

CITY OF HUDSON

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

JUNE 30, 2007

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City of Hudson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeffrey Palmer	Mayor	Dec 2007
Dennis Sadler	Mayor Pro tem	Dec 2007
Gary Downey	Council Member	Dec 2009
Robert Grittmann	Council Member	Dec 2009
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

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Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

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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, 2007, 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 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.

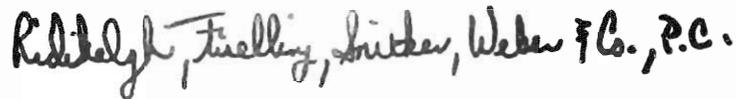
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hudson as of June 30, 2007, 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 report dated September 7, 2007 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 considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I through X and budgetary comparison information on pages 22 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted 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 the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.

A handwritten signature in black ink that reads "Ridihalgh, Fuelling, Snitker, Weber & Co., P.C." The signature is written in a cursive, slightly slanted style.

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

September 7, 2007

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- The City's revenues decreased by \$28,047 or .87% from fiscal year 2006 to fiscal year 2007. Receipts in the City's governmental funds decreased by \$127,408 while receipts in the City's proprietary funds increased by \$99,361.
- Disbursements increased \$467,692 or 10.48% from fiscal year 2006 to fiscal year 2007. Decreased expenses in the governmental funds were \$67,085 and increased expenses in the proprietary funds were \$534,777. The decrease in governmental fund spending includes an increase of \$829,107 for street and road use projects and a \$952,913 decrease in debt service cost for the 2001 Urban Renewal Revenue Capital Loan Notes which were called prior to maturity in 2006. The total increase in the proprietary funds was primarily attributable to the water and sewer utility where the cost increased \$379,507 due to capital projects and debt service payments and an increase in cost in the electric utility of \$138,031.
- The City's total cash basis net assets decreased \$752,936 or 14.52% from fiscal year 2006 to fiscal year 2007 to a total of \$4,430,803. The decrease in the governmental funds was \$1,231,290 which includes a net \$47,990 transfer from the proprietary funds and \$1,301,672 of street improvement projects, and the increase in the proprietary funds was \$478,354 after the transfer from the governmental funds and state Revolving Fund Sewer and Water loans that reimbursed for \$359,409 of prior year expenditures.

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, health and social services, 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, and Sewer funds, considered to be major funds of the City, and the Water, 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 decreased from a year ago, from \$2.863 million to \$1.632 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,			
	2007	% of total	2006	% of total
Receipts and transfers:				
Program receipts:				
Charges for service	\$ 127	9%	\$ 154	4%
Operating grants, contributions & restricted interest	259	18%	281	7%
Capital grants, contributions and restricted interest	14	1%	112	3%
General receipts:				
Property tax	663	48%	680	17%
Tax Increment Financing revenues	53	4%	61	1%
Local Option sales tax	224	16%	233	6%
Unrestricted investment earnings & use of property	62	4%	27	0%
Other general receipts	53	4%	35	1%
Transfers, net and Capital Note Proceeds, net	(62)	-4%	2,465	61%
Total receipts and transfers	\$ 1,393	100%	\$ 4,048	100%
Disbursements:				
Public Safety	\$ 409	16%	\$ 435	16%
Public Works	960	36%	599	22%
Health and Social Services	5	0%	3	0%
Culture and Recreation	315	12%	276	10%
Community and Economic Development	601	23%	141	5%
General Government	227	9%	245	9%
Debt Service	107	4%	953	36%
Capital Projects	0	0%	39	2%
Total disbursements	\$ 2,624	100%	\$ 2,691	100%
Increase in cash basis net assets	\$ (1,231)		\$ 1,357	
Cash basis net assets beginning of year	\$ 2,863		\$ 1,320	
Cash basis net assets end of year	\$ 1,632		\$ 2,863	

The City's total receipts and transfers for governmental activities decreased by 65.60% or \$2,655,243. The total cost of all programs and services decreased by \$67,085, or 2.49%, with no new programs added this year.

The City did not increase general fund property tax rates for 2007. Property tax receipts decreased by \$16,892. Tax increment financing revenues decreased by \$7,597 in fiscal 2007. The City had no governmental funds borrowing in fiscal 2007.

The cost of all governmental activities this year was \$2.624 million compared to \$2.691 million last year. Overall the City's governmental program receipts, decreased in 2007 from approximately \$547,000 to approximately \$400,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,016,500 in property tax, local option tax, and tax increment financing receipts, \$734,600 of Capital Loan Note Proceeds borrowed in the previous year, 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) and a net \$97,990 transfer to the proprietary funds (Sewer) from the governmental fund (General) to reimburse for project costs to be paid from the Capital Loan Note.

