

# **City of Hudson, Ohio**

**Single Audit Reports  
For the Year Ended December 31, 2017**

# City of Hudson, Ohio

For the Year Ended December 31, 2017

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For the Year Ended December 31, 2017

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## Independent Auditor's Report

Members of the City Council  
City of Hudson, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hudson, Ohio (the "City"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Members of the City Council  
City of Hudson, Ohio

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2017 and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General and Street Construction funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 13 and the schedules of the City's proportionate share of the net pension liability (asset) and schedules of the City's contributions, and the related notes on pages 86 through 92 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Cienni + Panichi, Inc.*

Cleveland, Ohio  
June 28, 2018

# City of Hudson, Ohio

## Management's Discussion and Analysis (Unaudited)

### For the Year Ended December 31, 2017

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The discussion and analysis of the City of Hudson, Ohio's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the City's financial performance as a whole; along with the review of the basic financial statements for the reader to enhance their understanding of the City's financial performance.

#### **Using this Annual Financial Report**

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

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

#### **Reporting the City of Hudson as a Whole**

##### *Statement of Net Position and the Statement of Activities*

These government-wide statements answer the question, "How did the City as a whole do financially during 2017?" They are prepared on the accrual basis of accounting, including all assets and deferred outflows of resources and liabilities and deferred inflows of resources, much the same way as for a private enterprise. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net position and the changes in net position. This is important, as it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, nonfinancial information such as changes in the tax base will also need to be evaluated.

- *The Statement of Net Position.* This Statement (page 14) reports all assets and deferred outflows of resources and liabilities and deferred inflows of resources of the City as of December 31, 2017. The difference between all elements is reported as net position. Increases in net position generally indicate an improvement in financial position while decreases may indicate a deterioration of financial position.
- *The Statement of Activities.* This Statement (page 15) reports the results of all activities of the City for the year ended December 31, 2017. Changes in net position are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as the separate presentation of revenues available for general purposes.

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

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

### Reporting the City of Hudson's Most Significant Funds

#### *Fund Financial Statements*

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

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

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

The City of Hudson's Water Fund, Golf Course Fund, Electric Fund, Storm Sewer Fund, and Wastewater Fund are all considered to be major funds and are displayed separately in the proprietary fund statements on pages 26 through 33.

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

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

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

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

A Fiduciary Fund statement is on page 34 of this report.

### ***Notes to the Financial Statements***

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

### **The City of Hudson as a Whole**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City of Hudson, assets and deferred outflows exceed liabilities and deferred inflows by \$96,501,014 in governmental activities and \$29,789,120 in business-type activities as of December 31, 2017. The largest portion of net position reflects the City's investment in capital assets (i.e.; land, buildings, equipment and machinery, infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Table 1 provides a summary of the City's net position for 2017 compared to 2016 balances.

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Assets:</b>						
Current assets	\$ 31,694,784	\$ 31,867,494	\$ 20,339,134	\$ 19,718,049	\$ 52,033,918	\$ 51,585,543
Investment in joint ventures	-	-	202,634	170,011	202,634	170,011
Capital assets, net	109,465,918	107,654,682	27,044,639	27,181,799	136,510,557	134,836,481
Net pension asset	<u>51,077</u>	<u>55,370</u>	<u>25,611</u>	<u>25,692</u>	<u>76,688</u>	<u>81,062</u>
Total assets	<u>141,211,779</u>	<u>139,577,546</u>	<u>47,612,018</u>	<u>47,095,551</u>	<u>188,823,797</u>	<u>186,673,097</u>
<b>Deferred outflows of resources:</b>						
Deferred changes on refunding	372,704	492,377	747,580	799,962	1,120,284	1,292,339
Pension	<u>5,724,902</u>	<u>5,076,248</u>	<u>2,354,162</u>	<u>1,672,545</u>	<u>8,079,064</u>	<u>6,748,793</u>
Total deferred outflows of resources	<u>6,097,606</u>	<u>5,568,625</u>	<u>3,101,742</u>	<u>2,472,507</u>	<u>9,199,348</u>	<u>8,041,132</u>
<b>Liabilities:</b>						
Current and other liabilities	9,522,943	4,994,588	3,231,913	3,028,264	12,754,856	8,022,852
<b>Long-term liabilities:</b>						
Due within one year	3,870,647	4,271,444	1,932,074	2,163,495	5,802,721	6,434,939
Due in more than one year	15,192,271	18,072,413	9,815,436	11,008,417	25,007,707	29,080,830
Net pension liability	<u>17,768,843</u>	<u>15,409,130</u>	<u>5,896,573</u>	<u>4,189,064</u>	<u>23,665,416</u>	<u>19,598,194</u>
Total liabilities	<u>46,354,704</u>	<u>42,747,575</u>	<u>20,875,996</u>	<u>20,389,240</u>	<u>67,230,700</u>	<u>63,136,815</u>
<b>Deferred inflows of resources:</b>						
Property taxes	4,044,281	4,701,949	-	-	4,044,281	4,701,949
Pension	<u>409,386</u>	<u>348,130</u>	<u>48,644</u>	<u>93,149</u>	<u>458,030</u>	<u>441,279</u>
Total deferred inflows of resources	<u>4,453,667</u>	<u>5,050,079</u>	<u>48,644</u>	<u>93,149</u>	<u>4,502,311</u>	<u>5,143,228</u>
<b>Net position:</b>						
Net investment in capital assets	94,087,954	89,742,813	19,543,453	19,048,920	113,631,407	108,791,733
Restricted	1,540,946	1,508,278	-	-	1,540,946	1,508,278
Unrestricted	<u>872,114</u>	<u>6,097,426</u>	<u>10,245,667</u>	<u>10,036,749</u>	<u>11,117,781</u>	<u>16,134,175</u>
Total net position	\$ <u>96,501,014</u>	\$ <u>97,348,517</u>	\$ <u>29,789,120</u>	\$ <u>29,085,669</u>	\$ <u>126,290,134</u>	\$ <u>126,434,186</u>

The net pension liability (NPL) is the largest liability reported by the City at December 31, 2017 and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the NPL to the reported net position while also subtracting deferred outflows related to pension and the net pension asset.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's NPL. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

The NPL under GASB 68 equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

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#### 2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer’s promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the Statement of Net Position.

In accordance with GASB 68, the City’s statements prepared on the accrual basis of accounting include an annual pension expense for their proportionate share of each plan’s change in net pension asset/liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

An additional portion of the City’s net position (1.2%) represents resources that are subject to external restrictions on how they may be used. The unrestricted net position of \$11,117,781 may be used to meet the City’s ongoing obligations to citizens and creditors.

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

For governmental activities, there was a decrease of \$172,710 in current assets. This was primarily due to a decrease in property taxes receivable in the governmental funds.

For governmental activities, the primary reason for the \$528,981 increase in deferred outflows of resources was due to the affects for GASB 68.

For governmental activities, there was a \$4,528,355 increase in current liabilities. This was primarily due to the issuance of one-year notes payable of \$7,627,907.

## City of Hudson, Ohio

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

#### For the Year Ended December 31, 2017

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For governmental activities, there was a decrease of \$921,226 in long-term liabilities primarily due to scheduled debt repayments. This decrease was offset by a \$2,359,713 increase in net pension liabilities which was due to the affects for GASB 68.

For governmental activities, net investment in capital assets increased \$4,345,141 as a result of capital assets increasing as well as debt related to capital assets also decreasing in 2017. The restricted net position was consistent with the prior year as it only changed \$32,668. The net result of the changes in net position was a decrease of \$847,503 in net position.

Within the business-type activities, total assets increased \$516,467 primarily due to an increase in cash and cash equivalents. Deferred outflows of resources for business-type activities increased \$629,235 due to the affects for GASB 68. Long-term liabilities increased \$283,107 primarily due to the increase in net pension liability exceeding the scheduled debt payments in 2017. Net investment in capital assets increased \$494,533. The balance of the unrestricted net position stayed consistent year-over-year as it only increased 2.1% to \$10,245,667.

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

Table 2 below, indicates the changes in net position for the years ended December 31, 2017 and 2016.

Table 2  
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Program Revenues:						
Charges for services and sales	\$ 1,575,172	\$ 1,480,135	\$ 24,389,009	\$ 25,168,058	\$ 25,964,181	\$ 26,648,193
Operating grants and contributions	86,111	29,305	34,801	-	120,912	29,305
Capital grants and contributions	2,121,353	398,832	10,500	600,000	2,131,853	998,832
General Revenues:						
Taxes	23,992,360	22,755,902	-	-	23,992,360	22,755,902
Grants and entitlements not restricted to specific programs	3,195,665	2,923,692	-	-	3,195,665	2,923,692
Investment income (loss)	179,443	438,686	32,623	(189)	212,066	438,497
Miscellaneous income	433,288	185,953	-	-	433,288	185,953
Transfers - in	-	-	2,686,327	2,109,996	2,686,327	2,109,996
Total revenues and transfers	<u>31,583,392</u>	<u>28,212,505</u>	<u>27,153,260</u>	<u>27,877,865</u>	<u>58,736,652</u>	<u>56,090,370</u>
Program Expenses:						
General government	7,296,624	6,955,962	-	-	7,296,624	6,955,962
Security of persons and property	8,830,804	7,887,076	-	-	8,830,804	7,887,076
Public health	1,208,354	1,019,773	-	-	1,208,354	1,019,773
Leisure time services	1,757,187	1,437,131	-	-	1,757,187	1,437,131
Community and economic development	1,533,753	1,422,499	-	-	1,533,753	1,422,499
Transportation	8,442,178	7,893,230	-	-	8,442,178	7,893,230
Interest and fiscal charges	675,668	725,670	-	-	675,668	725,670
Water System	-	-	1,796,656	1,720,438	1,796,656	1,720,438
Golf Course	-	-	1,828,306	1,226,268	1,828,306	1,226,268
Electric System	-	-	21,384,246	21,129,445	21,384,246	21,129,445
Storm Sewer System	-	-	1,421,253	1,530,074	1,421,253	1,530,074
Wastewater System	-	-	19,348	138,722	19,348	138,722
Transfers - out	2,686,327	2,109,996	-	-	2,686,327	2,109,996
Total program expenses and transfers	<u>32,430,895</u>	<u>29,451,337</u>	<u>26,449,809</u>	<u>25,744,947</u>	<u>57,726,828</u>	<u>55,196,284</u>
Change in net position before special item	(847,503)	(1,238,832)	703,451	2,132,918	(144,052)	894,086
Special item – disposal of operations	-	-	-	(7,315,492)	-	(7,315,492)
Change in net position	(847,503)	(1,238,832)	703,451	(5,182,574)	(144,052)	(6,421,406)
Net position, beginning of the year	<u>97,348,517</u>	<u>98,587,349</u>	<u>29,085,669</u>	<u>34,268,243</u>	<u>126,434,186</u>	<u>132,855,592</u>
Net position, end of the year	\$ <u>96,501,014</u>	\$ <u>97,348,517</u>	\$ <u>29,789,120</u>	\$ <u>29,085,669</u>	\$ <u>126,290,134</u>	\$ <u>126,434,186</u>

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

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#### *Governmental Activities*

The City's income tax is the largest contributor of revenue sources in governmental activities accounting for 62.5% of total revenues. Property and other local taxes generate 13.4% and grants and entitlements generate 10.1% of total revenues.

General government, security of persons and property, and transportation costs represent 22.5%, 27.2%, 26.0% of governmental expenses and transfers, respectively.

Governmental activities decreased the City's net position by \$847,503. Total revenues increased \$3,370,887 primarily due to an increase in capital grants and contributions. Expenses are up approximately \$3 million from 2016. The main cause of the increase in expenses are related to increased pension costs and transfers out to the business-type activities.

#### *Business-Type Activities*

The City's business-type activities are the Water, Golf Course, Electric, Storm Sewer, and Wastewater Funds. Charges for services generated 89.9% of all revenues and transfers in the business-type activities.

Business-type activities increased the City's net position by \$703,451. Charges for services and sales decreased \$779,049 and expenses, including the special item, decreased \$6,610,630 due primarily to the sewer system being transferred to Summit County in 2016.

#### **Individual Funds Summary and Analysis**

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

#### *Governmental Funds*

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,187,941, a decrease of \$3,179,411 in comparison with the prior year, primarily due to the spending down of debt proceeds.

Approximately 40.5% of this total amount, or \$6,152,848, which represents the *assigned* and *unassigned* classifications, is available for spending at the government's discretion. The remainder of fund balance, *nonspendable*, *restricted*, and *committed*, is reserved to indicate that it is not readily available for new spending since it has already been committed to liquidate contracts and purchase commitments, to pay debt service or for a variety of other restricted purposes.

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

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The General Fund is the primary operating fund of the City. At the end of the current year, the General Fund's unassigned balance was \$11,229,763, while the total fund balance was \$11,662,006. The fund balance for the General Fund decreased by \$61,560, or 0.5%, from the prior year due to an increase in capital expenditures.

The other major governmental funds of the City are the Street Construction, Street Sidewalk Construction, Broadband Capital and City Acquisition Funds.

The fund balance for the Street Construction Fund was consistent with the prior year with a small decrease of \$215.

The fund balance of the Street Sidewalk Construction Fund decreased \$1,474,285. The decrease is due to an increase in capital expenditures.

The fund balance of the Broadband Capital Fund decreased \$787,086. The decrease is due to the City continuing to use debt proceeds to fund capital projects.

The City Acquisition Fund does not have a fund balance as the only activity in this fund in 2017 related to issuing short-term notes in anticipation of purchasing property in 2018. The cash and outstanding debt agree at year-end.

#### *Proprietary Funds*

The City's proprietary funds provide the same type of information found in the government-wide and business-type activity financial statements, but in more detail. Net position in the Water, Golf Course, Electric, Storm Sewer, and Wastewater increased (decreased) by \$368,842 or 6.2%, (\$278,360) or (14.6%), (\$585,984) or (2.8%), \$393,688 or 21.2%, and \$805,265 or 64.9%, respectively.

#### *Budgetary Highlights*

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

In the General Fund, the final budgeted revenues as compared to the original budgeted revenue increased by approximately \$766,000. The increase was primarily in municipal income tax due to higher than expected collections.

Actual General Fund expenditures compared to the budget were less than expected by approximately \$542,000. The general government activity accounted for most of that decrease as the actual expenditures were less than the final budget amount by approximately \$336,000. The actual security of persons and property and community and economic development expenditures were less than the final budget by approximately \$84,000 and \$87,000, respectively.

