)
Proceeds of Notes	24,758	0	0	24,758
Interest and Fiscal Charges	(576,071)	0	0	(576,071)
Other Non-Operating Revenues	65,959	23	0	65,982
Total Non-Operating Revenues (Expenses)	(519,020)	25	0	(518,995)
Income (Loss) Before Operating Transfers	1,529,320	(75,648)	2,692	1,456,364
Operating Transfers - In	1,010,000	0	0	1,010,000
Operating Transfers - Out	(281,400)	0	0	(281,400)
Net Income (Loss)	2,257,920	(75,648)	2,692	2,184,964
Retained Earnings at Beginning of Year (Restated, See Note 3)	15,992,467	3,820,828	30,036	19,843,331
Retained Earnings at End of Year	18,250,387	3,745,180	32,728	22,028,295
Contributed Capital at Beginning of Year	5,518,549	0	0	5,518,549
Contributed Capital at End of Year	5,518,549	0	0	5,518,549
Total Fund Equity at End of Year	\$23,768,936	\$3,745,180	\$32,728	\$27,546,844

See accompanying notes to the general purpose financial statements

City of Hudson, Ohio
Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2002

	Enterprise	Internal Service	Nonexpendable Trust	Totals (Memorandum Only)
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$17,123,647	\$0	\$0	\$17,123,647
Cash Receipts for Quasi-External Operating Transactions with Other Funds	0	1,110,371	0	1,110,371
Cash Payments to Suppliers for Goods and Services	(11,768,976)	(319,596)	0	(12,088,572)
Cash Payments to Employees for Services and Benefits	(3,203,960)	(222,557)	0	(3,426,517)
Cash Payments for Claims	0	(137,235)	0	(137,235)
Cash Payments for Quasi-External Operating Transactions with Other Funds	(291,047)	0	0	(291,047)
Other Operating Revenues	28,908	63,650	0	92,558
Other Operating Expenses	(57,435)	0	0	(57,435)
Donations	0	0	1,000	1,000
Net Cash Provided by Operating Activities	1,831,137	494,633	1,000	2,326,770
<u>Cash Flows from Noncapital Financing Activities</u>				
Operating Transfers In	1,010,000	0	0	1,010,000
Operating Transfer Out	(281,400)	0	0	(281,400)
Other Non-Operating Revenue	65,929	0	0	65,929
Rent	103,688	0	0	103,688
Net Cash Provided by Noncapital Financing Activities	898,217	0	0	898,217
<u>Cash Flows from Capital and Related Financing Activities</u>				
Proceeds From Sale of Bonds	9,000,000	0	0	9,000,000
Proceeds From Sale of Notes	8,409,758	0	0	8,409,758
Acquisition of Capital Assets	(2,611,526)	(385,163)	0	(2,996,689)
Proceeds From Sale of Capital Assets	610	0	0	610
Principal Payments	(9,405,372)	0	0	(9,405,372)
Interest Payments	(581,210)	0	0	(581,210)
Net Cash Provided by (Used For) Capital and Related Financing Activities	4,812,260	(385,163)	0	4,427,097
<u>Cash Flows from Investing Activities</u>				
Interest on Investments	41,032	2	1,692	42,726
Net Cash Provided by Investing Activities	41,032	2	1,692	42,726
Net Increase in Cash and Cash Equivalents	7,582,646	109,472	2,692	7,694,810
Cash and Cash Equivalents at Beginning of Year	12,494,029	680,597	30,036	13,204,662
Cash and Cash Equivalents at End of Year	\$20,076,675	\$790,069	\$32,728	\$20,899,472
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>				
Operating Income (Loss)	\$2,048,340	(\$75,673)	\$2,692	\$1,975,359
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>				
Depreciation	534,709	461,458	0	996,167
Interest Income	0	0	(1,692)	(1,692)
Changes in Assets and Liabilities:				
(Increase)/Decrease in Accounts Receivable	(665,943)	78,801	0	(587,142)
(Increase)/Decrease in Special Assessments	(54,878)	0	0	(54,878)
(Increase)/Decrease in Materials and Supplies Inventory	(45,817)	13,234	0	(32,583)
Increase/(Decrease) in Accounts Payable	(251,109)	7,181	0	(243,928)
Increase/(Decrease) in Accrued Wages and Benefits	17,438	2,377	0	19,815
Increase/(Decrease) in Compensated Absences Payable	167,858	16,459	0	184,317
Increase/(Decrease) in Claims Payable	0	(11,136)	0	(11,136)
Increase/(Decrease) in Deferred Revenue	54,878	0	0	54,878
Increase/(Decrease) in Intergovernmental Payable	25,661	1,932	0	27,593
Total Adjustments	(217,203)	570,306	(1,692)	351,411
Net Cash Provided by Operating Activities	\$1,831,137	\$494,633	\$1,000	\$2,326,770

See accompanying notes to the general purpose financial statements

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 1 - Description of the City and Reporting Entity

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

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

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

The City is associated with a joint venture and a shared risk pool. The joint venture is the Ohio Municipal Electric Generation Agency Joint Venture 1 and 5. The Northern Ohio Risk Management Association (NORMA) is the shared risk pool. These organizations are presented in Notes 21 and 22.

