

CITY OF HUDSON

INDEPENDENT AUDITOR S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2005

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City of Hudson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeffrey Palmer	Mayor	Dec 2005
Gary Downey	Mayor Pro tem	Dec 2007
Dennis Sadler	Council Member	Dec 2005
Robert Grittmann	Council Member	Dec 2005
Dianna Darold	Council Member	Dec 2007
David Spake	Council Member	Dec 2007
Celeste O Brian	City Clerk/Treasurer	Indefinite
Harold B. Strever, Jr.	Attorney	Indefinite

City of Hudson

Independent Auditor s Report

To the Honorable Mayor and
Members of the City Council:

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, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City s basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hudson s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated September 1, 2005 on our consideration of the City of Hudson s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management s Discussion and Analysis on pages I through IX and budgetary comparison information on pages 21 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson s basic financial statements. We previously audited, in accordance with the standards referred to in this second paragraph of this report, the financial statements for they year ended June 30, 2004 (which are not presented herein) and expressed an

unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

September 1, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hudson provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- The City's revenues increased by \$87,296 or 2.70% from fiscal year 2004 to fiscal year 2005. Receipts in the City's governmental funds increased by \$6,545 while receipts in the City's proprietary funds increased by \$80,751.
- Disbursements increased \$200,790 or 7.11% from fiscal year 2004 to fiscal year 2005. Increased expenses in the governmental funds were \$54,792 and increased expenses in the proprietary funds were \$255,582. Of the total increase in the proprietary funds \$178,801 were attributable to the electric utility due primarily to the increased cost of wholesale electric for resale to customers and 70,739 were attributable to the sewer utility primarily due to capital projects.
- The City's total cash basis net assets increased \$294,018 or 8.24% from fiscal year 2004 to fiscal year 2005 to a total of \$3,863,072. The increase in the governmental funds was \$186,446 which includes a \$50,000 transfer from the proprietary funds, and the increase in the proprietary funds was \$107,572 after the transfer to the governmental funds

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole, better off or worse off, as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric utility, water utility, sanitary sewer system and the solid waste disposal funds. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, including the Rural Fire Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing Fund, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the electric, water and sewer funds, considered to be major funds of the City, and the Solid Waste Disposal and Meter Deposit Funds considered to be non-major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Hudson utilizes no internal service funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$1.320 million to 1.506 million. The analysis that follows focuses on the changes in cash balances for *governmental activities*.

Changes in Cash Basis Net Assets of Governmental Activities				
(Expressed in Thousands)				
Description	Year Ended June 30,			
	2005	% of total	2004	% of total
Receipts and transfers:				
Program receipts:				
Charges for service	\$ 150	8%	\$ 59	3%
Operating grants, contributions & restricted interest	289	16%	508	26%
Capital grants, contributions and restricted interest	112	6%	19	1%
General receipts:				
Property tax	580	33%	368	19%
Tax Increment Financing revenues	338	19%	486	25%
Local Option sales tax	218	12%	208	11%
Unrestricted investment earnings & use of property	19	1%	14	1%
Other general receipts	29	2%	67	4%
Transfers, net	50	3%	200	10%
Total receipts and transfers	\$ 1,785	100%	\$ 1,929	100%
Disbursements:				
Public Safety	\$ 344	21%	\$ 393	24%
Public Works	322	20%	330	20%
Health and Social Services	2		1	
Culture and Recreation	346	22%	389	23%
Community and Economic Development	75	5%	159	10%
General Government	208	13%	205	12%
Debt Service	178	11%	177	11%
Capital Projects	124	8%		
Total disbursements	\$ 1,599	100%	\$ 1,654	100%
Increase in cash basis net assets	\$ 186		\$ 275	
Cash basis net assets beginning of year	\$ 1,320		\$ 1,045	
Cash basis net assets end of year	\$ 1,506		\$ 1,320	

The City's total receipts for governmental activities increased by .4% or \$6,545. The total cost of all programs and services decreased by \$54,792, or 3.3%, with no new programs added this year.

The City did not increase general fund property tax rates for 2005. Due to a decrease in tax increment financing tax askings and an increase in special (i.e. employee benefit) tax (levy) rates, property tax receipts increased by 211,328. Tax increment financing revenues decreased by \$148,578 in fiscal 2005.