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

#### Capital Assets and Debt Administration

##### Capital Assets

The City's net book value of capital assets for its governmental and business-type activities as of December 31, 2017, amounts to \$136,510,557. This investment in capital assets includes land; buildings; land improvements; vehicles; furniture, fixtures and equipment; infrastructure; and construction in progress.

Table 3 shows fiscal 2017 balances of capital assets as compared to the 2016 balances:

Table 3  
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 15,357,234	\$ 14,618,513	\$ 2,332,463	\$ 2,332,463	\$ 17,689,697	\$ 16,950,976
Construction in progress	5,151,236	2,791,148	1,291,426	2,056,464	6,442,662	4,847,612
Buildings	9,684,979	9,474,715	5,697,204	6,165,049	15,382,183	15,639,764
Land improvements	4,830,595	4,830,595	2,254,010	2,102,683	7,084,605	6,933,278
Vehicles	7,866,786	7,763,988	1,824,218	1,838,729	9,691,004	9,602,717
Equipment, furniture and fixtures	4,369,074	4,019,290	4,025,030	4,064,700	8,394,104	8,083,990
Infrastructure:						
Roads	144,785,487	141,190,781	-	-	144,785,487	141,190,781
Sidewalks	3,752,625	3,752,625	-	-	3,752,625	3,752,625
Traffic signals	2,971,911	2,971,911	-	-	2,971,911	2,971,911
Broadband	1,682,336	1,180,992	-	-	1,682,336	1,180,992
Water main lines	-	-	15,487,462	15,182,784	15,487,462	15,182,784
Storm water lines	-	-	4,461,108	3,189,835	4,461,108	3,189,835
Electric	-	-	9,426,165	9,370,516	9,426,165	9,370,516
Less: accumulated depreciation	<u>(90,986,345)</u>	<u>(84,939,876)</u>	<u>(19,754,447)</u>	<u>(19,121,424)</u>	<u>(110,740,792)</u>	<u>(104,061,300)</u>
Total capital assets, net	\$ <u>109,465,918</u>	\$ <u>107,654,682</u>	\$ <u>27,044,639</u>	\$ <u>27,181,799</u>	\$ <u>136,510,557</u>	\$ <u>134,836,481</u>

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

##### Debt

At December 31, 2017, the City had \$27,515,633 of long-term bonds, premium on those bonds, loans and other outstanding obligations, excluding AMP Ohio payable, capital leases, compensated absences, and net pension liability. Details of the individual obligations can be found in Note 14.

# **City of Hudson, Ohio**

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

### **For the Year Ended December 31, 2017**

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The general obligation indebtedness of the City is subject to two statutory debt limitations referred to as the direct debt limitation: (Section 133.05 of the Ohio Revised Code). Certain debt, with a repayment source other than general tax revenue is excluded from the definition of net indebtedness. Under that definition, the City has \$24,476,081 of net indebtedness as of December 31, 2017. The aggregate principal amount of unvoted net indebtedness may not exceed 5.5% of the assessed valuation for property tax purposes of all real and personal property located within the City. The legal unvoted debt margin was \$26,131,012 as of December 31, 2017. The total principal amount of voted and unvoted nonexempt net indebtedness of the City may not exceed 10.5% of its assessed value of real and personal property. Total net indebtedness for both voted and unvoted issues was \$23,995,427 leaving the City's overall legal debt margin at \$68,483,383 as of December 31, 2017.

#### **Future Funding Considerations**

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

During 2017, the City completed its 2018-2022 Five Year Financial Plan that includes operating and capital cost projections for the City's operating funds. The plan identifies numerous capital expenditures including the reconstruction/resurfacing of streets, replacing various safety forces vehicles and equipment, along with several storm sewer and electric system capital improvements.

#### **Contacting the City Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with an overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City's Finance Department at 330-650-1799 or at 115 Executive Parkway, Suite 400, Hudson, Ohio 44236. Electronic copies of the City's 2016 Budget Book and 2016-2020 Five Year Financial Plan are available at the City's website – <http://www.hudson.oh.us>.

# City of Hudson, Ohio

## Statement of Net Position

**December 31, 2017**

	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 20,116,951	\$ 13,758,465	\$ 33,875,416
Investment in common stock	24,959	-	24,959
Investments in segregated accounts	2,987	-	2,987
Accounts receivable	156,869	4,028,048	4,184,917
Accrued interest receivable	91,590	-	91,590
Intergovernmental receivable	1,041,089	1,749,128	2,790,217
Property taxes receivable	4,223,554	-	4,223,554
Municipal income taxes receivable	4,689,806	-	4,689,806
Special assessments receivable	34,093	10,968	45,061
Internal balances	886,950	(886,950)	-
Materials and supplies inventory	339,226	1,255,566	1,594,792
Prepaid expenses	86,710	35,998	122,708
Restricted assets:			
Cash in segregated accounts – customer deposits	-	387,911	387,911
Noncurrent assets:			
Investment in joint ventures	-	202,634	202,634
Nondepreciable capital assets	20,508,470	3,623,889	24,132,359
Depreciable capital assets, net	88,957,448	23,420,750	112,378,198
Net pension asset	51,077	25,611	76,688
Total assets	<u>141,211,779</u>	<u>47,612,018</u>	<u>188,823,797</u>
Deferred outflows of resources:			
Deferred charges on refunding	372,704	747,580	1,120,284
Pension	5,724,902	2,354,162	8,079,064
Total deferred outflows of resources	<u>6,097,606</u>	<u>3,101,742</u>	<u>9,199,348</u>
Liabilities:			
Current liabilities:			
Accounts payable	853,415	1,668,013	2,521,428
Accrued wages and benefits	452,853	149,329	602,182
Intergovernmental payable	256,447	162,069	418,516
Accrued interest payable	34,312	28,765	63,077
Claims payable	1,838	-	1,838
Payable from restricted assets – customer deposits	-	387,911	387,911
Retainage payable	264,822	-	264,822
Notes payable	7,627,907	814,926	8,442,833
Matured compensated absences	31,349	20,900	52,249
Long-term liabilities:			
Due within one year	3,870,647	1,932,074	5,802,721
Due in more than one year:			
Other amounts due in more than one year	15,192,271	9,815,436	25,007,707
Net pension liability	17,768,843	5,896,573	23,665,416
Total liabilities	<u>46,354,704</u>	<u>20,875,996</u>	<u>67,230,700</u>
Deferred inflows of resources:			
Property taxes	4,044,281	-	4,044,281
Pension	409,386	48,644	458,030
Total deferred inflows of resources	<u>4,453,667</u>	<u>48,644</u>	<u>4,502,311</u>
Net position:			
Net investment in capital assets	94,087,954	19,543,453	113,631,407
Restricted for:			
Capital projects	166,502	-	166,502
Debt service	480,654	-	480,654
Street improvements	601,032	-	601,032
Permanent fund	6,473	-	6,473
Other purposes	286,285	-	286,285
Unrestricted	872,114	10,245,667	11,117,781
Total net position	<u>\$ 96,501,014</u>	<u>\$ 29,789,120</u>	<u>\$ 126,290,134</u>

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

# City of Hudson, Ohio

## Statement of Activities

**For the Year Ended December 31, 2017**

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 7,296,624	\$ 629,801	\$ 51,125	\$ -
Security of persons and property	8,830,804	388,095	9,986	73,994
Public health	1,208,354	91,049	-	-
Leisure time services	1,757,187	313,390	-	-
Community and economic development	1,533,753	152,837	25,000	-
Transportation	8,442,178	-	-	2,047,359
Interest and fiscal charges	<u>675,668</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>29,744,568</u>	<u>1,575,172</u>	<u>86,111</u>	<u>2,121,353</u>
Business-type activities:				
Water System	1,796,656	2,130,697	34,801	-
Golf Course	1,828,306	1,358,619	-	-
Electric System	21,384,246	20,765,639	-	-
Storm Sewer System	1,421,253	9,441	-	10,500
Wastewater System	<u>19,348</u>	<u>124,613</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>26,449,809</u>	<u>24,389,009</u>	<u>34,801</u>	<u>10,500</u>
Totals	\$ <u>56,194,377</u>	\$ <u>25,964,181</u>	\$ <u>120,912</u>	\$ <u>2,131,853</u>

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

Total general revenues and transfers

Change in net position

Net position, beginning of year

Net position, end of year

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

<u>Net (Expense) Revenue and Changes in Net Position</u>		
<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (6,615,698)	\$ -	\$ (6,615,698)
(8,358,729)	-	(8,358,729)
(1,117,305)	-	(1,117,305)
(1,443,797)	-	(1,443,797)
(1,355,916)	-	(1,355,916)
(6,394,819)	-	(6,394,819)
<u>(675,668)</u>	<u>-</u>	<u>(675,668)</u>
<u>(25,961,932)</u>	<u>-</u>	<u>(25,961,932)</u>
-	368,842	368,842
-	(469,687)	(469,687)
-	(618,607)	(618,607)
-	(1,401,312)	(1,401,312)
<u>-</u>	<u>105,265</u>	<u>105,265</u>
<u>-</u>	<u>(2,015,499)</u>	<u>(2,015,499)</u>
<u>(25,961,932)</u>	<u>(2,015,499)</u>	<u>(27,977,431)</u>
4,245,714	-	4,245,714
19,746,646	-	19,746,646
3,195,665	-	3,195,665
179,443	32,623	212,066
433,288	-	433,288
<u>(2,686,327)</u>	<u>2,686,327</u>	<u>-</u>
<u>25,114,429</u>	<u>2,718,950</u>	<u>27,833,379</u>
(847,503)	703,451	(144,052)
<u>97,348,517</u>	<u>29,085,669</u>	<u>126,434,186</u>
\$ <u>96,501,014</u>	\$ <u>29,789,120</u>	\$ <u>126,290,134</u>

# City of Hudson, Ohio

## Balance Sheet Governmental Funds

**December 31, 2017**

	General Fund	Street Construction Fund	Street Sidewalk Construction Fund	Broadband Capital Fund
<b>Assets:</b>				
<b>Current assets:</b>				
Equity in pooled cash and cash equivalents	\$ 3,275,160	\$ 509,097	\$ 1,895,320	\$ 765,999
Investment in common stock	-	-	-	-
Investments in segregated accounts	-	-	-	-
Accounts receivable	8,800	-	-	-
Accrued interest receivable	79,684	-	-	-
Interfund receivable	5,543,546	-	-	-
Intergovernmental receivable	399,402	417,371	-	-
Property taxes receivable	2,798,965	-	-	-
Municipal income taxes receivable	3,709,096	-	-	-
Special assessments receivable	-	-	-	-
Materials and supplies inventory	27,743	138,509	-	-
Prepaid expenses	49,831	13,397	-	-
<b>Noncurrent assets:</b>				
Advances to other funds	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<b>\$ <u>15,992,227</u></b>	<b>\$ <u>1,078,374</u></b>	<b>\$ <u>1,895,320</u></b>	<b>\$ <u>765,999</u></b>
<b>Liabilities, deferred inflows of resources, and fund balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 188,255	\$ 106,992	\$ 278,480	\$ 15,985
Accrued wages and benefits	300,484	51,891	-	-
Intergovernmental payable	172,232	29,182	186	-
Interfund payable	7,870	53,158	155,000	3,400,000
Matured compensated absences	13,062	-	-	-
Retainage payable	-	-	259,522	-
Notes payable	<u>-</u>	<u>-</u>	<u>2,566,257</u>	<u>-</u>
<b>Total liabilities</b>	<b><u>681,903</u></b>	<b><u>241,223</u></b>	<b><u>3,259,445</u></b>	<b><u>3,415,985</u></b>
<b>Deferred inflows of resources:</b>				
Property taxes	2,696,239	-	-	-
Unavailable revenue	<u>952,079</u>	<u>266,895</u>	<u>-</u>	<u>-</u>
<b>Total deferred inflows of resources</b>	<b><u>3,648,318</u></b>	<b><u>266,895</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Fund balances:</b>				
Nonspendable	177,574	151,906	-	-
Restricted	-	418,350	-	-
Committed	-	-	-	-
Assigned	254,669	-	-	-
Unassigned	<u>11,229,763</u>	<u>-</u>	<u>(1,364,125)</u>	<u>(2,649,986)</u>
<b>Total fund balances (deficit)</b>	<b><u>11,662,006</u></b>	<b><u>570,256</u></b>	<b><u>(1,364,125)</u></b>	<b><u>(2,649,986)</u></b>
<b>Total liabilities, deferred inflows of resources, and fund balances (deficit)</b>	<b>\$ <u>15,992,227</u></b>	<b>\$ <u>1,078,374</u></b>	<b>\$ <u>1,895,320</u></b>	<b>\$ <u>765,999</u></b>

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

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<u>City Acquisition Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 4,555,485	\$ 7,985,591	\$ 18,986,652
-	24,959	24,959
-	2,987	2,987
-	148,069	156,869
-	11,906	91,590
-	-	5,543,546
-	224,316	1,041,089
-	1,424,589	4,223,554
-	980,710	4,689,806
-	34,093	34,093
-	26,641	192,893
-	19,038	82,266
-	-	<u>100,000</u>
\$ <u>4,555,485</u>	\$ <u>10,882,899</u>	\$ <u>35,170,304</u>
\$ -	\$ 162,200	\$ 751,912
-	83,372	435,747
-	48,172	249,772
-	1,213,488	4,829,516
-	18,287	31,349
-	5,300	264,822
<u>4,555,485</u>	<u>506,165</u>	<u>7,627,907</u>
<u>4,555,485</u>	<u>2,036,984</u>	<u>14,191,025</u>
-	1,348,042	4,044,281
-	<u>528,083</u>	<u>1,747,057</u>
-	<u>1,876,125</u>	<u>5,791,338</u>
-	52,152	381,632
-	934,577	1,352,927
-	7,300,534	7,300,534
-	-	254,669
-	<u>(1,317,473)</u>	<u>5,898,179</u>
-	<u>6,969,790</u>	<u>15,187,941</u>
\$ <u>4,555,485</u>	\$ <u>10,882,899</u>	\$ <u>35,170,304</u>

# City of Hudson, Ohio

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

**December 31, 2017**

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Total governmental funds balances \$ 15,187,941

*Amounts reported for governmental activities in the Statement of Net Position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 107,653,744

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

Property and other taxes	\$ 179,273	
Municipal income taxes	638,463	
Special assessments	34,093	
Charges for services	89,378	
Interest	55,856	
Intergovernmental	<u>749,994</u>	
Total		1,747,057

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (34,312)