Note 2 - Summary of Significant Accounting Policies

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis Of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For general purpose financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary and fiduciary.

Governmental Fund Types Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

General Fund This fund is the operating fund of the City and is used to account 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 general laws of Ohio.

Special Revenue Funds These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds These funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term debt principal, interest and related costs.

Capital Projects Funds These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

Proprietary Fund Types Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds These funds are used to 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.

Fiduciary Fund Types Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group This account group accounts for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of the proprietary funds, including special assessment debt for which the City is obligated in some manner.

B. *Measurement Focus and Basis of Accounting*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the Combined Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

The proprietary and nonexpendable trust fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Combined Balance Sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary and nonexpendable trust fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made.

All governmental fund types and agency funds are accounted for using the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined. "Available" means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, State and County levied locally shared taxes (including gasoline tax), state grants, licenses and permits, inheritance taxes, charges for current services and income tax withheld by employers. Major revenue sources not susceptible to accrual include fines and forfeitures, which are not considered measurable until received.

The City reports deferred revenue on its Combined Balance Sheet. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 2002, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable, and have been recorded as a receivable. Since all assessments are due outside of the available period, the entire amount has been deferred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

The proprietary and nonexpendable trust fund types utilize the accrual basis of accounting for reporting purposes. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year end.

C. *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, the Certificate of Estimated Resources, and the Annual Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Annual Appropriation Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the department level. Any budgetary modifications at this level may only be made by resolution of the City Council.

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

Estimated Resources The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the Annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The Certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official Certificate of Estimated Resources issued during 2002.

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

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

Encumbrances As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of budgetary control. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the general purpose financial statements for the proprietary funds.

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.

D. *Cash, Cash Equivalents and Investments*

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the year 2002 amounted to \$1,258,033, which includes \$977,325 assigned from other City funds.

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

E. *Interfund Assets and Liabilities*

Short-term interfund loans are classified as “Interfund Receivable/Payable”.

F. *Revenues – Exchange and Non-Exchange Transactions*

Exchange transactions are those in which each party to a transaction gives and receives essentially something of equal value. Proprietary and nonexpendable trust funds, where the full accrual basis of accounting is used, record revenue when the exchange takes place. Governmental funds, where the modified accrual basis of accounting is used, record revenue in the year in which the resources are both measurable and available.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include municipal income taxes, property and other local taxes, special assessments, fines and forfeitures, grants, entitlements and donations.

Municipal income taxes are recognized as revenue in the year when the underlying exchange transaction has occurred and the resources are both measurable and available.

Generally, property and other local taxes, special assessments and fines and forfeitures are recognized as revenue in the year when an enforceable legal claim has arisen and the resources are both measurable and available. Revenue from property and other local taxes, net of refunds and uncollectible amounts, is recognized in the year for which the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different year. Special assessments and fines and forfeitures are recognized in the year when an enforceable legal claim has arisen unless the enabling legislation includes timing requirements. If the enabling legislation includes timing requirements, special assessments and fines and forfeitures are recognized in the year when the resources are required to be used or when use is first permitted.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied and the revenues are both measurable and available. 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 specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

G. Inventory

Inventories of governmental funds are stated at cost while the inventory of the proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental fund which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

H. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group at historical cost or estimated historical cost. Assets in the general fixed assets account group are not depreciated.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems are not capitalized or reported, as these assets are immovable and of value only to the City.

Proprietary Fund Fixed Assets

Fixed assets reflected in the enterprise funds are stated at historical cost (or estimated historical cost) and are updated for the cost of additions and retirements during the year. Depreciation has been provided on a straight-line basis over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	50 years
Infrastructure	30 to 65 years
Machinery and Equipment	5 to 30 years
Vehicles	8 years

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

The City's policy is to capitalize interest on proprietary fund construction projects until substantial completion of the project.

Valuation

The City's fixed asset values were determined using original acquisition costs when such information was available. In cases when original costs were not practicably determinable, estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at estimated fair market value on the date donated.

I. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service.

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

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 remainder is reported in the general long-term obligations account group.

J. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to proprietary funds that are not subject to repayment. These private sources are recorded at fair market value on the date contributed.

K. Reserves of Fund Equity

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 2 - Summary of Significant Accounting Policies (continued)

L. *Interfund Transactions*

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Non-recurring and non-routine transfers of equity between funds, capital contributions to the proprietary fund type, the subsequent return of all or part of such contributions, and the transfer of residual balances of discontinued funds or projects to the general fund, capital project funds or debt service fund are classified as residual equity transfers.

All other interfund transfers are reported as operating transfers.