The cost of all governmental activities this year was 1.599 million compared to 1.654 million last year. However, as shown in the Statement of Activities and Net Assets the amount taxpayers ultimately financed for these activities was only 1.048 million because some of the cost was paid by those directly benefited from the programs (\$150,148) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$401,340). Overall the City's governmental program receipts, decreased in 2005 from approximately \$586,000 to approximately \$551,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$798,000 in property tax and local option tax, with tax increment financing receipts used to pay debt service and with other receipts, such as interest and general entitlements. In addition, there was a \$50,000 fund transfer from the proprietary funds (electric utility) to the governmental funds (general fund).

Changes in Cash Basis Net Assets of <i>Business Type</i> Activities				
(Expressed in Thousands)				
Description	Year Ended June 30,			
	2005	% of total	2004	% of total
Receipts:				
Program receipts:				
Charges for service				
Water	\$ 193	12%	\$ 195	13%
Sewer	184	12%	190	13%
Electric	1,063	67%	981	65%
Solid Waste Disposal	94	6%	84	6%
General Receipts:				
Unrestricted interest on investments	33	2%	24	2%
Meter Deposits	3		7	
Other	14	1%	22	1%
Total receipts	\$ 1,584	100%	\$ 1,503	100%
Disbursements and Transfers:				
Water	\$ 161	11%	\$ 158	11%
Sewer	206	14%	136	10%
Electric	971	66%	792	58%
Solid Waste Disposal	81	6%	81	6%
Meter Deposits	7		4	
Transfers out	50	3%	200	15%
Total disbursements	\$ 1,476	100%	\$ 1,371	100%
Increase (decrease) in cash balance	\$ 108		\$ 132	
Cash basis net assets beginning of year	\$ 2,249		\$ 2,117	
Cash basis net assets end of year	\$ 2,357		\$ 2,249	

Total business type activities receipts for the fiscal year were \$1.584 million compared to \$1.503 million last year. The cash balance increased by \$107,572 from the prior year. Total disbursements and transfers for the fiscal year increased by 7.7% to a total of \$1.476 million, due mostly to increased cost of wholesale electric power and sewer projects.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hudson completed the year, its governmental funds reported a combined fund balance of \$1,506,461, an increase of \$186,446 above last year's total of \$1,320,015. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$2,969 from the prior year to \$315,388.
- The Road Use Tax Fund cash balance decreased by \$11,980 to \$7,744 during the fiscal year. This decrease was attributable to the City spending down the balance on street improvement projects.
- The Tax Increment Finance (TIF) Fund and various TIF Debt Sinking Funds were established to account for a major urban renewal project within the City's business district. At the end of the fiscal year, the cash balance in the TIF Fund was transferred to the TIF Debt Service Funds leaving a combined balance of \$994,884, an increase of \$169,026 from the previous year. The increase was a result of TIF revenues and interest of \$349,201 as compared to TIF expenses and TIF debt service disbursements of \$180,175 in fiscal 2005.
- The Local Option Sales Tax Fund (Capital Projects Fund) had receipts of \$126,430 and then transferred \$100,000 to the general fund as detailed above. The net result was an increase of \$26,430 in fiscal year 2005 leaving an ending Local Option Sales Tax Fund balance of \$188,445.

The availability of Local Option Sales Tax receipts to fund *future and reserved* capital projects may be in peril due to the need for additional receipts in the City's general fund to cover annual operating costs.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$38,244 to \$465,770 over the prior year.
- The Sewer Fund cash balance decreased by \$4,324 to \$242,168 due primarily to a decrease in sewer receipts over the prior year and the cost of sewer projects completed.
- The Electric Fund cash balance increased by \$65,032 to \$1,625,438. The increase was after a \$50,000 transfer to the general fund. Electric revenue increased by \$80,963 in the 2005 fiscal year. The City believes future increases in the electric fund will be small, and that is without contemplating future transfers to the general fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in operating disbursements by \$49,161. The amendment was approved to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2005 the City had \$915,000 in bonds and other long-term debt, compared to \$1,077,116 in bonds and other long term-term debt last year, as shown below.