Internal service funds are used by management to charge the costs of centralized services, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position. 2,761,202

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

General obligation bonds	(16,951,007)	
Special assessment bonds	(145,000)	
Ohio Public Works Commission loan	(89,819)	
Deferred charges on refunding	372,704	
Compensated absences	<u>(1,805,394)</u>	
Total		(18,618,516)

The net pension liability/asset is not due and payable/receivable in the current period; therefore, the liability/asset and related deferred inflows/outflows are not reported in governmental funds:

Net pension asset	49,596	
Deferred outflows	5,588,786	
Net pension liability	(17,427,910)	
Deferred inflows	<u>(406,574)</u>	
Total		<u>(12,196,102)</u>

Net position of governmental activities \$ 96,501,014

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

# City of Hudson, Ohio

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

**For the Year Ended December 31, 2017**

	General Fund	Street Construction Fund	Street Sidewalk Construction Fund	Broadband Capital Fund
Revenues:				
Property and other local taxes	\$ 2,407,930	\$ -	\$ -	\$ -
Municipal income tax	16,381,681	-	-	-
Intergovernmental	1,572,373	860,547	2,047,359	-
Charges for services	716,804	-	-	-
Fines and forfeitures	85,515	-	-	-
Special assessments	50,046	-	-	-
Interest	218,172	-	-	-
Other	<u>201,876</u>	<u>21,409</u>	<u>12,000</u>	<u>-</u>
Total revenues	<u>21,634,397</u>	<u>881,956</u>	<u>2,059,359</u>	<u>-</u>
Expenditures:				
Current:				
General government	5,627,825	-	-	538,264
Security of persons and property	4,377,274	-	-	-
Public health	846,071	-	-	-
Leisure time services	-	-	-	-
Community and economic development	1,417,272	-	-	-
Transportation	-	3,242,686	663,951	-
Capital outlay	437,211	-	4,941,693	238,322
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>63,000</u>	<u>10,500</u>
Total expenditures	<u>12,705,653</u>	<u>3,242,686</u>	<u>5,668,644</u>	<u>787,086</u>
Excess of revenues over (under) expenditures	<u>8,928,744</u>	<u>(2,360,730)</u>	<u>(3,609,285)</u>	<u>(787,086)</u>
Other financing sources (uses):				
Proceeds from sale of assets	2,493	10,515	-	-
Transfers - in	-	2,350,000	2,135,000	-
Transfers - out	<u>(8,992,797)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(8,990,304)</u>	<u>2,360,515</u>	<u>2,135,000</u>	<u>-</u>
Net change in fund balances	(61,560)	(215)	(1,474,285)	(787,086)
Fund balance (deficit) at beginning of year	<u>11,723,566</u>	<u>570,471</u>	<u>110,160</u>	<u>(1,862,900)</u>
Fund balance (deficit) at end of year	\$ <u><u>11,662,006</u></u>	\$ <u><u>570,256</u></u>	\$ <u><u>(1,364,125)</u></u>	\$ <u><u>(2,649,986)</u></u>

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

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	<u>City Acquisition Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$	-	\$ 1,797,074	\$ 4,205,004
	-	4,370,849	20,752,530
	-	542,246	5,022,525
	-	912,670	1,629,474
	-	2,297	87,812
	-	113,548	163,594
	-	38,801	256,973
	-	<u>224,193</u>	<u>459,478</u>
	<u>-</u>	<u>8,001,678</u>	<u>32,577,390</u>
	-	87,457	6,253,546
	-	2,917,976	7,295,250
	-	239,574	1,085,645
	-	1,162,229	1,162,229
	-	7,200	1,424,472
	-	-	3,906,637
	-	2,615,596	8,232,822
	-	3,262,186	3,262,186
	-	<u>541,517</u>	<u>615,017</u>
	<u>-</u>	<u>10,833,735</u>	<u>33,237,804</u>
	<u>-</u>	<u>(2,832,057)</u>	<u>(660,414)</u>
	-	2,995	16,003
	-	2,172,797	6,657,797
	-	<u>(200,000)</u>	<u>(9,192,797)</u>
	<u>-</u>	<u>1,975,792</u>	<u>(2,518,997)</u>
	-	(856,265)	(3,179,411)
	<u>-</u>	<u>7,826,055</u>	<u>18,367,352</u>
\$	<u><u>-</u></u>	<u><u>\$ 6,969,790</u></u>	<u><u>\$ 15,187,941</u></u>

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

---

Net change in fund balances - total governmental funds \$ (3,179,411)

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

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

Capital outlay	\$ 8,011,874	
Depreciation	<u>(6,080,602)</u>	
Total		1,931,272

In the Statement of Activities, a gain or loss is reported for each disposal, whereas, the governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. (10,779)

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

Property and other taxes	40,710	
Municipal income taxes	(1,005,884)	
Special assessments	(133,385)	
Charges for services	(122,277)	
Interest	(77,530)	
Intergovernmental	<u>299,144</u>	
Total		(999,222)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

General obligation bonds	3,150,000	
Special assessment bonds	105,000	
Ohio Public Works Commission loan	<u>7,186</u>	
Total		3,262,186

(Continued)

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

# City of Hudson, Ohio

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

### For the Year Ended December 31, 2017

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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Accretion on capital appreciation bonds	(62,532)	
Accrued interest on debt	5,162	
Amortization of loss on refunding	(119,673)	
Amortization of premiums	116,392	
Compensated absences	<u>(61,717)</u>	
Total		(122,368)

Internal service funds are used by management to charge costs of certain activities, such as insurance to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities. (158,721)

Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows:

OPERS Traditional	856,232	
OPERS Combined	44,078	
OP&F	<u>443,925</u>	
Total		1,344,235

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the Statement of Activities:

OPERS Traditional	(2,194,573)	
OPERS Combined	(41,356)	
OP&F	<u>(678,766)</u>	
Total		<u>(2,914,695)</u>

Change in net position of governmental activities \$ (847,503)

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

# City of Hudson, Ohio

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

**For the Year Ended December 31, 2017**

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Property and other local taxes	\$ 2,320,299	\$ 2,407,928	\$ 2,407,930	\$ 2
Municipal income tax	15,042,542	15,610,641	15,610,641	-
Intergovernmental	1,625,703	1,687,100	1,687,217	117
Charges for services	651,198	675,791	716,804	41,013
Fines and forfeitures	92,025	95,500	85,684	(9,816)
Special assessment	48,226	50,047	50,046	(1)
Interest	315,322	327,230	368,856	41,626
Other	182,430	189,320	193,246	3,926
Total revenues	<u>20,277,745</u>	<u>21,043,557</u>	<u>21,120,424</u>	<u>76,867</u>
Expenditures:				
Current:				
General government	6,014,372	6,127,827	5,791,972	335,855
Security of persons and property	4,777,104	4,509,679	4,425,536	84,143
Public health	745,007	884,139	857,961	26,178
Community and economic development	1,501,008	1,612,907	1,526,051	86,856
Capital outlay	<u>429,908</u>	<u>493,192</u>	<u>484,295</u>	<u>8,897</u>
Total expenditures	<u>13,467,399</u>	<u>13,627,744</u>	<u>13,085,815</u>	<u>541,929</u>
Excess of revenues over expenditures	<u>6,810,346</u>	<u>7,415,813</u>	<u>8,034,609</u>	<u>618,796</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	2,423	2,515	2,493	(22)
Transfers - out	(9,053,220)	(8,992,797)	(8,992,797)	-
Advances - in	<u>9,636</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
Total other financing sources (uses)	<u>(9,041,161)</u>	<u>(8,980,282)</u>	<u>(8,980,304)</u>	<u>(22)</u>
Net change in fund balance	(2,230,815)	(1,564,469)	(945,695)	618,774
Fund balance at beginning of fiscal year	7,739,259	7,739,259	7,739,259	-
Prior fiscal year encumbrances appropriated	<u>480,499</u>	<u>480,499</u>	<u>480,499</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>5,988,943</u>	\$ <u>6,655,289</u>	\$ <u>7,274,063</u>	\$ <u>618,774</u>

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

# City of Hudson, Ohio

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

**For the Year Ended December 31, 2017**

	Budgeted Amounts		Actual	Variance with final budget over (under)
	Original	Final		
Revenues:				
Intergovernmental	\$ 863,789	\$ 870,000	\$ 861,566	\$ (8,434)
Other	<u>13,197</u>	<u>13,292</u>	<u>13,291</u>	<u>(1)</u>
Total revenues	<u>876,986</u>	<u>883,292</u>	<u>874,857</u>	<u>(8,435)</u>
Expenditures:				
Current:				
Transportation	3,320,568	3,313,147	3,173,387	139,760
Capital outlay	<u>120,000</u>	<u>70,000</u>	<u>69,637</u>	<u>363</u>
Total Expenditures	<u>3,440,568</u>	<u>3,383,147</u>	<u>3,243,024</u>	<u>140,123</u>
Excess of revenues over (under) expenditures	<u>(2,563,582)</u>	<u>(2,499,855)</u>	<u>(2,368,167)</u>	<u>131,688</u>
Other financing sources:				
Proceeds from sale of capital assets	9,790	9,860	10,515	655
Transfers - in	<u>2,333,224</u>	<u>2,350,000</u>	<u>2,350,000</u>	<u>-</u>
Total other financing sources	<u>2,343,014</u>	<u>2,359,860</u>	<u>2,360,515</u>	<u>655</u>
Net change in fund balance	(220,568)	(139,995)	(7,652)	132,343
Fund balance at beginning of fiscal year	173,911	173,911	173,911	-
Prior fiscal year encumbrances appropriated	<u>134,727</u>	<u>134,727</u>	<u>134,727</u>	<u>-</u>
Fund balance at end of fiscal year	\$ <u>88,070</u>	\$ <u>168,643</u>	\$ <u>300,986</u>	\$ <u>132,343</u>

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

# City of Hudson, Ohio

## Statement of Fund Net Position Proprietary Funds

**December 31, 2017**

	Water	Golf Course	Electric
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 1,390,778	\$ 87,200	\$ 11,009,708
Accounts receivable	442,738	-	3,576,018
Intergovernmental receivable	1,060	-	18,189
Interfund receivable	-	-	-
Special assessments receivable	10,968	-	-
Materials and supplies inventory	243,902	23,116	939,911
Prepaid assets	5,088	4,946	20,539
Restricted assets:			
Cash in segregated accounts	-	-	387,911
Total current assets	<u>2,094,534</u>	<u>115,262</u>	<u>15,952,276</u>
Noncurrent assets:			
Investment in joint ventures	-	-	202,634
Nondepreciable capital assets	870,410	2,008,225	679,607
Depreciable capital assets, net	8,156,443	1,468,099	9,917,868
Net pension asset	2,950	3,331	15,111
Total noncurrent assets	<u>9,029,803</u>	<u>3,479,655</u>	<u>10,815,220</u>
Total assets	<u>11,124,337</u>	<u>3,594,917</u>	<u>26,767,496</u>
Deferred outflows of resources:			
Deferred charges on refunding	216,165	26,782	109,615
Pension	271,220	306,165	1,388,979
Total deferred outflows of resources	<u>487,385</u>	<u>332,947</u>	<u>1,498,594</u>
Liabilities:			
Current liabilities:			
Accounts payable	41,119	70,492	1,536,092
Accrued wages and benefits	29,056	12,496	83,186
Intergovernmental payable	8,045	6,195	139,797
Interfund payable	3,049	599,108	104,443
Accrued interest payable	8,008	1,414	2,848
Claims payable	-	-	-
Notes payable	814,926	-	-
Matured compensated absences payable	2,613	-	18,287
Payable from restricted assets – customer deposits	-	-	387,911
AMP Ohio payable	-	-	4,407
Compensated absences payable	186,391	57,864	350,685
OWDA loans payable	-	-	-
General obligation bonds payable	141,000	120,000	165,000
Total current liabilities	<u>1,234,207</u>	<u>867,569</u>	<u>2,792,656</u>
Long-term liabilities (net of current portion):			
Advances from other funds	-	-	-
Compensated absences payable	130,205	72,462	527,481
General obligation bonds payable	3,262,272	585,295	1,394,542
Net pension liability	679,339	766,867	3,479,036
Total long-term liabilities	<u>4,071,816</u>	<u>1,424,624</u>	<u>5,401,059</u>
Total liabilities	<u>5,306,023</u>	<u>2,292,193</u>	<u>8,193,715</u>
Deferred inflows of resources:			
Pension	5,606	6,327	28,700
Net position:			
Net investment in capital assets	5,839,746	2,797,811	9,143,141
Unrestricted (deficit)	460,347	(1,168,467)	10,900,534
Total net position	<u>\$ 6,300,093</u>	<u>\$ 1,629,344</u>	<u>\$ 20,043,675</u>

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

	<u>Storm Sewer</u>	<u>Wastewater</u>	<u>Totals</u>	<u>Governmental Activities – Internal Service Funds</u>
\$	1,248,012	\$ 22,767	\$ 13,758,465	\$ 1,130,299
	-	9,292	4,028,048	-
	-	1,729,879	1,749,128	-
	-	-	-	72,920
	-	-	10,968	-
	48,637	-	1,255,566	146,333
	5,425	-	35,998	4,444
	-	-	387,911	-
	<u>1,302,074</u>	<u>1,761,938</u>	<u>21,226,084</u>	<u>1,353,996</u>
	-	-	202,634	-
	65,647	-	3,623,889	11,967
	3,878,340	-	23,420,750	1,800,207
	4,219	-	25,611	1,481
	<u>3,948,206</u>	<u>-</u>	<u>27,272,884</u>	<u>1,813,655</u>
	<u>5,250,280</u>	<u>1,761,938</u>	<u>48,498,968</u>	<u>3,167,651</u>
	267,411	127,607	747,580	-
	387,798	-	2,354,162	136,116
	<u>655,209</u>	<u>127,607</u>	<u>3,101,742</u>	<u>136,116</u>
	20,310	-	1,668,013	101,503
	24,591	-	149,329	17,106
	8,032	-	162,069	6,675
	80,350	-	786,950	-
	4,603	11,892	28,765	-
	-	-	-	1,838
	-	-	814,926	-
	-	-	20,900	-
	-	-	387,911	-
	-	-	4,407	-
	79,137	-	674,077	56,793
	-	588,590	588,590	-
	<u>160,000</u>	<u>79,000</u>	<u>665,000</u>	<u>-</u>
	<u>377,023</u>	<u>679,482</u>	<u>5,950,937</u>	<u>183,915</u>
	-	100,000	100,000	-
	9,071	-	739,219	14,905
	2,288,643	1,545,465	9,076,217	-
	971,331	-	5,896,573	340,933
	<u>3,269,045</u>	<u>1,645,465</u>	<u>15,812,009</u>	<u>355,838</u>
	<u>3,646,068</u>	<u>2,324,947</u>	<u>21,762,946</u>	<u>539,753</u>
	<u>8,011</u>	<u>-</u>	<u>48,644</u>	<u>2,812</u>
	1,762,755	-	19,543,453	1,812,174
	488,655	(435,402)	10,245,667	949,028
\$	<u><u>2,251,410</u></u>	\$ <u><u>(435,402)</u></u>	\$ <u><u>29,789,120</u></u>	\$ <u><u>2,761,202</u></u>