M. *Accrued and Long-Term Obligations*

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds, regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year end are considered not to have been made with current available financial resources. Bonds and special assessment debt are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in appropriate proprietary funds.

N. *Estimates*

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

O. *Total Columns on General Purpose Financial Statements*

Total columns on the general purpose financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 3 – Restatement of Prior Year Fund Balance

The City has reevaluated the activity of some of its funds and has reclassified funds to more accurately reflect these activities in accordance with GAAP fund classifications.

The Storm Sewer Improvement Fund previously accounted for as a capital projects fund is now accounted for in the enterprise funds. In addition, the Poor Endowment Trust Fund was previously accounted for as a special revenue fund is now accounted for in the nonexpendable trust funds.

Various funds have been restated to reflect the implementation of GASB33.

In a prior year, a repayment of an advance from the Fire District Fund to the General Fund had been recorded as a transfer.

Assets from various funds had been transferred to the Equipment Reverse and Fleet Management Fund.

	General Fund	Special Revenue	Capital Projects	Enterprise Fund	Internal Service Fund	Nonexpendable Trust
GAAP Basis						
Excess (Deficiency) as						
Previously Reported	(\$1,195,248)	\$67,248	\$817,474	\$1,929,720	\$511,660	\$0
Fund Reclassifications	0	(30,036)	9,745	(9,745)	3,078,495	30,036
Prior Year Correction	144,802	167,930	0	(814,283)	0	0
Excess (Deficiency) as						
Restated December 31, 2001	<u>(\$1,050,446)</u>	<u>\$205,142</u>	<u>\$827,219</u>	<u>\$1,105,692</u>	<u>\$3,590,155</u>	<u>\$30,036</u>
Budget Basis						
Excess (Deficiency) as						
Previously Reported	(\$1,609,563)	(\$838,910)	\$1,047,453	(\$2,251,381)	(\$4,882)	\$0
Fund Reclassifications	0	(30,036)	(7,005)	7,905	0	30,036
Excess (Deficiency) as						
Restated December 31, 2001	<u>(\$1,609,563)</u>	<u>(\$868,946)</u>	<u>\$1,040,448</u>	<u>(\$2,243,476)</u>	<u>(\$4,882)</u>	<u>\$30,036</u>

The restatement to the beginning fund balances on the GAAP basis is as follows:

	General Fund	Special Revenue	Capital Projects	Enterprise Fund	Internal Service Fund	Nonexpendable Trust
Fund Balances as Stated						
at December 31, 2001	\$11,056,311	\$2,947,846	\$10,602,082	\$16,816,495	\$742,333	\$0
Fund Reclassifications	0	(30,036)	9,745	(9,745)	0	30,036
Prior Year Correction	144,802	167,930	0	(814,283)	3,078,495	0
Fund Balances as Restated						
at January 1, 2002	<u>\$11,201,113</u>	<u>\$3,085,740</u>	<u>\$10,611,827</u>	<u>\$15,992,467</u>	<u>\$3,820,828</u>	<u>\$30,036</u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 3 – Restatement of Prior Year Fund Balance (continued)

The restatement to the beginning fund balances on the budgetary basis is as follows:

	General Fund	Special Revenue	Capital Projects	Enterprise Fund	Internal Service Fund	Nonexpendable Trust
Fund Balances as Stated						
at December 31, 2001	\$8,292,917	\$2,457,283	\$15,151,890	\$8,360,689	\$587,703	\$0
Fund Reclassifications	0	(30,036)	(7,005)	7,005	0	30,036
Fund Balances as Restated						
at January 1, 2002	\$8,292,917	\$2,427,247	\$15,144,885	\$8,367,694	\$587,703	\$30,036

Note 4 - Budgetary Basis of Accounting

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

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types 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 major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year-end encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Proceeds from and principal payment on bond anticipation notes are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).
5. Advances are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 4 - Budgetary Basis of Accounting (continued)

Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses) All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	(\$1,043,206)	(\$319,069)	\$226,707	\$1,032,933
Net Adjustment for Revenue Accruals	265,698	199,608	6,373	16,906,494
Net Adjustment for Expenditure Accruals	(1,012,317)	(964,020)	(181)	(20,678,057)
Encumbrances	643,688	468,195	0	2,849,140
Budget Basis	(\$1,146,137)	(\$615,286)	\$232,899	\$110,510

Note 5 - Accountability

The following funds had deficit fund balances or retained earnings caused by the recognition of expenditures/expenses and/or nonrecognition of revenues on the modified accrual basis of accounting and the accrual basis of accounting which substantially differ from those recognized on the cash basis of accounting:

Fund	Deficit Fund Balance
Capital Project Funds	
City Acquisition and Construction	(\$1,029,266)

Note 6 - Deposits and Investments

Deposits and investments are restricted by provisions of the Ohio Revised Code. State statutes classify monies held by the City into three categories:

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

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 6 - Deposits and Investments (continued)

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

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

Interim monies can be deposited and invested in the following securities:

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

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

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this state, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 6 - Deposits and Investments (continued)

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.