Description	Outstanding Debt at Year End (Expressed in Thousands)	
	Year Ended June 30, 2005	2004
General obligation - capital lease	\$ 0	\$ 27
Urban Renewal Tax Increment Financing revenue bonds	915	1050
Total receipts	\$ 915	\$ 1,077

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$915,000 is significantly below its constitutional debt limit of \$6.5 million. In addition, the fund balance in the Tax Increment Finance (TIF) Funds previously discussed are available to apply to this debt on the June 1, 2006 call date.

ECONOMIC FACTORS AND NEXT YEAR' BUDGETS AND RATES

The City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities.

Amounts available for appropriation in the operating budget are \$2.934 million, a decrease of 11.6% over the final fiscal year 2005 results. Property tax increases of \$98,747 benefiting from the 2006 increases due to TIF reduction are offset by the total decrease of \$271,863 in TIF revenues. The City will use these receipts to finance programs we currently offer. Budgeted disbursements are expected to rise over fiscal 2005 actual by \$116,796. The City has added no major new programs or initiatives to the 2006 budget. There is \$45,000 of budgeted capital expenditures for equipment in fiscal 2006 and a projected increase in disbursements from the proprietary funds of \$154,355. That increase is largely attributable to the increase in cost of wholesale electric power.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by \$207,977 by the close of 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Celeste O'Brian, City Clerk, 525 Jefferson Street, Hudson, Iowa, 50643. Phone: (319) 988-3600.

Basic Financial Statements

City of Hudson

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2005

Functions / Programs:	Disbursements	Program Receipts	
		Charges for Service	Oper. Grants, Contributions, and Restricted Interest
Governmental activities:			
Public safety	\$ 344,562	89,780	6,249
Public works	321,786	-	-
Health and social services	1,787	500	176,020
Culture and recreation	346,490	27,615	18,058
Community and economic development	74,673	14,065	88,708
General government	208,078	18,188	-
Debt service	177,773	-	-
Capital projects	123,745	-	-
Total governmental activities	1,598,894	150,148	289,035
Business type activities:			
Water	160,841	192,687	6,398
Sewer	206,111	183,978	17,809
Electric	971,065	1,062,601	23,496
Nonmajor business type funds	88,632	97,252	-
Total business type activities	1,426,649	1,536,518	47,703
Total	\$ 3,025,543	1,686,666	336,738

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Grant and contributions not restricted to specific purpose
 Unrestricted interest
 Rents
 Miscellaneous
 Sale of property
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

Special Revenue-Road Use Tax
 Capital projects
 Debt service

Unrestricted

Total cash basis net assets

See notes to financial statements

s	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
Capital Grants, Contributions and Restricted Interest			
-	(248,533)	-	(248,533)
-	(321,786)	-	(321,786)
33,068	207,801	-	207,801
79,237	(221,580)	-	(221,580)
-	28,100	-	28,100
-	(189,890)	-	(189,890)
-	(177,773)	-	(177,773)
-	(123,745)	-	(123,745)
<u>112,305</u>	<u>(1,047,406)</u>	<u>-</u>	<u>(1,047,406)</u>
-	-	38,244	38,244
-	-	(4,324)	(4,324)
-	-	115,032	115,032
-	-	8,620	8,620
<u>-</u>	<u>-</u>	<u>157,572</u>	<u>157,572</u>
<u>112,305</u>	<u>(1,047,406)</u>	<u>157,572</u>	<u>(889,834)</u>
	579,612	-	579,612
	337,583	-	337,583
	-	-	-
	218,195	-	218,195
	-	-	-
	13,403	-	13,403
	6,379	-	6,379
	28,680	-	28,680
	-	-	-
	50,000	(50,000)	-
	<u>1,233,852</u>	<u>(50,000)</u>	<u>1,183,852</u>
	186,446	107,572	294,018
	<u>1,320,015</u>	<u>2,249,039</u>	<u>3,569,054</u>
	<u>\$1,506,461</u>	<u>2,356,611</u>	<u>3,863,072</u>
	7,744	-	7,744
	188,445	-	188,445
	994,884	-	994,884
	<u>315,388</u>	<u>2,356,611</u>	<u>2,671,999</u>
	<u>\$1,506,461</u>	<u>2,356,611</u>	<u>3,863,072</u>