# City of Hudson, Ohio

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

**For the Year Ended December 31, 2017**

	<u>Water</u>	<u>Golf Course</u>	<u>Electric</u>
Operating revenues:			
Charges for services	\$ 2,049,359	\$ 1,286,221	\$ 20,588,516
Other	<u>116,139</u>	<u>72,398</u>	<u>177,123</u>
Total operating revenues	<u>2,165,498</u>	<u>1,358,619</u>	<u>20,765,639</u>
Operating expenses:			
Personal services	692,630	1,111,075	3,626,293
Materials and supplies	215,167	321,793	119,866
Contractual services	412,959	147,481	17,010,179
Claims	-	-	-
Other	669	31,527	130,236
Depreciation	<u>347,862</u>	<u>142,360</u>	<u>437,704</u>
Total operating expenses	<u>1,669,287</u>	<u>1,754,236</u>	<u>21,324,278</u>
Operating income (loss)	<u>496,211</u>	<u>(395,617)</u>	<u>(558,639)</u>
Non-operating (expenses) revenues:			
Intergovernmental	-	-	-
Investment gain	-	-	32,623
Interest and fiscal charges	(127,369)	(23,504)	(47,074)
(Loss) gain on disposal of capital assets	<u>-</u>	<u>(50,566)</u>	<u>(12,894)</u>
Total non-operating (expenses) revenues	<u>(127,369)</u>	<u>(74,070)</u>	<u>(27,345)</u>
Income (loss) before transfers and capital contributions	368,842	(469,687)	(585,984)
Transfers - in	-	40,000	-
Capital Contributions	<u>-</u>	<u>151,327</u>	<u>-</u>
Change in net position	368,842	(278,360)	(585,984)
Net position at beginning of year	<u>5,931,251</u>	<u>1,907,704</u>	<u>20,629,659</u>
Net position at end of year	<u>\$ 6,300,093</u>	<u>\$ 1,629,344</u>	<u>\$ 20,043,675</u>

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

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	<u>Storm Sewer</u>	<u>Wastewater</u>	<u>Totals</u>	<u>Governmental Activities – Internal Service Funds</u>
\$	9,441	\$ 20,587	\$ 23,954,124	\$ 2,606,459
	<u>-</u>	<u>104,026</u>	<u>469,686</u>	<u>19,263</u>
	<u>9,441</u>	<u>124,613</u>	<u>24,423,810</u>	<u>2,625,722</u>
	985,483	-	6,415,481	959,644
	76,993	-	733,819	534,472
	153,540	-	17,724,159	492,326
	-	-	-	398,106
	5,044	-	167,476	-
	<u>124,899</u>	<u>-</u>	<u>1,052,825</u>	<u>416,145</u>
	<u>1,345,959</u>	<u>-</u>	<u>26,093,760</u>	<u>2,800,693</u>
	<u>(1,336,518)</u>	<u>124,613</u>	<u>(1,669,950)</u>	<u>(174,971)</u>
	10,500	-	10,500	-
	-	-	32,623	-
	(75,294)	(19,348)	(292,589)	-
	<u>-</u>	<u>-</u>	<u>(63,460)</u>	<u>16,250</u>
	<u>(64,794)</u>	<u>(19,348)</u>	<u>(312,926)</u>	<u>16,250</u>
	(1,401,312)	105,265	(1,982,876)	(158,721)
	1,795,000	700,000	2,535,000	-
	<u>-</u>	<u>-</u>	<u>151,327</u>	<u>-</u>
	393,688	805,265	703,451	(158,721)
	<u>1,857,722</u>	<u>(1,240,667)</u>	<u>29,085,669</u>	<u>2,919,923</u>
\$	<u><u>2,251,410</u></u>	<u><u>(435,402)</u></u>	<u><u>29,789,120</u></u>	<u><u>2,761,202</u></u>

# City of Hudson, Ohio

## Statement of Cash Flows Proprietary Funds

**For the Year Ended December 31, 2017**

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	<u>Water</u>	<u>Golf Course</u>	<u>Electric</u>
Cash flows from operating activities:			
Cash received from customers	\$ 2,040,128	\$ 1,286,221	\$ 20,440,969
Cash received from interfund services provided	-	-	-
Cash payments to employees for services	(680,533)	(656,856)	(3,072,746)
Cash payments for goods and services	(592,182)	(452,367)	(16,794,244)
Cash payments for claims	-	-	-
Cash payments for interfund services used	-	-	-
Other operating revenues	116,139	72,398	109,686
Other operating expenses	<u>(669)</u>	<u>(31,947)</u>	<u>(81,742)</u>
Net cash provided (used) by operating activities	<u>882,883</u>	<u>217,449</u>	<u>601,923</u>
Cash flows from noncapital financing activities:			
Transfers – in	<u>-</u>	<u>40,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>40,000</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(238,109)	(105,431)	(828,677)
Proceeds from sale of capital assets	-	-	711,245
Proceeds from issuance of notes	805,000	-	-
Premium from issuance of notes	9,926	-	-
Grants received	-	-	-
Proceeds from Summit County for debt payments	-	-	-
Principal payments	(1,198,000)	(125,000)	(170,000)
Interest payments	<u>(118,560)</u>	<u>(20,193)</u>	<u>(38,486)</u>
Net cash used by capital and related financing activities	<u>(739,743)</u>	<u>(250,624)</u>	<u>(325,918)</u>
Net increase (decrease) cash and cash equivalents	143,140	6,825	276,005
Cash and cash equivalents at beginning of year	<u>1,247,638</u>	<u>80,375</u>	<u>11,121,614</u>
Cash and cash equivalents at end of year	\$ <u><u>1,390,778</u></u>	\$ <u><u>87,200</u></u>	\$ <u><u>11,397,619</u></u>

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

	<u>Storm Sewer</u>	<u>Wastewater</u>	<u>Totals</u>	<u>Governmental Activities – Internal Service Funds</u>
\$	9,441	\$ 11,295	\$ 23,788,054	\$ -
	-	-	-	2,570,896
	(889,322)	(103,467)	(5,402,924)	(780,880)
	(223,883)	-	(18,062,676)	(901,681)
	-	-	-	(398,716)
	-	-	-	(2,371)
	-	104,026	402,249	19,263
	<u>(5,044)</u>	<u>-</u>	<u>(119,402)</u>	<u>-</u>
	<u>(1,108,808)</u>	<u>11,854</u>	<u>605,301</u>	<u>506,511</u>
	<u>1,795,000</u>	<u>700,000</u>	<u>2,535,000</u>	<u>-</u>
	<u>1,795,000</u>	<u>700,000</u>	<u>2,535,000</u>	<u>-</u>
	(350,727)	-	(1,522,944)	(319,510)
	-	-	711,245	28,872
	-	-	805,000	-
	-	-	9,926	-
	10,500	-	10,500	-
	-	110,739	110,739	-
	(153,000)	(764,513)	(2,410,513)	-
	<u>(60,094)</u>	<u>(72,803)</u>	<u>(310,136)</u>	<u>-</u>
	<u>(553,321)</u>	<u>(726,577)</u>	<u>(2,596,183)</u>	<u>(290,638)</u>
	132,871	(14,723)	544,118	215,873
	<u>1,115,141</u>	<u>37,490</u>	<u>13,602,258</u>	<u>914,426</u>
\$	<u><u>1,248,012</u></u>	<u><u>22,767</u></u>	<u><u>14,146,376</u></u>	<u><u>1,130,299</u></u>

(Continued)

# City of Hudson, Ohio

## Statement of Cash Flows Proprietary Funds (continued)

**For the Year Ended December 31, 2017**

	<u>Water</u>	<u>Golf Course</u>	<u>Electric</u>
Reconciliation of operating income (loss) to net cash from operating activities:			
Operating income (loss)	\$ 496,211	\$ (395,617)	\$ (558,639)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	347,862	142,360	437,704
(Increase) decrease in operating assets and deferred outflows of resources:			
Accounts receivable	(13,114)	-	(277,272)
Intergovernmental receivable	(1,060)	-	(18,189)
Materials and supplies inventory	28,535	17,956	148,034
Due from other fund	-	-	-
Special assessments receivable	3,883	-	-
Prepaid expenses	(5,088)	(4,946)	(20,539)
Net pension asset	874	(3,331)	1,477
Deferred outflows – OPERS	(22,265)	(306,165)	(309,107)
Increase (decrease) in operating liabilities and deferred inflows of resources:			
Accounts payable	17,852	4,810	195,993
Accrued wages and benefits	5,144	1,007	2,719
Intergovernmental payable	(8,762)	(403)	83,748
Due to other funds	(1,530)	(493)	8,091
Net pension liability	55,813	766,867	774,415
Retainage payable	-	-	-
Matured compensated absences payable	2,613	-	18,287
Claims payable	-	-	-
Customer deposits	-	-	35,154
AMP Ohio Payable	-	-	1,956
Compensated absences payable	(15,826)	(10,923)	109,533
Deferred inflows – OPERS	(8,259)	6,327	(31,442)
Total adjustments	<u>386,672</u>	<u>613,066</u>	<u>1,160,562</u>
Net cash provided (used) by operating activities	\$ <u>882,883</u>	\$ <u>217,449</u>	\$ <u>601,923</u>
Non-cash capital financing activities:			
Amortization of premium on general obligation bonds	\$ (4,423)	\$ (883)	\$ (1,425)
Amortization of loss on refunding	13,642	4,463	10,372
Capital assets contributed from the governmental activities	-	151,327	-
Capital assets purchased on account	16,099	-	-

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

<u>Storm Sewer</u>	<u>Wastewater</u>	<u>Totals</u>	<u>Governmental Activities – Internal Service Funds</u>
\$ (1,336,518)	\$ 124,613	\$ (1,669,950)	\$ (174,971)
124,899	-	1,052,825	416,145
-	(9,292)	(299,678)	-
-	-	(19,249)	-
6,639	-	201,164	85,396
-	-	-	(36,331)
-	-	3,883	-
(5,425)	-	(35,998)	(4,444)
633	428	81	(1,481)
(71,927)	27,847	(681,617)	(136,116)
8,176	-	226,831	42,577
4,502	(5,000)	8,372	1,801
214	(3,312)	71,485	(2,590)
-	-	6,068	-
180,159	(69,745)	1,707,509	340,933
(2,740)	-	(2,740)	-
-	-	20,900	-
-	-	-	(610)
-	-	35,154	-
-	-	1,956	-
(7,840)	(52,134)	22,810	(26,610)
<u>(9,580)</u>	<u>(1,551)</u>	<u>(44,505)</u>	<u>2,812</u>
<u>227,710</u>	<u>(112,759)</u>	<u>2,275,251</u>	<u>681,482</u>
\$ <u><u>(1,108,808)</u></u>	\$ <u><u>11,854</u></u>	\$ <u><u>605,301</u></u>	\$ <u><u>506,511</u></u>
\$ (1,211)	\$ (5,713)	\$ (13,655)	\$ -
16,816	7,089	52,382	-
-	-	151,327	-
-	-	16,099	-

# City of Hudson, Ohio

## Statement of Fiduciary Net Position Fiduciary Funds

**December 31, 2017**

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	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,038,167
Property taxes receivable	2,374,314
Municipal income taxes receivable	339,477
Intergovernmental receivable	<u>114,721</u>
Total assets	\$ <u>3,866,679</u>
Liabilities and deferred inflows of resources:	
Liabilities:	
Undistributed monies	\$ 607,442
Deposits held and due to others	962,669
Accounts payable	<u>15,991</u>
Total liabilities	1,586,102
Deferred inflows of resources:	
Property taxes	<u>2,280,577</u>
Total liabilities and deferred inflows of resources	\$ <u>3,866,679</u>

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements

### For the Year Ended December 31, 2017

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#### **Note 1: Description of the City and Reporting Entity**

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

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

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

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

#### **Note 2: Summary of Significant Accounting Policies**

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

##### **A. Basis of Presentation**

The City’s basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### A. *Basis of Presentation (continued)*

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

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

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

##### B. *Fund Accounting*

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

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

Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City’s major governmental funds:

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### B. Fund Accounting (continued)

**General Fund** The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City of Hudson and/or the general laws of Ohio.

**Street Construction Fund** The Street Construction Special Revenue Fund accounts for proceeds of specific revenue sources that are legally restricted to expenditures for street maintenance and repair.

**Street Sidewalk Construction Fund** The Street Sidewalk Construction Capital Projects Fund accounts for the costs of the City's annual street and sidewalk maintenance and construction program.

**Broadband Capital Fund** The Broadband Capital Fund accounts for the costs of the City's buildout of its broadband capacity

**City Acquisition Fund** The City Acquisition Capital Projects Fund accounts for the costs for the City to acquire property.

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

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

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

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

**Golf Course Fund** The Golf Course Fund accounts for the cost of operating the City's golf course.

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

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

**Wastewater Fund** The Wastewater Fund accounted for the costs of operating the municipally-owned wastewater system and the related revenues from charges for services. In a prior year the waste water lines were transferred to Summit County. This fund currently accounts for the debt service requirements still outstanding from when the City operated the wastewater system.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### **B. Fund Accounting (continued)**

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

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

##### **C. Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position.

**Fund Financial Statements** All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources are generally included on the Balance Sheet.

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *D. Basis of Accounting*

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

***Revenues – Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of year-end.

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

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

***Deferred Outflows/Inflows of Resources*** In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferred charge on refunding and payments made related to pension (see Note 16), both of which are reported in the government-wide and proprietary fund Statements of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *D. Basis of Accounting (continued)*

In addition to liabilities, the Statements of Net Position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, unavailable revenue, and amounts for the pension (see Note 16). Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2017, but which were levied to finance year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide Statement of Net Position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds Balance Sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, income taxes, special assessments, interest, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

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

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

##### *E. Budgetary Process*

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *E. Budgetary Process (continued)*

**Estimated Resources** The County Budget Commission (the “Commission”) determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews the estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2017.