Changes in Cash Basis Net Assets of *Business Type* Activities
(Expressed in Thousands)

Description	Year Ended June 30,			
	2007	% of total	2006	% of total
Receipts:				
Program receipts:				
Charges for service				
Water	\$ 209	8%	\$ 202	11%
Sewer	196	7%	188	11%
Electric	1,174	41%	1,110	62%
Solid Waste Disposal	87	3%	82	5%
General Receipts:				
Unrestricted interest on investments	81	3%	67	4%
Meter Deposits	7	0%	5	0%
Other and transfers in	1,091	38%	129	7%
Total receipts	\$ 2,845	100%	\$ 1,783	100%
Disbursements and Transfers:				
Water	\$ 596	25%	\$ 395	22%
Sewer	467	20%	346	19%
Electric	1,091	46%	953	52%
Solid Waste Disposal	89	4%	73	4%
Meter Deposits	4	0%	3	0%
Transfers out	119	5%	50	3%
Total disbursements	\$ 2,366	100%	\$ 1,820	100%
Increase (decrease) in cash balance	\$ 479		\$ (37)	
Cash basis net assets beginning of year	\$ 2,320		\$ 2,357	
Cash basis net assets end of year	\$ 2,799		\$ 2,320	

Total business type activities receipts for the fiscal year were \$2,845 million compared to \$1.783 million last year. This increase includes the receipt of State Revolving Fund loans of \$356,923 in the Sewer Fund and \$625,000 in the Water Fund. The cash balance increased by \$478,354 from the prior year. Total disbursements and transfers for the fiscal year increased by 30% to a total of \$2.366 million, due mostly to the cost of water and sewer capital projects, an increase of \$138,000 in the Electric operating expenses and debt service payments of \$57,557.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hudson completed the year, its governmental funds reported a combined fund balance of \$1,632,037, a decrease of \$1,231,290 from last year's balance of \$2,863,327. 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 decreased \$1,193,772 from the prior year to \$1,148,404 due primarily to the expenditures of transfer of proceeds from the Capital Loan Note received in the prior year.
- The Road Use Tax Fund cash balance increased by \$31,806 to \$40,953 during the fiscal year.
- The Tax Increment Finance (TIF) Fund was established to account for a major urban renewal project within the City's business district. At the end of the prior fiscal year, the cash balance in the TIF Fund was \$128,173. TIF revenues decreased to \$53,445 in the current fiscal year and interest revenue was \$2,724. The General Fund transferred \$563,254 to the TIF Capital Project Fund, all of which was expended on Capital Projects in the cities TIF District. The TIF Fund transferred \$42,534 to the Debt Service Fund. Administrative expenses were \$3,809 which left a balance of \$137,999 to be used for future Tax Increment Financing Projects.
- The Debt Service Fund recorded transfers of \$45,502 from the General Fund, \$10,881 from the Sewer Fund \$8,020 from the GO Capital Loan Note and \$42,534 from the TIF Special Revenue Fund. All transfers were expended for Debt Service and there was no fund balance.
- The Local Option Sales Tax Fund (Capital Projects Fund) had receipts of \$228,871 and then transferred \$300,000 to the general fund. The net result was a decrease of \$71,129 in fiscal year 2007 leaving an ending Local Option Sales Tax Fund balance of \$304,682.
- In Fiscal 2005 , the City received \$8,020 of interest income on the Capital Loan Note proceeds from June 1 to date of receipt which was used in Fiscal 2007 to pay debt service on the Capital Loan Note.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$220,163 to \$507,016 over the prior year due to the receipt of loan proceeds reimbursing capital project spending from the prior year.
- The Sewer Fund cash balance increased by \$167,416 to \$388,579 over the prior year due to the receipt of loan proceeds reimbursing capital project spending from the prior year.
- The Electric Fund cash balance increased by \$90,853 to \$1,869,322. The increase was after a \$50,000 transfer to the general fund. Electric revenue increased by \$75,853 in the 2007 fiscal year. Operating expenses increased by \$138,031.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget twice. The net result of these amendments was to increase revenues by \$148,610 and other financing sources by \$1,844,260. Budgeted expenditures increased by \$2,365,403, with \$1,542,689 attributable to governmental activities and \$822,714 attributable to business type activities. The budget increase was primarily for capital street, water and sewer projects not included in the original FY07 budget.

Actual expenditures exceeded the original budgeted amount by \$1,785,558. However, the actual expenditures were under budget by \$579,845 due primarily to capital projects that were not completed by June 30, 2007. These carryover projects will therefore require the amendment of the June 30, 2008 budget where it is now anticipated the expenditures will be incurred.

DEBT ADMINISTRATION

At June 30, 2006 the City had \$2,600,000 of General Obligation Capital Loan Notes outstanding. In the fiscal year ended June 30, 2006 two loans were taken from the State Revolving Fund, a \$625,000 Water Revenue Capital Loan Note, on which \$23,000 plus interest was repaid, and a \$356,923 Sewer Revenue Capital Loan Note, on which \$19,000 plus interest was repaid. The net comparison is as shown below.