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2005

	General	Special Revenue Road Use Tax	Other Nonmajor Governmental Funds	Total
Receipts:				
Property tax	\$ 579,612	-	-	579,612
Tax increment financing collections	-	-	337,583	337,583
Other city tax	91,765	-	126,430	218,195
Licenses and permits	33,009	-	-	33,009
Use of money and property	65,203	-	11,618	76,821
Intergovernmental	254,477	176,020	-	430,497
Charges for service	27,054	-	-	27,054
Special assessments	-	-	-	-
Miscellaneous	32,569	-	-	32,569
Total receipts	1,083,689	176,020	475,631	1,735,340
Disbursements:				
Operating:				
Public safety	344,563	-	-	344,563
Public works	133,786	188,000	-	321,786
Health and social services	1,787	-	-	1,787
Culture and recreation	346,490	-	-	346,490
Community and economic development	72,270	-	2,402	74,672
General government	208,078	-	-	208,078
Debt service	-	-	177,773	177,773
Capital projects	123,745	-	-	123,745
Total disbursements	1,230,719	188,000	180,175	1,598,894
Excess of receipts over disbursements	(147,030)	(11,980)	295,456	136,446
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Sale of capital assets	-	-	-	-
Operating transfers in	273,040	-	339,330	612,370
Operating transfers out	(123,040)	-	(439,330)	(562,370)
Total other financing sources (uses)	150,000	-	(100,000)	50,000
Net change in cash balances	2,970	(11,980)	195,456	186,446
Cash balances beginning of year	312,418	19,724	987,873	1,320,015
Cash balances end of year	\$ 315,388	7,744	1,183,329	1,506,461
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	994,884	994,884
Unreserved:				
General fund	315,388	-	-	315,388
Special revenue funds	-	7,744	-	7,744
Capital projects	-	-	188,445	188,445
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 315,388	7,744	1,183,329	1,506,461

See notes to financial statements

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2005

Total governmental funds cash balances	\$ 1,506,461
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The city does not have an internal service fund.
Therefore there are no reconciling items.

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Cash basis net assets of governmental activities	\$ 1,506,461
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Net change in cash balances	\$ 186,446
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The city does not have an internal service fund.
Therefore there are no reconciling items.

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Change in cash balance of governmental activities	\$ 186,446
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See notes to financial statements

City of Hudson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds				Total
	Water	Sewer	Electric	Nonmajor	
Operating receipts:					
Use of money and property	\$ 6,398	3,671	23,496	-	33,565
Charges for service	192,687	198,116	1,062,077	93,960	1,546,840
Miscellaneous	-	-	524	3,292	3,816
Total operating receipts	199,085	201,787	1,086,097	97,252	1,584,221
Operating disbursements:					
Business type activities	160,841	206,111	971,065	88,632	1,426,649
Total operating disbursements	160,841	206,111	971,065	88,632	1,426,649
Excess (deficiency) of receipts over (under) disbursements	38,244	(4,324)	115,032	8,620	157,572
Operating transfers out	-	-	(50,000)	-	(50,000)
Net change in cash balances	38,244	(4,324)	65,032	8,620	107,572
Cash balances beginning of year	427,526	246,492	1,560,406	14,615	2,249,039
Cash balances end of year	\$ 465,770	242,168	1,625,438	23,235	2,356,611
Cash Basis Fund Balances					
Unreserved	\$ 465,770	242,168	1,625,438	23,235	2,356,611
Total cash basis fund balances	\$ 465,770	242,168	1,625,438	23,235	2,356,611

See notes to financial statements

City of Hudson

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2005

Total enterprise funds cash balances	\$ 2,356,611
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The city does not have an internal service fund.
Therefore there are no reconciling items.

-

Cash basis net assets of business type activities	\$ 2,356,611
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Net change in cash balances	\$ 107,572
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The city does not have an internal service fund.
Therefore there are no reconciling items.