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

Council may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent certificate of estimated resources.

Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. Appropriation amounts are as originally adopted, or as amended by Council throughout the year by supplemental appropriations which either reallocate or increase the original appropriation amounts. During the year, supplemental appropriation measures were legally enacted. The budgetary figures which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all amendments and modifications.

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***F. Cash and Cash Equivalents***

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

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

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during the year 2017 amounted to \$218,172, which includes \$179,305 assigned from other City funds.

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

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

Investments of the cash pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents.

##### ***G. Interfund Balances***

On the fund financial statements, interfund loans are classified as "Interfund receivable/payable" on the Balance Sheet. Long-term interfund loans are classified as "Advances to/from other funds" on the Balance Sheet and are equally offset as part of nonspendable fund balance which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

##### ***H. Inventory***

Inventories of all funds are stated at cost which is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as expenditures in the governmental fund types and as expenses in the proprietary fund types when used.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *I. Prepaid Items*

Payments made to vendors for services that will benefit periods beyond December 31, 2017, are recorded as prepaid items using the allocation method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it was consumed.

##### *J. Capital Assets*

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective funds.

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

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

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

##### *K. Compensated Absences*

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all eligible employees with more than one year of service.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### **K. *Compensated Absences (continued)***

Sick leave benefits are reported as a liability using the vesting method. An accrual for sick leave is made for those employees who are currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments. The liability is an estimate based on the City's past experience of making termination payments. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

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

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

##### **L. *Payables, Accrued Liabilities and Long-Term Obligations***

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

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

##### **M. *Fund Balance***

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

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 2: Summary of Significant Accounting Policies (continued)

##### *M. Fund Balance (continued)*

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

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

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

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### ***N. Net Position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

##### ***O. Operating Revenues and Expenses***

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

##### ***P. Contributions of Capital***

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

##### ***Q. Interfund Activity***

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

##### ***R. Deferred Charge on Refunding***

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 2: Summary of Significant Accounting Policies (continued)**

##### **S. Pensions**

For purposes of measuring the net pension liability, net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

##### **T. Bond Premiums and Discounts**

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

##### **U. Estimates**

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

##### **V. Reclassification**

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

#### **Note 3: Changes in Accounting Principles**

For the year ended December 31, 2017, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions*, GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, and GASB Statement No. 81, *Irrevocable Split-Interest Agreements*.

GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions for making decisions and assessing accountability. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 3: Changes in Accounting Principles (continued)**

GASB Statement No. 81 improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this GASB pronouncement did not result in any changes to the City's financial statements.

***Pronouncements Issued but Not Effective*** GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* was issued in June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. This replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for Other Postemployment Benefits (OPEB). The City has not determined the impact, if any, that this Statement will have on its financial statements or disclosures.

#### **Note 4: Budgetary Basis of Accounting**

While reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. A Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual is presented for the General Fund and Street Construction Special Revenue Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with State statute.

The major difference between the budgetary basis and the GAAP basis are:

- 1) Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).
- 3) Encumbrances are treated as expenditures (budgetary) rather than as restricted, committed, or assigned fund balance (GAAP).
- 4) Short-term note proceeds, short-term note principal retirements, advances-in, and advances-out for governmental funds are operating transactions (budgetary) as opposed to balance sheet transactions (GAAP).
- 5) Investments are reported at fair value (GAAP) rather than cost (budgetary).

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 4: Budgetary Basis of Accounting (continued)

	<u>Net Change In Fund Balance</u>	
	<u>General Fund</u>	<u>Street Construction</u>
GAAP basis	\$ (61,560)	\$ (215)
Net adjustment for revenue accruals	(322,200)	(7,099)
Net fair market value adjustment	(181,773)	-
Net adjustment for expenditure accruals	35,911	207,772
Encumbrances	(416,073)	(208,110)
Budgetary basis	\$ <u>(945,695)</u>	\$ <u>(7,652)</u>

#### Note 5: Fund Balances

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

	<u>General Fund</u>	<u>Street Construction</u>	<u>Street Sidewalk Construction</u>	<u>Broadband Capital</u>	<u>City Acquisition</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable:</b>							
Inventory	\$ 27,743	\$ 138,509	\$ -	\$ -	\$ -	\$ 26,641	\$ 192,893
Prepaid expenses	49,831	13,397	-	-	-	19,038	82,266
Interfund loan receivable	100,000	-	-	-	-	-	100,000
Principal trust	-	-	-	-	-	6,473	6,473
Total nonspendable	<u>177,574</u>	<u>151,906</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52,152</u>	<u>381,632</u>
<b>Restricted for:</b>							
Streets and highways	-	418,350	-	-	-	91,891	510,241
Cemetery	-	-	-	-	-	142,827	142,827
Law enforcement and education	-	-	-	-	-	105,900	105,900
Debt service	-	-	-	-	-	427,457	427,457
Capital improvements	-	-	-	-	-	166,502	166,502
Total restricted	<u>-</u>	<u>418,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>934,577</u>	<u>1,352,927</u>
<b>Committed to:</b>							
Community and economic development	-	-	-	-	-	2,547,030	2,547,030
Fire District and EMS	-	-	-	-	-	3,123,002	3,123,002
Cemetery improvement	-	-	-	-	-	4,163	4,163
Storm sewer assessment	-	-	-	-	-	278,490	278,490
Tree trust	-	-	-	-	-	51,661	51,661
Playground trust	-	-	-	-	-	12,729	12,729
Poor endowment trust	-	-	-	-	-	36,741	36,741
Veterans memorial	-	-	-	-	-	16,601	16,601
Other purposes	-	-	-	-	-	8,188	8,188
Debt service	-	-	-	-	-	514,246	514,246
Capital improvements	-	-	-	-	-	707,683	707,683
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,300,534</u>	<u>7,300,534</u>
<b>Assigned to:</b>							
Other purposes	254,669	-	-	-	-	-	254,669
Total assigned	<u>254,669</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,669</u>
<b>Unassigned (deficit)</b>	<u>11,229,763</u>	<u>-</u>	<u>(1,364,125)</u>	<u>(2,649,986)</u>	<u>-</u>	<u>(1,317,473)</u>	<u>5,898,179</u>
<b>Total fund balances</b>	\$ <u>11,662,006</u>	\$ <u>570,256</u>	\$ <u>(1,364,125)</u>	\$ <u>(2,649,986)</u>	\$ <u>-</u>	\$ <u>6,969,790</u>	\$ <u>15,187,941</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 6: Deposits and Investments**

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

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

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

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

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

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 6: Deposits and Investments (continued)**

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

1. Commercial paper notes issued by an entity that is defined in division (D) of Section 1705.01 of the Ohio Revised Code and that has assets exceeding five hundred million dollars, to which the notes are rated at the time of purchase in the highest classification established by at least two nationally recognized standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
2. Bankers acceptances of banks that are insured by the FDIC and to which the obligations are eligible for purchase by the Federal Reserve System and the obligations mature no later than 180 (one hundred eighty) days after purchase.

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

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

#### **Deposits**

*Custodial credit risk* is the risk that in the event of bank failure, the City's deposits may not be returned to it. Protection of the City's deposits is provided by the FDIC, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution. Ohio law requires that deposits be either insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Effective July 1, 2017, participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 6: Deposits and Investments (continued)

At year-end, the carrying amount of the City's deposits was \$11,032,001 and the bank balance was \$11,397,864. Of the bank balance, \$1,236,185 was covered by FDIC and \$10,161,679 was uninsured and was collateralized with securities held by the pledging institution's agent not in the City's name. At year-end, the City had \$1,400 in cash on hand.

#### Investments

Investments are reported at fair value. As of December 31, 2017, the City had the following investments:

	Fair Value	Maturities (in years)	
		Less than 1	1 - 5
Common Stock (donated)	\$ 24,959	\$ 24,959	\$ -
Government agency obligations:			
Federal Farm Credit Bank	741,511	198,778	542,733
Federal Home Loan Mortgage Corporation	499,920	499,920	-
Federal National Mortgage Association	249,880	249,880	-
MBS Negotiable certifications of deposit	22,776,485	3,224,082	19,552,403
Money Market	297	297	-
Series E Bonds	2,987	2,987	-
Total Portfolio	\$ <u>24,296,039</u>	\$ <u>4,200,903</u>	\$ <u>20,095,136</u>

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of December 31, 2017:

- Common stock is measured based on Level 1 inputs, using quoted prices in active markets.
- Government agency obligations, negotiable CD's and Series E bonds are measured based on Level 2 inputs, using a matrix or model pricing method.
- Money market is valued at amortized cost, which approximates fair value.

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 6: Deposits and Investments (continued)

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

*Credit Risk* is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. The government agency obligations carry a rating of AA+ by Standard & Poor's. The negotiable certificates of deposit are unrated.

*Concentration of Credit Risk* is defined by the GASB as five percent or more in the securities of a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The following is the City's allocation as of December 31, 2017:

<u>Investment Issuer</u>	<u>Percentage of Investments</u>
Common Stock (donated)	0.10%
Federal Farm Credit Bank	3.05
Federal Home Loan Mortgage Corporation	2.06
Federal National Mortgage Association	1.03
MBS Negotiable CD's	93.75
Money Market	<0.01
Series E Bonds	0.01
Total	<u>100.00%</u>

#### Note 7: Receivables

Receivables at December 31, 2017, consisted of taxes, accounts (billings for user charged services, rents and royalties), interfund, special assessments and intergovernmental receivables arising from grants, entitlements, and shared revenues. All accounts, taxes, special assessments and intergovernmental receivables are deemed collectible in full.

A summary of intergovernmental receivables follows:

##### *Governmental activities:*

Homestead and rollback	\$ 264,447
Local government	192,580
Grants	22,262
Franchise fees	74,050
Auto registration, licenses, and gasoline tax	458,353
Miscellaneous	<u>29,397</u>
Total governmental activities	<u>1,041,089</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 7: Receivables (continued)

*Business-type activities:*

Summit County	1,729,879
City of Clewiston	18,189
Miscellaneous	<u>1,060</u>
Total business-type activities	<u>1,749,128</u>
Total	\$ <u>2,790,217</u>

#### Note 8: Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Real property taxes collected in 2017 are levied after October 1, 2016, on assessed value as of January 1, 2016, the lien date. Assessed values are established by state law at 35% of appraised market value. All property is required to be revalued every six years. Real property taxes collected in 2017 were intended to finance 2017 operations.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at varying percentages of true value. Public utility property taxes paid in 2017 that became a lien on December 31, 2016, are levied after October 1, 2016, and are collected in 2017 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2017, was \$8.31 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2017 property tax receipts were based are as follows:

	<u>Total Assessed Value</u>
Real Property Valuation:	
Residential/Agriculture	\$ 758,419,470
Commercial/Industrial/Mineral	115,091,190
Public Utilities	131,970
Tangible Personal Property Valuation:	
Public Utilities	<u>7,107,940</u>
Total Valuation	\$ <u>880,750,570</u>

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 9: Income Tax**

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the Regional Income Tax Agency (RITA) either monthly or quarterly as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, disbursement of the revenue received from income taxes is as follows: first, all expenses of collecting the tax and of administering and enforcing the income tax ordinance are paid. Then, the balance remaining after payment of the expenses is deposited in the General Fund for street construction, maintenance and repair, capital improvements, and general municipal operations, or such other fund or funds as Council may, from time to time, establish or designate. The City of Hudson voters approved an increase in the income tax rate from one percent to two percent effective January 1, 2005, with 15% of such additional one percent increase being designated for funding of the Fire Department; with nine percent of such additional one percent increase being designated for funding of Emergency Medical Services; with 15% of such additional one percent increase being designated for funding of the Park System; and with 13.5% of such additional one percent increase being designated for community learning centers in the City, in cooperation with the Hudson City School District. For 2017, municipal income tax revenue was \$19,746,646, which represents the City's portion net of amount due to Hudson City School District.

#### **Note 10: Special Assessments**

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

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 11: Capital Assets

	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/17</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 14,618,513	\$ 738,721	\$ -	\$ 15,357,234
Construction in progress	<u>2,791,148</u>	<u>3,737,443</u>	<u>(1,377,355)</u>	<u>5,151,236</u>
Total capital assets, not being depreciated	<u>17,409,661</u>	<u>4,476,164</u>	<u>(1,377,355)</u>	<u>20,508,470</u>
Capital assets, being depreciated:				
Buildings	9,474,715	210,264	-	9,684,979
Land improvements	4,830,595	-	-	4,830,595
Vehicles	7,763,988	403,438	(300,640)	7,866,786
Equipment, furniture and fixtures	4,019,290	522,823	(173,039)	4,369,074
Infrastructure				
Roads	141,190,781	3,594,706	-	144,785,487
Sidewalks	3,752,625	-	-	3,752,625
Traffic signals	2,971,911	-	-	2,971,911
Broadband	<u>1,180,992</u>	<u>501,344</u>	<u>-</u>	<u>1,682,336</u>
Total capital assets, being depreciated	<u>175,184,897</u>	<u>5,232,575</u>	<u>(473,679)</u>	<u>179,943,793</u>
Less accumulated depreciation:				
Buildings	(3,360,533)	(252,601)	-	(3,613,134)
Land improvements	(1,387,703)	(238,365)	-	(1,626,068)
Vehicles	(5,091,494)	(743,585)	288,018	(5,547,061)
Equipment, furniture and fixtures	(2,743,607)	(193,256)	162,260	(2,774,603)
Infrastructure				
Roads	(68,610,319)	(4,778,086)	-	(73,388,405)
Sidewalks	(1,683,316)	(116,387)	-	(1,799,703)
Traffic signals	(1,979,164)	(90,350)	-	(2,069,514)
Broadband	<u>(83,740)</u>	<u>(84,117)</u>	<u>-</u>	<u>(167,857)</u>
Total accumulated depreciation	<u>(84,939,876)</u>	<u>(6,496,747)</u>	<u>450,278</u>	<u>(90,986,345)</u>
Total capital assets, being depreciated, net	<u>90,245,021</u>	<u>(1,264,172)</u>	<u>(23,401)</u>	<u>88,957,448</u>
Governmental activities capital assets, net	\$ <u>107,654,682</u>	\$ <u>3,211,992</u>	\$ <u>(1,400,756)</u>	\$ <u>109,465,918</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 465,217
Security of persons and property	556,447
Public health	32,779
Leisure time services	239,462
Community and economic development	8,323
Transportation	<u>5,194,519</u>
Total	\$ <u>6,496,747</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 11: Capital Assets (continued)