Cash on Hand

At year end, the City had \$1,350 in undeposited cash on hand which is included on the Combined Balance Sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement 3.

Deposits

At year end, the carrying amount of the City's deposits was \$4,790,978 and the bank balance was \$5,236,441. Of the bank balance:

1. \$344,355 was covered by federal depository insurance; and
2. \$4,892,086 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments

GASB Statement No. 3 requires the use of three categories to classify investments as to custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 6 - Deposits and Investments (continued)

	Category			Fair Value
	1	2	3	
Overnight Repurchase Agreements	\$0	\$0	\$28,809,820	\$28,809,820
Series "E" Bonds	3,198	0	0	3,198
Common Stock	11,925	0	0	11,925
Government Agency Obligations	0	0	24,112,882	24,112,882
Total Investments	<u>\$15,123</u>	<u>\$0</u>	<u>\$52,922,702</u>	<u>\$52,937,825</u>

The classification of cash and cash equivalents and investments on the combined general purpose financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classifications of cash and cash equivalents and investments on the combined general purpose financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash	Investments
	Equivalents/Deposits	
GASB Statement No. 9	\$57,715,030	\$15,123
Investments of Cash Management Pool:		
Overnight Repurchase Agreements	(28,809,820)	28,809,820
Government Agency Obligations	(24,112,882)	24,112,882
Cash on Hand	(1,350)	0
GASB Statement No. 3	<u>\$4,790,978</u>	<u>\$52,937,825</u>

Note 7 - Receivables

Receivables at December 31, 2002, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements and shared revenues. Accounts, taxes, special assessments and intergovernmental receivables are deemed collectible in full.

Note 8 - Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semiannually. If paid annually, payment is due January 20; if paid semiannually, the first payment is due January 20, with the remainder payable June 20, unless extended.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 8 - Property Taxes (continued)

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Public utility, real, and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31, of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 80 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property tax on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable as of December 31, 2002. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, 2002, and are not intended to finance 2003 operations. The receivable is therefore offset by a credit to deferred revenue.

The full tax rate for all City operations for the year ended December 31, 2002, was \$8.905 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Category	Total Assessed Value	%
Real Property Valuation:		
Residential/Agriculture	\$593,502,420	79.05%
Commercial/Industrial/Mineral	82,285,500	10.96%
Public Utilities	64,330	0.01%
Tangible Personal Property Valuation:		
General	60,477,159	8.06%
Public Utilities	14,448,660	1.92%
Total Valuation	<u>\$750,778,069</u>	<u>100.00%</u>

Note 9 - Income Tax

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 9 - Income Tax (continued)

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Authority (RITA) either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, disbursement of the revenue received from income taxes is as follows: first, all expenses of collecting the tax and of administering and enforcing the income tax ordinance are paid. Then, the balance remaining after payment of the expenses is deposited in the general fund for street construction, maintenance and repair, capital improvements and general municipal operations, or as such other fund or funds as Council may from time to time establish or designate. For 2002, municipal income tax revenue was \$7,031,845.

Note 10 - Intergovernmental Receivable

Receivables at December 31, 2002 consisted of taxes, special assessments, accounts, interfund and intergovernmental arising from grants, entitlements and shared revenues. All receivables are considered collectible in full. Delinquent accounts receivable may be certified and collected as a special assessment, subject to foreclosure for nonpayment.

A summary of the items of intergovernmental receivables follows:

Fund	Amount
General	\$1,122,210
Special Revenue Funds	
Drug Law Enforcement	300
Law Enforcement and Education	200
Fire District	37,567
County Permissive Tax	3,900
Court Computerization	378
Street	282,134
State Highway	22,876
Cemetery Board	7,464
Police Pension	13,172
Parks	44,265
EMS	16,896
Total Special Revenue	429,152
Capital Projects Fund	
Permissive Capital	7,800
Street Improvement	523,384
Total Capital Projects	531,184
Debt Service	
General Obligation Bond Retirement	87,377
Trust and Agency	
Library Levy	40,001
Total All Funds	\$2,209,924

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 11 - Special Assessments

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

The City's special assessments include off-street parking improvements, watermain improvements and storm sewer improvements which are billed by the County Auditor and collected by the County Treasurer. The County Auditor periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year.