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Change in cash balance of business type activities	\$ 107,572
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See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Hudson is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1893 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, electric and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hudson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Black Hawk County Consolidated Public Safety Communications Board and the Black Hawk County Solid Waste Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

The City of Hudson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2005, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of the urban renewal revenue capital loan notes are as follows:

Year Ending <u>June 30</u>	Urban Renewal Revenue <u>Capital Loan Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 135,000	37,912
2007	145,000	32,918
2008	150,000	27,262
2009	155,000	21,112
2010	160,000	14,526
2011	<u>170,000</u>	<u>7,566</u>
Total	<u>\$ 915,000</u>	<u>141,296</u>

On September 1, 2001, the City issued \$1,350,000 of Urban Renewal Revenue Capital Loan Notes Series 2001 with variable interest ranging from 2.7% to 4.45% for the purpose of paying off prior notes and accrued interest. Interest is due and payable semiannually on the notes with payments of principal and interest beginning on June 1, 2002 and ending June 1, 2011.

The urban renewal revenue capital loan notes were issued for the purpose of defraying a portion of the cost of carrying out the downtown streetscape project. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the net revenue of the urban renewal project.
- (b) An amount equal to accrued interest shall be deposited in the sinking fund for application to the first payment of interest on the notes.
- (c) The balance of the proceeds shall be deposited to the project fund and expended there for the purpose of the issuance.
- (d) Notes maturing after June 1, 2006, may be called for redemption by the Issuer and paid before maturity on said date or any date thereafter from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to date of call.

(4) Lease

On April 10, 2001, the City entered into a lease purchase agreement for a new John Deere Model 544 H 4WD loader. Payment of principal and interest are to be made semiannually at a rate of 5.5% in the amount of \$13,998 through April 10, 2005. Lease purchase agreement was paid off during fiscal year ended June 30, 2005.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 6.16% and 9.23%, for the year ended June 30, 2005 and 5.93% and 8.90%, for the year ended June 30, 2004. Contribution requirements are established by state statute. The City's contributions

to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$34,383, \$34,068 and \$30,899, respectively, equal to the required contributions for each year.

(6) Compensated Absences

City of Hudson employees accumulate a limited amount of earned but unused vacation and sick leave hours based on the length of employment. Sick leave is not a vested benefit. It is payable when used and may be accumulated at a rate of 10 days per year, to a maximum of 90 days. At termination, all sick leave accumulated but unused is forfeited. Vacation is payable when used and accumulates based on an employee's anniversary date. Vacation may be accumulated past the anniversary date in isolated cases specifically approved by the City council. The City also has a policy of paying an employee up to 50% of the employee's accumulated vacation time, at the current pay rate. Employees are also able to convert unpaid overtime hours into comp time at time and one-half. These accumulations are not recognized as disbursements by the City until used or paid. At termination, the City is liable for earned vacation and for comp time. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2005 is \$12,565. The City's approximate liability for earned comp time payable to employees at June 30, 2005 is \$16,262. This liability has been computed based on rates of pay in effect at June 30, 2005.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects:	
	Local Option	\$ 100,000
	Business Type:	
	Electric	<u>50,000</u>
		<u>150,000</u>
Capital Projects:	Special Revenue:	
TIF Cap Projects	TIF Special Revenue	<u>2,402</u>
Debt Service:	Debt Service:	
TIF - Surplus	TIF Reserve	1,747
	Special Revenue:	
	TIF Special Revenue	<u>164,568</u>
		<u>166,315</u>

Debt Service:	Special Revenue:	
TIF Sinking	TIF Special Revenue	<u>170,613</u>

Total Interfund Transfers \$ 489,330

(8) Related Party Transactions

The City had business transactions between the City and City employees totaling \$5,670 during the year ended June 30, 2005.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Landfill Commitment

The City of Hudson participates in a 28E organization with Black Hawk County and other cities in Black Hawk County. This organization is the Black Hawk County Solid Waste Management Commission.

(11) Commitments

Under a current wholesale power agreement, the City is committed to purchase its electric power and energy requirements from Resale Power Group of Iowa through December 31, 2008. The rates for such purchases are subject to review annually. Although there are other suppliers of electric power, a change in supplier would cause a delay, which could ultimately affect operating results.