	Balance 12/31/16	Additions	Disposals	Balance 12/31/17
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 2,332,463	\$ -	\$ -	\$ 2,332,463
Construction in progress	<u>2,056,464</u>	<u>565,476</u>	<u>(1,330,514)</u>	<u>1,291,426</u>
Total capital assets, not being depreciated	<u>4,388,927</u>	<u>565,476</u>	<u>(1,330,514)</u>	<u>3,623,889</u>
Capital assets being depreciated:				
Buildings	6,165,049	242,155	(710,000)	5,697,204
Land improvements	2,102,683	151,327	-	2,254,010
Vehicles	1,838,729	-	(14,511)	1,824,218
Equipment, furniture and fixtures	4,064,700	430,326	(469,996)	4,025,030
Infrastructure				
Water main lines	15,182,784	304,678	-	15,487,462
Storm water lines	3,189,835	1,271,273	-	4,461,108
Electric	<u>9,370,516</u>	<u>55,649</u>	<u>-</u>	<u>9,426,165</u>
Total capital assets, being depreciated	<u>41,914,296</u>	<u>2,455,408</u>	<u>(1,194,507)</u>	<u>43,175,197</u>
Less accumulated depreciation:				
Buildings	(1,372,429)	(131,201)	28,400	(1,475,230)
Land improvements	(1,319,343)	(106,283)	-	(1,425,626)
Vehicles	(1,797,962)	(16,284)	14,511	(1,799,735)
Equipment, furniture and fixtures	(3,100,417)	(149,793)	376,891	(2,873,319)
Infrastructure				
Water main lines	(7,561,843)	(306,879)	-	(7,868,722)
Storm sewer	(590,685)	(112,744)	-	(703,429)
Electric	<u>(3,378,745)</u>	<u>(229,641)</u>	<u>-</u>	<u>(3,608,386)</u>
Total accumulated depreciation	<u>(19,121,424)</u>	<u>(1,052,825)</u>	<u>419,802</u>	<u>(19,754,447)</u>
Total capital assets, being depreciated, net	<u>22,792,872</u>	<u>1,402,583</u>	<u>(774,705)</u>	<u>23,420,750</u>
Business-type activities capital assets, net	\$ <u>27,181,799</u>	\$ <u>1,968,059</u>	\$ <u>(2,105,219)</u>	\$ <u>27,044,639</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 12: Risk Management

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

During 2017, the City contracted its medical insurance through a fully insured plan offered by Summa.

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

The claims liability of \$1,838 reported in the fund at December 31, 2017, is based on the requirements of GASB Statement No. 30, *Risk Financing Omnibus*, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims to be reported. The costs are to be based on the estimated ultimate cost of settling the claims using past experience adjusted for current trends, and any other factors that would modify past experience. The claims liability is based on an estimate supplied by the City's third-party administrator. A summary of the fund's claims liability follows:

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Balance at End of Year</u>
2017	\$ 2,448	\$ 149,288	\$ 149,898	\$ 1,838
2016	21,684	108,676	127,912	2,448

#### Note 13: Short-Term Obligations

Changes in the City's note activity for the year ended December 31, 2017, were as follows:

	<u>Balance 12/31/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/17</u>
Governmental activities:				
2016 Various improvement – 1.80%	\$ 3,500,000	\$ -	\$ (3,500,000)	\$ -
2017 Various improvement – 3.00%	-	7,535,000	-	7,535,000
Premium on notes	-	92,907	-	92,907
Total governmental activities – short-term obligations	\$ <u>3,500,000</u>	\$ <u>7,627,907</u>	\$ <u>(3,500,000)</u>	\$ <u>7,627,907</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 13: Short-Term Obligations (continued)

	Balance 12/31/16	Additions	Reductions	Balance 12/31/17
Business-type activities				
2016 Various improvement – 1.80%	\$ 975,000	\$ -	\$ (975,000)	\$ -
2017 Various improvement – 3.00%	-	805,000	-	805,000
Premium on notes	-	9,926	-	9,926
Total governmental activities – short-term obligations	\$ <u>975,000</u>	\$ <u>814,926</u>	\$ <u>(975,000)</u>	\$ <u>814,926</u>

On December 28, 2017, the City issued \$8,340,000 in various purpose bond anticipation notes at an annual interest rate of 3.00% that will mature on December 28, 2018. The proceeds were used to retire the outstanding 2016 various purpose bond anticipation notes and to improve city streets, the City's water system, acquire and improve property and a building and improving City-owned property.

The notes are backed by the full faith and credit of the City and mature within one year. The liability is reflected in the funds which received the proceeds.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50% of anticipated revenue collections. There are limitations on the number of times a note can be renewed.

#### Note 14: Long-term Obligations

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

<u>Debt Issue</u>	<u>Original Issuance Year</u>	<u>Maturity Year</u>	<u>Original Interest Rates</u>	<u>Original Issuance Amount</u>
<b>Governmental Activities:</b>				
<b>General Obligation Bonds:</b>				
2004 Milford/RT 91 Construction G.O. Bond	2004	2017	3.000% - 5.000%	4,200,000
2008 Park Improvement G.O. Bonds Refunded	2008	2018	3.250% - 5.000%	4,248,000
2008 Village South G.O. Bonds Refunded	2008	2018	3.250% - 5.000%	1,947,000
2008 Library Improvement G.O. Bonds Refunded	2008	2018	3.250% - 5.000%	5,580,000
2008 Park Improvement G.O. Bonds Refunded	2008	2019	3.000% - 4.000%	710,000
2008 Library Improvement C.A.B. Bonds Refunded	2008	2019	19.920%	95,000
2011 Park Improvement G.O. Bond Refunded	2011	2018	2.000%	510,000
2011 Community Center Expansion G.O. Bond Refunded	2011	2023	2.000%	175,000
2011 Police Facility Construction G.O. Bond Refunded	2011	2023	2.000%	2,120,000
2011 Road Improvement G.O. Bond Refunded	2011	2023	2.000%	640,000
2011 Street Improvement – Seasons Road G.O. Bond	2011	2031	1.250% - 4.000%	1,175,000
2011 Street Improvement – Atterbury Boulevard G.O. Bond	2011	2031	1.250% - 4.000%	3,770,000
2012 Milford/RT 91 Construction G.O. Bond Refunded	2012	2024	1.500% - 2.000%	2,305,000
2012 Capital Facilities G.O. Bond	2012	2032	1.500% - 2.500%	4,735,000
2013 Street Improvement G.O. Bond	2013	2023	2.000% - 3.000%	5,000,000

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 14: Long-term Obligations (continued)

	Original Issuance Year	Maturity Year	Original Interest Rates	Original Issuance Amount
<b>Governmental Activities (continued):</b>				
<b>Special Assessment Bonds:</b>				
1998 Executive Parkway S.A. Bonds	1998	2018	4.300% - 5.000%	1,060,000
1999 Water Main Construction S.A. Bonds	1999	2019	3.900% - 5.625%	420,000
<b>OPWC Loan</b>	2009	2030	0.000%	143,714
<b>Business Type Activities:</b>				
<b>General Obligation Bonds:</b>				
1998 Golf Course Improvement G.O. Bonds	1998	2019	4.300% - 5.000%	\$ 690,000
2004 Electric Issue G.O. Bonds	2004	2017	3.000% - 5.000%	1,000,000
2004 Sewer Improvement G.O. Bonds	2004	2017	3.000% - 5.000%	855,000
2005 Sewer Improvement G.O. Bonds	2005	2017	3.000% - 5.000%	1,230,000
2005 Storm Water Improvement G.O. Bond	2005	2017	3.000% - 5.000%	2,410,000
2005 Water System Improvement G.O. Bond	2005	2017	3.000% - 5.000%	1,720,000
2011 Golf Course Improvement G.O. Bond Refunded	2011	2023	2.000%	875,000
2011 Storm Water Improvement G.O. Bond Refunded	2011	2023	2.000%	580,000
2011 Substation Construction G.O. Bond Refunded	2011	2023	2.000%	1,190,000
2011 Water System Improvement G.O. Bond Refunded	2011	2033	2.000%	3,210,000
2012 Water System Improvement G.O. Bond Refunded	2012	2035	2.000% - 3.000%	604,000
2012 Water System Improvement	2012	2017	2.000%	280,000
2012 Sewer Improvement Refunded	2012	2034	2.000%-3.000%	623,000
2012 Sewer Improvement Refunded	2012	2035	2.000%-3.000%	1,114,000
2012 Sewer Improvement	2012	2017	2.000%	605,000
2012 Electric Issue Refunded	2012	2034	2.000%-3.000%	722,000
2012 Storm Water Improvement Refunded	2012	2035	2.000%-3.000%	2,182,000
<b>OWDA Loan</b>	1999	2018	4.040%	8,266,307

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 14: Long-term Obligations (continued)

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

	Balance 12/31/16	Additions	Retirements	Balance 12/31/17	Amount Due in One Year
Governmental activities:					
<u>General Obligation Bonds:</u>					
2004 Milford/Rt. 91 Construction	\$ 220,000	\$ -	\$ (220,000)	\$ -	\$ -
2008 Park Improvement Refunded	692,572	-	(521,143)	171,429	171,429
2008 Village South Refunded	317,428	-	(238,857)	78,571	78,571
2008 Park Improvement Refunded	245,000	-	(80,000)	165,000	80,000
2008 Library Improvement Refunded	1,485,000	-	(725,000)	760,000	760,000
2011 Park Improvement Refunded	145,000	-	(75,000)	70,000	70,000
2011 Community Center Expansion Refunded	145,000	-	(20,000)	125,000	15,000
2011 Police Facility Construction Refunded	1,785,000	-	(240,000)	1,545,000	225,000
2011 Road Improvement Refunded	530,000	-	(70,000)	460,000	70,000
2011 Street Improvement – Seasons Road	930,000	-	(50,000)	880,000	50,000
2011 Street Improvement – Atterbury Boulevard	2,995,000	-	(165,000)	2,830,000	165,000
2012 Milford/Rt. 91 Construction Refunded	2,065,000	-	(45,000)	2,020,000	280,000
2012 Capital Facilities	3,910,000	-	(215,000)	3,695,000	215,000
2013 Street Improvement	3,605,000	-	(485,000)	3,120,000	495,000
2008 Library Improvement Refunded					
Capital Appreciation Bonds	95,000	-	-	95,000	-
Appreciation on Bonds	517,626	62,532	-	580,158	-
Premium on General Obligation Bonds	472,241	-	(116,392)	355,849	-
Total General Obligation Bonds	<u>20,154,867</u>	<u>62,532</u>	<u>(3,266,392)</u>	<u>16,951,007</u>	<u>2,675,000</u>
<u>Special Assessment Bonds:</u>					
1998 Executive Parkway	155,000	-	(75,000)	80,000	80,000
1999 Water Main Construction	95,000	-	(30,000)	65,000	30,000
Total Special Assessment Bonds	<u>250,000</u>	<u>-</u>	<u>(105,000)</u>	<u>145,000</u>	<u>110,000</u>
<u>Ohio Public Works Commission Loan:</u>					
2009 Atterbury Boulevard Renovations	97,005	-	(7,186)	89,819	7,186
<u>Other Long-Term Obligations:</u>					
Compensated absences	1,841,985	1,259,883	(1,224,776)	1,877,092	1,078,461
Net pension liability	<u>15,409,130</u>	<u>2,359,713</u>	<u>-</u>	<u>17,768,843</u>	<u>-</u>
Total governmental activities – long-term obligations	\$ <u>37,752,987</u>	\$ <u>3,682,128</u>	\$ <u>(4,603,354)</u>	\$ <u>36,831,761</u>	\$ <u>3,870,647</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 14: Long-term Obligations (continued)

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>12/31/17</u>	Amount Due <u>in One Year</u>
Business-type activities:					
<u>General Obligation Bonds:</u>					
1998 Golf Course Improvement	\$ 85,000	\$ -	\$ (25,000)	\$ 60,000	\$ 30,000
2004 Electric Issue	30,000	-	(30,000)	-	-
2004 Sewer Improvement	25,000	-	(25,000)	-	-
2005 Storm Water Improvement	60,000	-	(60,000)	-	-
2005 Water System Improvement	15,000	-	(15,000)	-	-
2005 Sewer Improvement	30,000	-	(30,000)	-	-
2011 Substation Construction Refunded	995,000	-	(135,000)	860,000	130,000
2011 Water System Improvement Refunded	2,955,000	-	(140,000)	2,815,000	115,000
2011 Storm Water Improvement Refunded	490,000	-	(65,000)	425,000	65,000
2011 Golf Course Improvement Refunded	740,000	-	(100,000)	640,000	90,000
2012 Water System Improvement Refunded	564,000	-	(8,000)	556,000	26,000
2012 Water System Improvement	60,000	-	(60,000)	-	-
2012 Sewer Improvement Refunded	596,000	-	(5,000)	591,000	30,000
2012 Sewer Improvement Refunded	1,039,000	-	(14,000)	1,025,000	49,000
2012 Sewer Improvement	125,000	-	(125,000)	-	-
2012 Electric Issue Refunded	694,000	-	(5,000)	689,000	35,000
2012 Storm Water Improvement Refunded	2,037,000	-	(28,000)	2,009,000	95,000
Premium on General Obligation Bonds	84,872	-	(13,655)	71,217	-
Total General Obligation Bonds	<u>10,624,872</u>	<u>-</u>	<u>(883,655)</u>	<u>9,741,217</u>	<u>665,000</u>
<u>OWDA Loan:</u>					
OWDA loan	<u>1,154,103</u>	<u>-</u>	<u>(565,513)</u>	<u>588,590</u>	<u>588,590</u>
<u>Other Long-Term Obligations:</u>					
AMP Ohio payable	2,451	1,956	-	4,407	4,407
Compensated absences	1,390,486	544,506	(521,696)	1,413,296	674,077
Net pension liability	<u>4,189,064</u>	<u>1,707,509</u>	<u>-</u>	<u>5,896,573</u>	<u>-</u>
Total business-type activities long-term obligations	\$ <u>17,360,976</u>	\$ <u>2,253,971</u>	\$ <u>(1,970,864)</u>	\$ <u>17,644,083</u>	\$ <u>1,932,074</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 14: Long-term Obligations (continued)

The annual requirements to amortize all long-term debt outstanding as of December 31, 2017 are as follows:

Year ending December 31,	<u>Governmental Activities</u>				
	<u>General Obligation</u>		<u>Special Assessments</u>		<u>OPWC</u>
	<u>Principal</u>	<u>Interest*</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2018	\$ 2,675,000	\$ 404,073	\$ 110,000	\$ 7,656	\$ 7,186
2019	1,750,000	1,015,448	35,000	1,969	7,186
2020	1,600,000	280,335	-	-	7,186
2021	1,639,000	249,590	-	-	7,186
2022	1,673,000	216,650	-	-	7,186
2023-2027	4,073,000	646,505	-	-	35,930
2028-2032	2,605,000	227,538	-	-	17,959
Total	\$ <u>16,015,000</u>	\$ <u>3,040,139</u>	\$ <u>145,000</u>	\$ <u>9,625</u>	\$ <u>89,819</u>

Year ending December 31,	<u>Business-Type Activities</u>			
	<u>General Obligation</u>		<u>OWDA Loan</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 665,000	\$ 239,235	\$ 588,590	\$ 13,288
2019	725,000	225,035	-	-
2020	695,000	210,780	-	-
2021	721,000	198,030	-	-
2022	742,000	183,615	-	-
2023-2027	2,512,000	706,960	-	-
2028-2032	2,530,000	391,343	-	-
2033-2035	1,080,000	53,112	-	-
Total	\$ <u>9,670,000</u>	\$ <u>2,208,110</u>	\$ <u>588,590</u>	\$ <u>13,288</u>

\*The accretion on the capital appreciation bonds is reported with future interest payments in the table above.