Note 12 - Risk Management

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

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

The claims liability of \$10,404 reported in the fund at December 31, 2002, is based on the requirements of Governmental Accounting Standards Board Statement No. 30 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:

	Balance at <u>Beginning of Year</u>	Current Year <u>Claims</u>	Claims <u>Payments</u>	Balance at <u>End of Year</u>
2001	\$109,260	\$225,130	\$312,850	\$21,540
2002	\$21,540	\$111,759	\$122,895	\$10,404

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 13 - Fixed Assets

A summary of the changes in general fixed assets during 2002 follows:

	Balance		Restated			Balance
	01/01/2002	Restatement	01/01/2002	Additions	Deletions	12/31/2002
Land	\$11,908,599	(\$713,900)	\$11,194,699	\$157,287	\$0	\$11,351,986
Buildings	2,045,379	713,900	2,759,279	292,845	0	3,052,124
Equipment	6,891,897	(4,115,230)	2,776,667	364,254	(344,348)	2,796,573
Vehicles	2,946,543	(2,551,135)	395,408	167,136	(203,214)	359,330
Infrastructure	30,000	0	30,000	0	0	30,000
Construction in Progress	1,194,183	0	1,194,183	3,529,828	0	4,724,011
	<u>\$25,016,601</u>	<u>(\$6,666,365)</u>	<u>\$18,350,236</u>	<u>\$4,511,350</u>	<u>(\$547,562)</u>	<u>\$22,314,024</u>

A summary of the proprietary funds' fixed assets at December 31, 2002 follows:

	Enterprise Funds	Internal Service Fund
Land and Improvements	\$2,392,694	\$11,967
Buildings	4,172,646	0
Infrastructure	17,853,096	0
Machinery and Equipment	4,811,765	1,480,456
Vehicles	44,285	4,626,810
Construction in Progress	2,162,785	0
	<u>31,437,271</u>	<u>6,119,233</u>
Less: Accumulated Depreciation	<u>(7,096,615)</u>	<u>(3,097,581)</u>
Net Fixed Assets	<u>\$24,340,656</u>	<u>\$3,021,652</u>

Note 14 - Note Debt

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

	Balance	Additions	Deletions	Balance
	01/01/2002			12/31/2002
1999 Industrial Development, Variable, Due 11/02	\$2,250,000	\$0	(\$2,250,000)	\$0
2001 Water System Improvement, 3.10%, Due 5/02	1,960,000	0	(1,960,000)	0
2001 Golf Course Improvement, 3.10%, Due 5/02	380,000	0	(380,000)	0
2001 Community Center Expansion, 3.10%, Due 5/02	325,000	0	(325,000)	0
2001 Police Facility Construction, 3.10%, Due 5/02	3,800,000	0	(3,800,000)	0

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 14 - Note Debt (continued)

	Balance 01/01/2002	Additions	Deletions	Balance 12/31/2002
2001 Road Improvement, 3.10%, Due 5/02	1,200,000	0	(1,200,000)	0
2001 Golf Course Improvement, 2.15%, Due 12/02	920,000	0	(920,000)	0
2001 Real Estate Acquisition, 3.20%, Due 5/02	1,000,000	0	(1,000,000)	0
2002 Water System Improvements, 1.64%, Due 11/02	0	1,960,000	(1,960,000)	0
2002 Golf Course Improvement, 1.64%, Due 11/02	0	380,000	(380,000)	0
2002 Community Center Expansion, 1.64%, Due 11/02	0	325,000	(325,000)	0
2002 Police Facility Construction, 1.64%, Due 11/02	0	3,925,000	(3,925,000)	0
2002 Road Improvement, 1.64%, Due 11/02	0	1,200,000	(1,200,000)	0
2002 Real Estate Acquisition, 1.64%, Due 11/02	0	700,000	(700,000)	0
2002 Storm Water Improvements, 1.64%, Due 11/02	0	825,000	(825,000)	0
2002 Substation Construction, 1.64%, Due 11/02	0	2,300,000	(2,300,000)	0
2002 Downtown Development, 1.39%, Due 11/03	0	5,550,000	0	5,550,000
2002 Road Improvement, 1.39%, Due 11/03	0	3,500,000	0	3,500,000
2002 Electric System Improvement, 1.39%, Due 11/03	0	2,920,000	0	2,920,000
2002 Downtown Development, 1.39%, Due 11/03	0	2,250,000	0	2,250,000
Total Notes	<u><u>\$11,835,000</u></u>	<u><u>\$25,835,000</u></u>	<u><u>(\$23,450,000)</u></u>	<u><u>\$14,220,000</u></u>

All notes are backed by the full faith and credit of the City of Hudson. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 15 - Long-Term Obligations

Changes in the long-term obligations of the City during 2002 were as follows:

	<u>Balance</u> <u>01/01/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2002</u>
GENERAL LONG-TERM OBLIGATIONS ACCOUNT GROUP				
<u>General Obligation Bonds:</u>				
1992 Multipurpose 2.5% to 5.2%, Due through 2007	\$630,000	\$0	(\$90,000)	\$540,000
1992 Safety Center, 2.9% to 6.35%, Due through 2012	790,000	0	(70,000)	720,000
1998 Park Acquisition, 4.5% to 5.0%, Due through 2017	6,310,000	0	(280,000)	6,030,000
1998 Village South, 4.5% to 5.5%, Due through 2018	3,140,000	0	(130,000)	3,010,000
1999 Park Improvement, 4.5% to 4.9%, Due through 2018	980,000	0	(40,000)	940,000
2000 Park Improvement, 4.5% to 6.125%, Due through 2019	1,010,000	0	(35,000)	975,000
2000 Library Construction, 4.4% to 6.35%, Due through 2019	9,120,000	0	(315,000)	8,805,000
2002 Community Center Expansion, 1.65% to 4.65%, Due through 2023	0	330,000	0	330,000
2002 Police Facility Construction, 1.65% to 4.65%, Due through 2023	0	3,985,000	0	3,985,000
2002 Road Improvement, 1.75%, Due 11/02	0	1,200,000	0	1,200,000
Total General Obligation Bonds	<u>21,980,000</u>	<u>5,515,000</u>	<u>(960,000)</u>	<u>26,535,000</u>
<u>Special Assessment Bonds:</u>				
1998 Sewer Improvement, 4.5% to 5.0%, Due through 2016	1,360,000	0	(65,000)	1,295,000
1998 Executive Parkway, 4.3% to 5.0%, Due through 2018	950,000	0	(40,000)	910,000
1999 Water Main Construction, 3.9% to 5.625%, Due through 2019	395,000	0	(15,000)	380,000
Total Special Assessment Bonds	<u>2,705,000</u>	<u>0</u>	<u>(120,000)</u>	<u>2,585,000</u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 15 - Long-Term Obligations (continued)

	<u>Balance</u> <u>01/01/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2002</u>
Compensated Absences	<u>839,624</u>	<u>289,978</u>	<u>0</u>	<u>1,129,602</u>
Total General Long-Term Obligations Account Group	<u>25,524,624</u>	<u>5,804,978</u>	<u>(1,080,000)</u>	<u>30,249,602</u>
 ENTERPRISE FUNDS				
<u>General Obligation Bonds:</u>				
Electric Fund:				
1993 Electric Improvement, 2.7% to 4.25%, Due through 2003	480,000	0	(235,000)	245,000
2002 Substation Construction, 1.75%, Due 11/02	0	2,230,000	0	2,230,000
Water Fund:				
1998 Water System Improvement, 4.5% to 5.0%, Due through 2016	1,895,000	0	(95,000)	1,800,000
2002 Water System Improvement, 1.75%, Due 11/02	0	4,035,000	0	4,035,000
2002 Storm Water Improvement, 1.75%, Due 11/02	0	1,090,000	0	1,090,000
Golf Course Fund:				
Golf Course Improvement, 4.3% to 5.1%, Due through 2019	610,000	0	(40,000)	570,000
2002 Golf Course Improvement, 1.75%, Due 11/02	<u>0</u>	<u>1,645,000</u>	<u>0</u>	<u>1,645,000</u>
Total General Obligation Bonds	<u>2,985,000</u>	<u>9,000,000</u>	<u>(370,000)</u>	<u>11,615,000</u>
OWDA Loan, 4.04%, Due through 2018	<u>7,406,315</u>	<u>0</u>	<u>(310,372)</u>	<u>7,095,943</u>
Total Enterprise Funds	<u>10,391,315</u>	<u>9,000,000</u>	<u>(680,372)</u>	<u>18,710,943</u>
TOTAL GENERAL LONG-TERM OBLIGATIONS	<u><u>\$35,915,939</u></u>	<u><u>\$14,804,978</u></u>	<u><u>(\$1,760,372)</u></u>	<u><u>\$48,960,545</u></u>

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 15 - Long-Term Obligations (continued)

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

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002, are as follows:

Year Ending December 31	General Obligation Bonds	Enterprise General Obligation Bonds	Special Assessments Bonds	OWDA Loan	Total
2003	\$2,360,711	\$925,602	\$244,906	\$606,484	\$4,137,703
2004	2,537,450	891,204	244,566	606,484	4,279,704
2005	2,524,424	888,671	243,881	606,484	4,263,460
2006	2,513,164	865,024	242,964	606,484	4,227,636
2007	2,498,784	851,376	251,799	606,484	4,208,443
2008 - 2012	11,759,053	4,170,366	1,246,598	3,032,419	20,208,436
2013 - 2017	11,308,507	3,970,189	1,100,022	3,032,419	19,411,137
2018 - 2022	4,279,609	3,198,848	154,625	606,284	8,239,366
2023 - 2027	418,800	1,630,367	0	0	2,049,167
2028 - 2033	0	1,519,202	0	0	1,519,202
Total Principal and Interest	40,200,502	18,910,849	3,729,361	9,703,542	72,544,254
Less: Interest	(13,665,502)	(7,295,849)	(1,144,361)	(2,607,599)	(24,713,311)
Total Principal	<u>\$26,535,000</u>	<u>\$11,615,000</u>	<u>\$2,585,000</u>	<u>\$7,095,943</u>	<u>\$47,830,943</u>