Required Supplementary Information

City of Hudson

Budgetary Comparison Schedule
of Receipts, disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 579,612	-	-
Tax increment financing collections	337,583	-	-
Other city tax	218,195	-	-
Licenses and permits	33,009	-	-
Use of money and property	76,821	33,565	-
Intergovernmental	430,497	-	-
Charges for service	27,054	1,546,840	-
Special assessments	-	-	-
Miscellaneous	32,569	3,816	-
Total receipts	1,735,340	1,584,221	-
Disbursements:			
Public safety	344,562	-	-
Public works	321,786	-	-
Health and social services	1,787	-	-
Culture and recreation	346,490	-	-
Community and economic development	74,673	-	-
General government	208,078	-	-
Debt service	177,773	-	-
Capital projects	123,745	-	-
Business type activities	-	1,426,649	-
Total disbursements	1,598,894	1,426,649	-
Excess of receipts over disbursements	136,446	157,572	-
Other financing sources, net	50,000	(50,000)	-
Excess of receipts and other financing sources over disbursements and other financing uses	186,446	107,572	-
Balances beginning of year	1,320,015	2,249,039	-
Balances end of year	\$ 1,506,461	2,356,611	-

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
579,612	581,832	581,832	(2,220)
337,583	310,000	310,000	27,583
218,195	190,895	222,895	(4,700)
33,009	15,925	20,925	12,084
110,386	57,789	55,689	54,697
430,497	363,042	430,242	255
1,573,894	1,570,620	1,646,620	(72,726)
-	-	-	-
36,385	48,250	42,150	(5,765)
3,319,561	3,138,353	3,310,353	9,208
344,562	409,854	405,851	61,289
321,786	333,889	359,957	38,171
1,787	2,000	2,500	713
346,490	367,561	385,353	38,863
74,673	96,160	96,160	21,487
208,078	234,302	229,246	21,168
177,773	177,773	177,773	-
123,745	95,000	123,745	-
1,426,649	1,559,726	1,544,841	118,192
3,025,543	3,276,265	3,325,426	299,883
294,018	(137,912)	(15,073)	309,091
-	-	-	-
294,018	(137,912)	(15,073)	309,091
3,569,054	3,314,204	3,252,127	316,927
3,863,072	3,176,292	3,237,054	626,018

City of Hudson

Notes to Required Supplementary Information Budgetary Reporting

June 30, 2005

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$172,000 and budgeted disbursements by \$49,161. The budget amendments are reflected in the final budgeted amounts.

Other Supplementary Information

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Rev	
	TIF	TIF Surplus
Receipts:		
Tax increment financing collections	\$ 337,583	-
Other city tax	-	-
Use of money and property	-	7,216
Intergovernmental	-	-
Total receipts	<u>337,583</u>	<u>7,216</u>
Disbursements:		
Operating:		
Public works	-	-
Community and economic development	-	-
Debt service	-	-
Total disbursements	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>337,583</u>	<u>7,216</u>
Other financing sources:		
Operating transfers in	-	166,315
Operating transfers out	<u>(337,583)</u>	<u>-</u>
Net change in cash balances	-	173,531
Cash balances beginning of year	-	<u>513,079</u>
Cash balances end of year	<u>\$ -</u>	<u>686,610</u>
Cash Basis Fund Balances		
Unreserved:		
Debt service	\$ -	686,610
Capital projects fund	-	-
Total cash basis fund balances	<u>\$ -</u>	<u>686,610</u>

See accompanying independent auditor's report

Schedule 1

Debt Service		Capital Projects		Total
TIF Reserve	TIF Sinking	Local Option Sales Tax	TIF	
-	-	-	-	337,583
-	-	126,430	-	126,430
1,899	2,503	-	-	11,618
-	-	-	-	-
1,899	2,503	126,430	-	475,631
-	-	-	-	-
-	-	-	2,402	2,402
-	177,773	-	-	177,773
-	177,773	-	2,402	180,175
1,899	(175,270)	126,430	(2,402)	295,456
-	170,613	-	2,402	339,330
(1,747)	-	(100,000)	-	(439,330)
152	(4,657)	26,430	-	195,456
135,005	177,774	162,015	-	987,873
135,157	173,117	188,445	-	1,183,329
135,157	173,117	-	-	994,884
-	-	188,445	-	188,445
135,157	173,117	188,445	-	1,183,329