The business-type activities general obligation bonds will be paid with electric, wastewater, and water service charges, and golf course revenues. The OWDA loan will be repaid with income tax monies and wastewater service charges from the Wastewater Enterprise Fund. The AMP Ohio payable will be paid from the Electric Fund, see Note 21. Governmental activities general obligation bonds will be paid from property taxes received in the debt service funds. The special assessments bonds will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. Compensated absences will be paid from the funds from which the employees' salaries are paid.

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

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 15: Lease Obligations**

The City entered into leases for certain equipment and office space. These leases do not meet the criteria of a capital lease in accordance with the “Leases” topic of Finance Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

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

<u>Year</u>	<u>Governmental Activities</u>
2018	\$ 424,163
2019	142,770
2020	65,730
2021	65,314
2022	499
Total minimum lease payments	\$ <u>698,476</u>

Rental expense related to operating leases for office space and equipment totaled \$419,439 for the year ended December 31, 2017.

#### **Note 16: Defined Benefit Pension Plans**

##### **A. Net Pension Liability**

The net pension liability reported on the Statement of Net Position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the City’s obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees’ services in exchange for compensation including pension.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 16: Defined Benefit Pension Plans (continued)

##### A. Net Pension Liability (continued)

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

##### B. Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan and the Combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed plan, substantially all employee members are in OPERS' Traditional or Combined plans; therefore, the following disclosure focuses on the Traditional and Combined plans.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional and Combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Final average salary (FAS) represents the average of the three highest years of earnings over the member's career for Groups A and B. Group C is based on the average of the five highest years of earning over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

The Traditional plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and FAS. Pension benefits are funded by both member and employer contributions and investment earnings on those contributions.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 16: Defined Benefit Pension Plans (continued)

##### B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

The following table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Traditional plan (see OPERS CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

When a benefit recipient retiring under the Traditional pension plan has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided on the member's base pay. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Traditional pension plan.

The Combined plan is a defined benefit plan with elements of a defined contribution plan. Members earn a formula benefit similar to, but at a factor less than the Traditional pension plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement, the member may choose a defined contribution distribution that is equal to the member's contributions to the plan and investment earnings (or losses). Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Benefits in the Combined plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined plan is the same as the Traditional pension plan.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 16: Defined Benefit Pension Plans (continued)

##### B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

The subsequent table provides age and service requirements for retirement and the retirement formula applied to the FAS for the three member groups under the Combined plan (see OPERS CAFR referenced above for additional information):

<b>Group A</b>	<b>Group B</b>	<b>Group C</b>
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Formula:</b> 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Formula:</b> 1.0% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Formula:</b> 1.0% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

Members retiring under the Combined plan receive a 3% COLA on the defined benefit portion of their benefit. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%. Additionally, a death benefit of \$500-\$2,500, determined by the number of years of service credit of the retiree, is paid to the beneficiary of a deceased retiree or disability benefit recipient under the Combined plan.

The Member-Directed plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The distribution upon retirement is equal to the sum of member and vested employer contributions plus investment earnings (or losses). Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

<b>2017 Statutory Maximum Contribution Rates</b>	<u>State and Local</u>
Employer	14.0 %
Employee	10.0 %

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 16: Defined Benefit Pension Plans (continued)

##### B. Plan Description – Ohio Public Employees Retirement System (OPERS) (continued)

###### 2017 Actual Contribution Rates

Employer:

Pension	13.0 %
Post-employment Health Care Benefits	<u>1.0 %</u>

Total Employer 14.0 %

Employee 10.0 %

In 2017, the City's contractually required contribution, net of post-employment health care benefits, was \$1,392,114. Of this amount, \$172,725 is reported as intergovernmental payable at December 31, 2017.

##### C. Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - the City's full-time police participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 16: Defined Benefit Pension Plans (continued)

##### C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (continued)

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The ORC provides statutory authority for member and employer contributions as follows:

	<u>Police</u>
<b>2017 Statutory Maximum Contribution Rates</b>	
Employer	19.50 %
Employee	12.25 %
<b>2017 Actual Contribution Rates</b>	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	<u>0.50 %</u>
Total Employer	<u>19.50 %</u>
Employee	12.25 %

In 2017, the City's contractually required contribution, net of post-employment health care benefits, was \$443,925. Of this amount, \$59,591 is reported as intergovernmental payable at December 31, 2017.

##### D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 16: Defined Benefit Pension Plans (continued)

#### D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&amp;F</u>	<u>Total</u>
Proportion of the net pension liability/asset prior measurement date	0.076305%	0.166580%	0.099193%	
Proportion of the net pension liability/asset current measurement date	<u>0.077752%</u>	<u>0.137788%</u>	<u>0.094876%</u>	
Change in Proportionate Share	0.001447%	(0.028792%)	(0.004317%)	
Proportionate share of the net pension liability (asset)	\$ 17,656,065	\$ (76,688)	\$ 6,009,351	\$ 23,588,728
Pension expense	\$ 3,859,188	\$ 56,208	\$ 678,766	\$ 4,594,162

At December 31, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS Traditional</u>	<u>OPERS Combined</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred outflow of resources</b>				
City contributions subsequent to the measurement date	\$ 1,323,958	\$ 68,156	\$ 443,925	\$ 1,836,039
Differences in employer contributions and change in proportionate share	157,736	8,006	-	165,742
Difference between expected and actual experience	23,931	-	1,700	25,631
Change in assumptions	2,800,468	18,691	-	2,819,159
Net difference between projected and actual earnings on pension plan investments	<u>2,629,397</u>	<u>18,712</u>	<u>584,384</u>	<u>3,232,493</u>
Total deferred outflow of resources	\$ <u>6,935,490</u>	\$ <u>113,565</u>	\$ <u>1,030,009</u>	\$ <u>8,079,064</u>
<b>Deferred inflow of resources</b>				
Differences in employer contributions and change in proportionate share	\$ -	\$ 1,350	\$ 298,541	\$ 299,891
Difference between expected and actual experience	<u>105,081</u>	<u>39,222</u>	<u>13,836</u>	<u>158,139</u>
Total deferred inflow of resources	\$ <u>105,081</u>	\$ <u>40,572</u>	\$ <u>312,377</u>	\$ <u>458,030</u>

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 16: Defined Benefit Pension Plans (continued)

##### D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The \$1,836,039 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional		OPERS Combined		OP&F	Total
Fiscal Year Ending December 31:						
2018	\$	2,317,013	\$	4,437	\$ 158,776	\$ 2,480,226
2019		2,329,166		4,437	158,776	2,492,379
2020		937,346		3,628	105,818	1,046,792
2021		(77,074)		(3,002)	(102,815)	(182,891)
2022		-		(2,303)	(43,079)	(45,382)
2023-2026		-		(2,360)	(3,769)	(6,129)
	\$	<u>5,506,451</u>	\$	<u>4,837</u>	<u>273,707</u>	<u>5,784,995</u>

##### E. Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The active member population which consists of members in the Traditional and Combined plans is assumed to remain constant. For purposes of financing the unfunded actuarial accrued liabilities, total payroll is assumed to grow at the wage inflation rate indicated below.

In 2016, OPERS' actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporated both a historical review and forward-looking projection to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 16: Defined Benefit Pension Plans (continued)

##### E. Actuarial Assumptions – OPERS (continued)

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>
Experience Study	5-year period ended December 31, 2015	5-year period ended December 31, 2015
Actuarial Cost Method	Individual Entry Age	Individual Entry Age
Actuarial Assumptions:		
Investment Rate of Return / Discount Rate	7.50%	7.50%
Wage Inflation	3.25%	3.25%
Projected Salary Increases, including 3.25% inflation	3.25 to 10.75%	3.25 to 8.25%
COLA	3% Simple	3% Simple

Mortality rates were based on the RP-2014 Health Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables were determined by applying the MP-2015 mortality improvement scale to the above described tables.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional pension plan, the defined benefit component of the Combined plan and the annuitized accounts of the Member-Directed plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 16: Defined Benefit Pension Plans (continued)

##### E. Actuarial Assumptions – OPERS (continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.75%
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other Investments	18.00	4.92
Total	100.00%	5.66%

**Discount Rate** The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

##### **Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City’s proportionate share of the net pension liability – Traditional	\$ 26,973,585	\$ 17,656,065	\$ 9,891,559
City’s proportionate share of the net pension liability/(asset) – Combined	\$ 5,512	\$ (76,688)	\$ (140,544)

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 16: Defined Benefit Pension Plans (continued)

##### F. Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Actuarial cost method	Entry age normal
Investment rate of return	8.25%
Projected salary increases	4.25% - 11.00%
Payroll increases	3.75%
Inflation assumptions	3.25%
Cost of living adjustments	2.60% and 3.00% simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in OP&F's Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016 are summarized below:

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 16: Defined Benefit Pension Plans (continued)

##### F. Actuarial Assumptions – OP&F (continued)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income*	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00%	

\*Levered 2x

OP&F’s Board of Trustees has incorporated the risk parity concept into OP&F’s asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

**Discount Rate** The total pension liability was calculated using the discount rate of 8.25%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25%. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25%), or one percentage point higher (9.25%) than the current rate.

	1% Decrease (7.25%)	Discount Rate (8.25%)	1% Increase (9.25%)
City’s proportionate share of the net pension liability	\$ 8,003,743	\$ 6,009,351	\$ 4,319,076

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 16: Defined Benefit Pension Plans (continued)

##### F. Actuarial Assumptions – OP&F (continued)

*Changes between Measurement Date and Report Date* In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2017. The most significant change is the reduction in the discount rate from 8.25% to 8.00%. Although the exact amount of these changes is not known, the impact to the City's net position liability is expected to be significant.

#### Note 17: Post-Employment Benefits

##### A. Ohio Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional pension plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed plan – a defined contribution plan; and the Combined plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional pension and Combined plans. This trust is also used to fund health care for Member-Directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed plan participants may be eligible for reimbursement for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS 2016 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS may be set aside to fund OPERS health care plans.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 17: Post-Employment Benefits (continued)**

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

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, State and Local employers contributed at a rate of 14.0% of earnable salary. This is the maximum employer contribution rate permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional pension plan and Combined plan was 1.0% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed plan participants for 2017 was 4.0%.

The City's contributions for health care for the years ended December 31, 2017, 2016, and 2015 were \$112,054, \$211,137, and \$202,064, respectively. The full amount has been contributed for 2016 and 2015. For 2017, 88.16% has been contributed, with the remainder being reported as a liability in the intergovernmental payable.

##### **B. Ohio Police and Fire Pension Fund**

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

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

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

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 E. Town St., Columbus, Ohio 43215-5164. That report is also available on OP&F's website at [www.op-f.org](http://www.op-f.org).

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 17: Post-Employment Benefits (continued)**

##### **B. Ohio Police and Fire Pension Fund (continued)**

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was 0.5% of covered payroll from January 1, 2017 through December 31, 2017. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's police contributions to OP&F allocated to the health care plan for the years ended December 31, 2017, 2016, and 2015 were \$11,682, \$11,439, and \$11,301, respectively. The full amount has been contributed for 2016 and 2015. For 2017, 86.58% has been contributed, with the remainder being reported as a liability in the accrued wages and benefits.

#### **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:

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 18: Compensated Absences (continued)**

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

Upon resignation, retirement or death, an employee with 10 or more years of service with the City is eligible for a severance payment for his/her accumulated but unused sick leave, but the maximum payment shall not exceed 1,440 hours. Such payment shall be based on the employee's rate of pay at the time of resignation, retirement or death. Individuals who were regular full-time employees as of December 31, 2000, accrue sick leave at a one-for-one cash-out rate up to the next 500, 1,000, or 1,440 hour level – based on their respective aggregate sick leave levels at December 31, 2000. All remaining sick leave hours will be accrued subject to one-for-three cash-out rate, up to an aggregate maximum of 1,440 hours. Employees who dip below their maximum one-for-one cash-out levels can replenish those one-for-one levels with earned sick leave. All regular full-time employees hired after January 1, 2001, will accrue all sick leave up to a maximum of 1,440 hours subject to a one-for-three cash-out rate.

#### **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, 2017.

##### **B. Litigation**

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, 2017.

##### **C. Contingent Liabilities**

The City is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The City's share was 6,000 kilowatts of a total 771,281 kilowatts, giving the City a 0.78% share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 19: Contingencies (continued)

##### C. Contingent Liabilities (continued)

As a result of a March 31, 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The City's estimated share at March 31, 2014 of the impaired costs was \$1,038,626. The City received a credit of \$378,804 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$271,349 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$388,473. Because payment is now probable and reasonably estimable, the City is reporting a payable to AMP in its business-type activities and in its Electric Fund for these impaired costs. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the City's liability. These amounts will be recorded as they become estimable. Since March 31, 2014 the City has made payments of \$400,137 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the City's allocation of additional costs incurred by the project is \$12,350 and interest expense incurred on AMP's line-of-credit of \$3,721, resulting in a net impaired cost estimate at December 31, 2017 of \$4,407.