The City also is a participant in a joint venture (See Note 21) that has issued Certificates of Beneficial Interest. The debt service payments are obligations of the joint venture's participants, payable from each participant's municipal electric utility systems, subject only to the prior payment of the operating and maintenance expenses. In case of default by a participant, the remaining participants become liable for that participant's debt service payments. The Certificates of Beneficial Interest are fully insured in case of total default by all participants. No defaults have occurred to date on either of these joint ventures. For accounting purposes, the obligation for repayment of the Certificates is reflected in the financial statements of the joint venture.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 15 - Long-Term Obligations (continued)

The debt associated with Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) amounts to 5.69 percent of \$138,420,000 or approximately \$7,876,100. This percentage is based on ownership interest in equity. The total principal retirements and the portion that will be paid by the City are as follows:

Year	Certificates of Beneficial Interest	City of Hudson Amount
2003	\$3,445,000	\$196,021
2004	3,620,000	205,978
2005	3,800,000	216,220
2006	4,000,000	227,600
2007	4,215,000	239,834
2008 - 2012	24,765,000	1,409,129
2013 - 2017	32,280,000	1,836,732
2018 - 2022	42,110,000	2,396,059
2023 - 2024	20,185,000	1,148,527
Total	<u>\$138,420,000</u>	<u>\$7,876,100</u>

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

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

Note 16 - Defined Benefit Pension Plans

A. Public Employees Retirement System

All employees of the City, with the exclusion of City police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. The OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. The OPERS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6705 or 1-800-222-7377.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 16 - Defined Benefit Pension Plans (continued)

Plan members are required to contribute eight and one-half percent of their annual covered salary to fund pension benefit obligations. The City is required to contribute 13.55 percent. Contributions are authorized by state statute. The contribution rates are determined actuarially. The City's contributions for pension obligations to the OPERS for the years ending December 31, 2002, 2001 and 2000 were \$517,927, \$512,984 and \$331,737, respectively, equal to the required contributions for each year.

B. *Ohio Police and Fire Pension Fund*

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

Plan members are required to contribute ten percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent, respectively, for police officers and firefighters. Contributions are authorized by State statute. The City's contributions for pension obligations to the OP&F Ohio for the years ending December 31, 2002, 2001 and 2000 were \$206,675, \$205,014 and \$197,387, respectively, equal to the required contributions for each year.

C. *Social Security System*

All volunteer firefighters and Council members, not otherwise covered by another retirement system, are covered by Social Security. The City's liability is 6.2 percent of wages paid.

Note 17 - Postemployment Benefits

A. *Public Employees Retirement System*

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent was the portion that was used to fund health care for the year 2002. The City's actual contributions for 2002 which were used to fund post-employment benefits were \$302,881.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 17 - Postemployment Benefits (continued)

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.0 percent annually.

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

The number of active contributing participants was 402,041. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

For 2001, OPERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of OPERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F Ohio shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll. The City's actual contributions for 2002 which were used to fund post-employment benefits were \$134,042.

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

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 17 - Postemployment Benefits (continued)

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.5 percent and 7.75 percent of covered payroll in 2000 and 2001, respectively. The allocation is 7.75 percent in 2002. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. The number of participants eligible statewide to receive health care benefits as of December 31, 2001, the date of the last actuarial valuation available, are 13,174 for police officers and 10,239 for firefighters. The OP&F Ohio's total health care expense for the year ending December 31, 2001, the date of the last actuarial valuation available, was \$122,298,771, which was net of member contributions of \$6,874,699.

Note 18 – Compensated Absences

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

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

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

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

As of December 31, 2002, the total liability for unpaid compensated absences was \$1,803,405.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 19 - Contingencies

A. Grants

The City has received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2002.

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, 2002.

Note 20 - Interfund Transactions

The account balances by fund of “Interfund Receivable” and “Interfund Payable” as of December 31, 2002 are as follows:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$441,008	\$0
Capital Projects Funds		
Police Station	0	25,000
Street Improvements	0	155,000
Total Capital Projects Funds	0	180,000
Enterprise Funds		
Storm Water Utility	0	80,350
Golf Course	0	180,658
Total Enterprise Funds	0	261,008
Total All Funds	\$441,008	\$441,008

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 21 - Joint Venture

Ohio Municipal Electric Generation Agency Joint Venture 1 and 5 (JV1 and JV5)

The City's electric enterprise fund has entered into an ongoing joint venture agreement with other Ohio municipal electric systems to form the Ohio Municipal Electric Generation Agency Joint Venture 1 and 5 (OMEGA JV1 and OMEGA JV5) for the purpose of providing electric power and energy to its participants on a cooperative basis. Title to the six diesel-powered generating units in OMEGA JV1 and the title to the hydroelectric project in OMEGA JV5 located at the existing Belleville Lock was transferred to the municipal electrical systems from American Municipal Power Ohio, Incorporated (AMP-Ohio), a membership organization comprised of communities throughout Ohio, West Virginia and Pennsylvania that own and operate electric systems. Each participant has a contract which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. In accordance with the joint venture agreement, the City remitted \$16,824 and \$1,029,791 to OMEGA JV1 and OMEGA JV5, respectively in 2002.