City of Hudson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2005

	Solid Waste	Meter Deposits	Total
Operating Receipts:			
Charges for service	\$ 93,960	-	93,960
Miscellaneous	-	3,292	3,292
	<hr/>		
Total operating receipts	93,960	3,292	97,252
	<hr/>		
Operating Disbursements:			
Business type activities	82,014	6,618	88,632
	<hr/>		
Total operating disbursements	82,014	6,618	88,632
	<hr/>		
Excess (deficiency) of receipts over (under) disbursements	11,946	(3,326)	8,620
	<hr/>		
Other financing sources:			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
	<hr/>		
Net change in cash balances	11,946	(3,326)	8,620
	<hr/>		
Cash balances beginning of year	6,589	8,026	14,615
	<hr/>		
Cash balances end of year	\$ 18,535	4,700	23,235
	<hr/>		
Cash Basis Fund Balances			
Unreserved:	\$ 18,535	4,700	23,235
	<hr/>		
Total cash basis fund balances	\$ 18,535	4,700	23,235
	<hr/>		

See accompanying independent auditor's report

City of Hudson

Schedule of Indebtedness

Year ended June 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
Urban renewal revenue: Capital loan notes	Sept 1, 2001	2.70-4.45%	\$ 1,350,000	<u>1,050,000</u>
Capital lease obligation	April 10, 2001	5.50%	\$ 99,170	<u>27,116</u>

See accompanying independent auditor's report

Schedule 3

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
-	135,000	915,000	42,773	-
-	27,116	-	879	-

City of Hudson

Bond and Note Maturities

June 30, 2005

Year Ending June 30,	Urban Renewal Revenue Capital Loan Notes	
	Issued Sept 1, 2001	
	Interest Rates	Amount
2006	3.70	135,000
2007	3.90	145,000
2008	4.10	150,000
2009	4.25	155,000
2010	4.35	160,000
2011	4.45	170,000
Total		<u>\$ 915,000</u>

See accompanying independent auditor's report

City of Hudson

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

For the Last Two Years Ended June 30

	<u>2005</u>	<u>2004</u>
Receipts:		
Property tax	\$ 579,612	368,284
Tax increment financing	337,583	486,161
Other city tax	218,195	208,337
Licenses and permits	33,009	29,230
Use of money and property	76,821	131,948
Intergovernmental	430,497	429,640
Charges for service	27,054	29,522
Special assessments	-	-
Miscellaneous	32,569	30,173
	<u>\$1,735,340</u>	<u>1,713,295</u>
Disbursements:		
Operating:		
Public safety	\$ 344,562	392,908
Public works	321,786	330,094
Health and social services	1,787	664
Culture and recreation	346,490	389,201
Community and economic development	74,673	158,660
General government	208,078	205,096
Debt service	177,773	177,063
Capital projects	123,745	-
	<u>\$1,598,894</u>	<u>1,653,686</u>

See accompanying independent auditor's report

City of Hudson

Independent Auditor s Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Hudson, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 1, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the City s operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hudson s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Hudson s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur

and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable condition, segregation of duties, has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hudson and other parties to whom the City of Hudson may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

September 1, 2005

City of Hudson

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2005

Part I. Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that an employee in the office can bill, collect, and deposit receipts and reconcile bank statements.

Recommendation We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response The City will review its present internal control procedures and will consider additional review procedures where practical.

Conclusion Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Part III: Other Findings Related to Statutory Reporting:

- III-A-05 Official Depositories A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- III-B-05 Certified Budget City disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted. The City published notice of public hearing on the budget, including a summary of the proposed budget as required by Chapter 384.16 of the Code of Iowa.
- III-C-05 Questionable Disbursements We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-05 Travel Expense No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-E-05 Business Transactions Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mary Bucy, Library Director, Owner of Bucy Cleaning	Janitorial services	\$ 5,670

The transaction with the Library Director does not appear to represent a conflict of interest since it was entered into through competitive bidding.

- III-F-05 Bond Coverage Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-05 Council Minutes No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-H-05 Deposits and Investments We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

City of Hudson

Staff

This audit was performed by:

Donald A. Snitker, CPA, Audit Partner