The City intends to recover these costs and repay AMP over the next year through a power cost adjustment, thus this incurred cost has been capitalized and reported as a regulated asset, as allowed by GASB Statement No. 62.

#### Note 20: Interfund Transactions

Interfund receivable/payable for the year ended December 31, 2017, consisted of the following:

	Receivable		
	General Fund	Internal Service Funds	Total
Payable:			
General Fund	\$ -	\$ 7,870	\$ 7,870
Street Construction	-	53,158	53,158
Street Sidewalk Construction	155,000	-	155,000
Broadband Capital Fund	3,400,000	-	3,400,000
Nonmajor Governmental	1,210,231	3,257	1,213,488
Water Fund	-	3,049	3,049
Golf Course Fund	599,108	-	599,108
Electric Fund	98,857	5,586	104,443
Storm Water Fund	80,350	-	80,350
Total	\$ 5,543,546	\$ 72,920	\$ 5,616,466

The amount owed to the internal service funds is for funds not yet transferred between funds for payments made by the internal service funds.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

#### Note 20: Interfund Transactions (continued)

Of the amounts above, the payable below are in the form of internal debt owed to the General Fund:

Broadband Capital Fund	\$ 3,400,000
Nonmajor Governmental	<u>878,231</u>
 Total	 \$ <u>4,278,231</u>

The internal debt noted above matures July 20, 2018 (\$3,538,231) and December 28, 2018 (\$740,000) and carries an interest rate of 1.25% and 3.00%. respectively.

Long-term interfund loans are classified as “Advances to/from other funds” and consist of the following at December 31, 2017:

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

As of December 31, 2017, interfund transfers were as follows:

	<u>Transfers - out</u>			<u>Total</u>
	<u>General</u>	<u>Street Sidewalk Construction</u>	<u>Nonmajor Governmental</u>	
Transfers - in:				
Street Construction	\$ 2,350,000	\$ -	\$ -	\$ 2,350,000
Street Sidewalk Construction	2,135,000	-	-	2,135,000
Nonmajor governmental	1,972,797	-	200,000	2,172,797
Golf Course	40,000	-	-	40,000
Storm Sewer	1,795,000	-	-	1,795,000
Wastewater	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>
Total	<u>\$ 8,992,797</u>	<u>\$ -</u>	<u>\$ 200,000</u>	<u>\$ 9,192,797</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; and to provide additional resources for current operations or debt service. There was one transfer from the nonmajor governmental funds. The transfer from nonmajor governmental funds for \$200,000 was a transfer from the Fire District Special Revenue Fund to the Fire Capital Replacement Capital Projects Fund, which was proper in accordance with Ohio Revised Code (ORC) 5705.13(C).

During 2017, contribution of capital assets of \$151,327 from the governmental activities to the business-type activities are reported as transfers in the Statement of Activities.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 21: Joint Ventures**

##### ***Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1)***

The City's Electric Fund participates in a joint venture agreement with 20 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) for the purpose of providing electric power and energy to its participants on a cooperative basis. The electric generating facilities of OMEGA JV1, known as the Eagle Units, are located in the City of Cuyahoga Falls, Ohio. Title to these six diesel-powered generating units was transferred to the 21 municipal electric systems from American Municipal Power, Incorporated (AMP), a non-profit trade association and wholesale power supplier for 132 members in nine states. Each member 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. The City's net investment and its share of the operating results of OMEGA JV-1 are reported in the City's statement of net position as "investment in joint ventures". The City's equity interest in OMEGA JV-1 was \$32,623 at December 31, 2017. Complete financial statements for OMEGA JV-1 can be obtained from AMP-Ohio or from the City's Finance Director.

##### ***Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5)***

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

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

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

Also pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (the "Certificates") from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2017, the City has not met its debt coverage obligation.

## City of Hudson, Ohio

### Notes to Basic Financial Statements (continued)

#### For the Year Ended December 31, 2017

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##### **Note 21: Joint Venture (continued)**

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

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

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates (the "2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's Electric Fund. The City's net investment to date in OMEGA JV5 was \$170,011 at December 31, 2017. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

##### **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.

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### **Note 22: Shared Risk Pool (continued)**

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

In 2017, the City paid \$163,608 for premiums. Financial information can be obtained by contacting the Fiscal Agent: City of University Heights, attention Larry Heiser, 2300 Warrensville Road, University Heights, OH 44118.

#### **Note 23: Accountability**

There were deficits in the following governmental funds: Community and Economic Development Fund – Hudson Cable 25 Fund of \$24,772, Police Station Acquisitions Fund of \$25,000, Downtown Phase II Fund of \$1,266,351, Street Sidewalk Construction Fund of \$1,133,304 and Broadband Capital Fund of \$2,649,986. There was a deficit in the Wastewater Fund of \$435,402. These deficits were caused by the application of accounting principles generally accepted in the United States of America to these funds. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

#### **Note 24: Significant Commitments**

##### **A. Contracts**

The City has the following outstanding contractual commitments for various construction projects at December 31, 2017:

<u>Contractor</u>	<u>Contract and Contingency</u>	<u>Amount Paid</u>	<u>Amount Remaining</u>
Mr. Excavator	\$ 3,234,188	\$ 2,183,076	\$ 1,051,112
United Earthworks, LLC	417,168	374,004	43,164
CATTS Construction	94,792	-	94,792
Lake Erie Construction Company, Inc.	57,659	-	57,659
Liberta Construction	260,000	166,255	93,745
Liberta Construction	678,895	-	678,895
Perrin Asphalt	1,239,038	1,033,700	205,338

# City of Hudson, Ohio

## Notes to Basic Financial Statements (continued)

### For the Year Ended December 31, 2017

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#### Note 24: Significant Commitments (continued)

##### *B. Encumbrances*

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

Governmental funds:		
General	\$	254,669
Street Construction		105,130
Street Sidewalk Construction		1,370,299
Nonmajor Governmental		882,261
Total governmental	\$	<u>2,612,359</u>

#### Note 25: Tax Abatement Disclosures

As of December 31, 2017, the City provides tax incentives under two programs: The Community Reinvestment Area (CRA) and the Job Creation Grant Program.

##### *Real Estate tax abatements*

Pursuant to Ohio Revised Code Chapter 3735, the City established a Community Reinvestment Area, which included all land within the boundaries of the City. The City authorizes incentives through passage of public ordinances, based upon each businesses investment criteria, and through a contractual application process with each business, including proof that the improvement have been made. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the CRA gave the City the ability to maintain and expand business located in the City and created new jobs by abating or reducing assessed valuation of properties, resulting in abated taxes, from new or improved business real estate and includes major housing improvements. During 2017, the City had multiple agreements under the CRA outstanding with total abated property taxes of \$477,308. The City's share of the abated taxes for 2016 was \$45,106.

##### *Income tax abatement programs*

The City created the Job Creation Grant Program. The purpose of the program is to maintain the City's competitiveness as a site for location of new businesses and the expansion of existing businesses. Pursuant to Article XVIII, Section 3 and Article VIII, Section 13 of the Ohio Constitution (Resolution #05-39), the City provides an incentive to the company based upon the company's gross annual payroll, the amount of income tax generated annually and the number of jobs created or retained by the business. The abatement is administered as a refund based upon the company's payroll taxes. Also, the time period of the incentive in years, is determined by how many new jobs are to be created by the company. The total amount of taxes abated under this program for the year ended December 31, 2017 was \$101,109.

## City of Hudson, Ohio

### Required Supplementary Information Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Public Employee Retirement System – Traditional Plan

#### For the Last Four Years

	<u>2017(1)</u>	<u>2016(1)</u>	<u>2015(1)</u>	<u>2014(1)</u>
City's proportion of the net pension liability	0.077752%	0.076305%	0.074007%	0.074007%
City's proportionate share of the net pension liability	\$ 17,656,065	\$ 13,217,039	\$ 8,926,071	\$ 8,724,461
City's covered payroll	\$ 9,366,862	\$ 9,408,900	\$ 9,174,175	\$ 8,946,448
City's proportionate share of the net pension liability as a percentage of its covered payroll	188.50%	140.47%	97.30%	97.52%
Plan fiduciary net position as a percentage of the total pension liability	77.25%	81.08%	86.45%	86.36%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date, which is the prior year-end.

## City of Hudson, Ohio

### Required Supplementary Information Schedule of the City's Proportionate Share of the Net Pension Asset Ohio Public Employee Retirement System – Combined Plan

#### For the Last Four Years

	<u>2017(1)</u>	<u>2016(1)</u>	<u>2015(1)</u>	<u>2014(1)</u>
City's proportion of the net pension asset	0.137788%	0.166580%	0.166437%	0.166437%
City's proportionate share of the net pension asset	\$ 76,688	\$ 81,062	\$ 64,084	\$ 17,465
City's covered payroll	\$ 501,613	\$ 597,167	\$ 585,375	\$ 570,840
City's proportionate share of the net pension asset as a percentage of its covered payroll	15.29%	13.57%	10.95%	3.06%
Plan fiduciary net position as a percentage of the total pension asset	116.55%	116.90%	114.83%	n/a

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date, which is the prior year-end.

## City of Hudson, Ohio

### Required Supplementary Information Schedule of the City's Proportionate Share of the Net Pension Liability Ohio Police and Fire Pension Fund

#### For the Last Four Years

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	<u>2017(1)</u>	<u>2016(1)</u>	<u>2015(1)</u>	<u>2014(1)</u>
City's proportion of the net pension liability	0.094876%	0.099193%	0.102264%	0.102264%
City's proportionate share of the net pension liability	\$ 6,009,351	\$ 6,381,155	\$ 5,297,686	\$ 4,980,563
City's covered payroll	\$ 2,279,200	\$ 2,228,026	\$ 2,371,831	\$ 2,162,499
City's proportionate share of the net pension liability as a percentage of its covered payroll	263.66%	286.40%	223.36%	230.32%
Plan fiduciary net position as a percentage of the total pension liability	68.36%	66.77%	71.71%	73.00%

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. Amounts presented for each year were determined as of the City's measurement date, which is the prior year-end.

## City of Hudson, Ohio

### Required Supplementary Information Schedule of the City Contributions Ohio Public Employee Retirement System – Traditional Plan

#### For the Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 1,323,958	\$ 1,124,025	\$ 1,129,068	\$ 1,100,901	\$ 1,163,038
Contributions in relation to the contractually-required contribution	<u>(1,323,958)</u>	<u>(1,124,025)</u>	<u>(1,129,068)</u>	<u>(1,100,901)</u>	<u>(1,163,038)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 10,184,293	\$ 9,366,862	\$ 9,408,900	\$ 9,174,175	\$ 8,946,448
Contributions as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 903,521	\$ 907,499	\$ 823,073	\$ 712,621	\$ 597,171
Contributions in relation to the contractually-required contribution	<u>(903,521)</u>	<u>(907,499)</u>	<u>(823,073)</u>	<u>(712,621)</u>	<u>(597,171)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 9,035,205	\$ 9,074,992	\$ 9,145,257	\$ 8,383,782	\$ 8,531,017
Contributions as a percentage of covered payroll	10.00%	10.00%	9.00%	8.50%	7.00%

The accompanying note is an integral part of the required supplementary information

## City of Hudson, Ohio

### Required Supplementary Information Schedule of the City Contributions Ohio Public Employee Retirement System – Combined Plan

#### For the Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 68,156	\$ 60,196	\$ 71,660	\$ 70,245	\$ 74,209
Contributions in relation to the contractually-required contribution	<u>(68,156)</u>	<u>(60,196)</u>	<u>(71,660)</u>	<u>(70,245)</u>	<u>(74,209)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 524,274	\$ 501,613	\$ 597,167	\$ 585,375	\$ 570,840
Contributions as a percentage of covered payroll	13.00%	12.00%	12.00%	12.00%	13.00%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 57,650	\$ 57,904	\$ 52,517	\$ 45,470	\$ 38,103
Contributions in relation to the contractually-required contribution	<u>(57,650)</u>	<u>(57,904)</u>	<u>(52,517)</u>	<u>(45,470)</u>	<u>(38,103)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 576,504	\$ 579,042	\$ 583,526	\$ 534,939	\$ 544,333
Contributions as a percentage of covered payroll	10.00%	10.00%	9.00%	8.50%	7.00%

The accompanying note is an integral part of the required supplementary information

## City of Hudson, Ohio

### Required Supplementary Information Schedule of the City Contributions Ohio Police and Fire Pension Fund - Police

#### For the Last Ten Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually-required contribution	\$ 443,925	\$ 433,048	\$ 423,325	\$ 450,648	\$ 343,477
Contributions in relation to the contractually-required contribution	<u>(443,925)</u>	<u>(433,048)</u>	<u>(423,325)</u>	<u>(450,648)</u>	<u>(343,477)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 2,336,446	\$ 2,279,200	\$ 2,228,026	\$ 2,371,831	\$ 2,162,499
Contributions as a percentage of covered payroll	19.00%	19.00%	19.00%	19.00%	15.88%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually-required contribution	\$ 279,529	\$ 279,658	\$ 279,646	\$ 266,707	\$ 223,182
Contributions in relation to the contractually-required contribution	<u>(279,529)</u>	<u>(279,658)</u>	<u>(279,646)</u>	<u>(266,707)</u>	<u>(223,182)</u>
Contribution deficiency (excess)	\$ <u>-</u>				
City covered payroll	\$ 2,192,384	\$ 2,193,396	\$ 2,193,302	\$ 2,091,820	\$ 1,750,447
Contributions as a percentage of covered payroll	12.75%	12.75%	12.75%	12.75%	12.75%

The accompanying note is an integral part of the required supplementary information

# City of Hudson, Ohio

## Note to the Required Supplementary Information

### For the Year ended December 31, 2017

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#### Note 1: Change in Assumptions – OPERS Traditional and Combined Plans

Amounts reported for 2017 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2016 and prior are presented below:

	<u>2017</u>	<u>2016 and Prior</u>
Wage Inflation	3.25%	3.75%
Future Salary Increases, Including Inflation	3.25-10.75% (including wage inflation at 3.25%)	4.25-10.05% (including wage inflation)
COLA or Ad Hoc COLA: Pre-Jan 7, 2013 Retirees	3.00% Simple	3.00% Simple
Post-Jan 7, 2013 Retirees	3.00% Simple through 2018 then 2.15% Simple	3.00% Simple through 2018 then 2.8% Simple
Investment Rate of Return	7.50%	8.00%
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For the current valuation, mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

For the prior valuation, mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2015. The prior experience study was completed for the five-year period ended December 31, 2010.