The City's equity interest in OMEGA JV1 and OMEGA JV5 is reported in the City's electric enterprise fund. The City's undivided ownership of OMEGA JV1 and OMEGA JV5 is 10.37 percent and 5.69 percent, respectively. The City's equity interest was \$46,298 and \$409,640 for OMEGA JV1 and OMEGA JV5, respectively, at December 31, 2002. Financial information can be obtained from AMP-Ohio, 2600 Airport Drive, Columbus, Ohio 43219.

Note 22 - Shared Risk Pool

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

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

In 2002, the City paid \$79,032 for premiums. Financial information can be obtained by contacting the fiscal agent: City of Bedford Heights, Finance Director, 5661 Perkins Road, Bedford Heights, Ohio 44146.

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 23 - Segment Information

The City maintains five enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers. The table below reflects, in a summarized format, the more significant data relating to the enterprise funds of the City as of and for the year ended December 31, 2002:

	Water	Wastewater	Electric	Golf Course	Storm Water Utilities	Totals
Operating Revenue	\$1,374,177	\$1,910,273	\$13,291,974	\$816,831	\$425,243	\$17,818,498
Operating Expenses Before Depreciation	1,017,958	1,995,820	10,987,778	615,025	618,868	15,235,449
Depreciation Expense	203,400	170,373	116,730	37,658	6,548	534,709
Net Non-Operating Revenues (Expenses)	(6,295)	(296,112)	(72,434)	(133,883)	(10,296)	(519,020)
Operating Transfers - In (Out)	(176,942)	653,000	(7,458)	0	260,000	728,600
Net Income (Loss)	(30,418)	100,968	2,107,574	30,265	49,531	2,257,920
Fixed Asset Additions	186,633	236,528	1,250,694	852,841	84,800	2,611,496
Net Working Capital	2,653,316	685,432	12,807,934	310,120	1,226,483	17,683,285
Total Assets	12,290,774	8,808,268	21,637,705	4,240,437	1,835,167	48,812,351
OWDA Loan Payable	0	7,095,943	0	0	0	7,095,943
General Obligation Bonds Payable	5,835,000	0	2,475,000	2,215,000	1,090,000	11,615,000
Total Equity	6,095,154	1,384,527	14,053,806	1,703,083	532,366	23,768,936
Encumbrances at December 31, 2002	\$696,429	\$22,743	\$2,755,044	\$128,933	\$48,644	\$3,651,793

Note 24 – Outstanding Contractual Commitments

The City has the following outstanding contractual commitments for various construction projects at December 31, 2002:

Contractor	Contract and Contingency	Amount Expended	Amount Remaining
Beaver Excavating Company	\$735,401	\$701,463	\$33,938
Emschoff Excavating	75,016	74,322	694
Eslich Wrecking Company	56,481	43,481	13,000
JD Striping Services	76,614	68,398	8,216
Kenmore Construction Company	1,157,174	1,101,902	55,272
LTZ Construction, Inc.	75,940	54,096	21,844
McCourt Construction	543,983	448,371	95,612
Nerone & Sons, Inc.	69,982	61,535	8,447
Nerone & Sons, Inc.	108,845	25,300	83,545
Nerone & Sons, Inc.	610,000	85,107	524,893
Northern Ohio Paving Company	1,956,259	1,635,319	320,939
Northern Ohio Paving Company	165,000	57,534	107,466
Rhino Excavating & Milling	102,355	94,045	8,310
Spano Brothers, Inc.	658,907	543,188	115,719

City of Hudson, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002

Note 24 – Outstanding Contractual Commitments (continued)

Stamm Contracting	360,000	339,995	20,005
Thomas Asphalt Paving Company, Inc.	1,226,086	985,931	240,156
Thomas Asphalt Paving Company, Inc.	733,000	722,683	10,317
Thomas Asphalt Paving Company, Inc.	1,602,046	1,568,711	33,335
Vito Gironda Construction Company, Inc.	141,632	139,892	1,740
Burgess & Niple	31,240	0	31,240
Cavanaugh Building Corporation	65,000	52,689	12,311
Cavanaugh Building Corporation	136,500	107,138	29,362
City of Stow	44,400	19,592	24,808
Dorsky, Hodgson & Partners	66,000	63,662	2,338
Environmental Design Group	20,033	14,241	5,792
GPD Associates	35,105	22,994	12,111
Neff & Associates	51,000	0	51,000
Neff & Associates	160,000	146,923	13,077
Welty Building Company Ltd.	264,000	12,668	251,332

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City Council
City of Hudson
27 E. Main Street
Hudson, Ohio 44236

We have audited the general purpose financial statements of the City of Hudson, Summit County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated June 30, 2003. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

City Council
City of Hudson
Independent Accountants Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

Steen & Kennedy LLC

Steen and Kennedy
June 30, 2003



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

CITY OF HUDSON

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 2, 2003**