Description	Outstanding Debt at Year End (Expressed in Thousands)	
	Year Ended June 30, 2006	Year Ended June 30, 2007
General obligation – Capital Loan Note	\$ 2,600	\$ 2,600
Water Revenue Capital Loan Note	0	602
Sewer Revenue Capital Loan Note	0	338
Total Outstanding Debt	\$ 2,600	\$ 3,540

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 \$2,600,000 is below its constitutional debt limit of \$7,110,874.

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 2008 budget.

Amounts available for appropriation in the operating budget are \$3.146 million, a decrease of 1.97% over the final fiscal year 2007 results. The City will use these receipts to finance programs currently offered. Budgeted disbursements are \$1,015,321 less than actual fiscal 2007. The City has added no major new programs or initiatives to the 2008 budget, but intends to complete the unfinished capital projects from FY 2006/FY 2007 for which a budget amendment is anticipated.

If these budgeted estimates are realized, the City's budgeted cash balance is expected to decrease by \$622,766 by the close of 2008 under the current budget.

The City believes, however, that an amendment will be required to provide for the revised costs associated with capital projects not completed in FY2007.

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 Sue Theisen, Interim City Clerk, 525 Jefferson Street, Hudson, Iowa, 50643. Phone: (319) 988-3600.

Outstanding Debt at Year End (Expressed in Thousands)		
Description	Year Ended June 30,	
	2004	2003
General obligation - capital lease	\$ 27	\$ 52
Urban Renewal Tax Increment Financing revenue bonds	1050	1180
Total receipts	\$ 1,077	\$ 1,232

City of Hudson

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Oper. Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 408,563	97,755	11,524	-
Public works	960,408	-	-	41,536
Health and social services	4,500	-	-	-
Culture and recreation	314,752	24,693	23,025	1,060
Community and economic development	601,328	16,751	-	-
General government	227,196	19,959	-	-
Debt service	106,938	-	-	-
Capital projects	-	-	-	-
Total governmental activities	2,623,685	159,158	34,549	42,596
Business type activities:				
Sewer	491,411	196,007	-	-
Electric	1,091,174	1,173,954	-	-
Water	628,959	209,317	-	-
Nonmajor business type funds	93,666	87,021	-	-
Total business type activities	2,305,210	1,666,299	-	-
Total	\$ 4,928,895	1,825,457	34,549	42,596

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 SRF Proceeds
 Unrestricted interest
 Rents
 Miscellaneous
 Loan to MCU
 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

<u>Net (Disbursements) Receipts and Changes in Cash Basis Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(299,284)	-	(299,284)
(918,872)	-	(918,872)
(4,500)	-	(4,500)
(265,974)	-	(265,974)
(584,577)	-	(584,577)
(207,237)	-	(207,237)
(106,938)	-	(106,938)
-	-	-
<u>(2,387,382)</u>	<u>-</u>	<u>(2,387,382)</u>
-	(295,404)	(295,404)
-	82,780	82,780
-	(419,642)	(419,642)
-	(6,645)	(6,645)
<u>-</u>	<u>(638,911)</u>	<u>(638,911)</u>
<u>(2,387,382)</u>	<u>(638,911)</u>	<u>(3,026,293)</u>
663,056	-	663,056
53,445	-	53,445
-	-	-
224,717	-	224,717
-	981,923	981,923
64,410	80,501	144,911
8,209	-	8,209
205,245	6,851	212,096
(15,000)	-	(15,000)
(47,990)	47,990	-
<u>1,156,092</u>	<u>1,117,265</u>	<u>2,273,357</u>
<u>(1,231,290)</u>	<u>478,354</u>	<u>(752,936)</u>
<u>2,863,327</u>	<u>2,320,412</u>	<u>5,183,739</u>
<u>\$1,632,037</u>	<u>2,798,766</u>	<u>4,430,803</u>
40,953	-	40,953
304,682	-	304,682
137,998	-	137,998
<u>1,148,404</u>	<u>2,798,766</u>	<u>3,947,170</u>
<u>\$1,632,037</u>	<u>2,798,766</u>	<u>4,430,803</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, 2007

	Capital Project			Other Nonmajor Governmental Funds	Total
	General	Local Option Tax	TIF Capital Project		
Receipts:					
Property tax	\$ 554,217	-	-	108,840	663,057
Tax increment financing collections	-	-	-	53,445	53,445
Other city tax	-	224,717	-	-	224,717
Licenses and permits	37,024	-	-	-	37,024
Use of money and property	107,658	4,154	-	2,724	114,536
Intergovernmental	112,421	-	-	176,441	288,862
Charges for service	41,355	-	-	-	41,355
Special assessments	-	-	-	-	-
Miscellaneous	32,389	-	-	-	32,389
Total receipts	885,064	228,871	-	341,450	1,455,385
Disbursements:					
Operating:					
Public safety	408,563	-	-	-	408,563
Public works	861,275	-	-	99,133	960,408
Health and social services	4,500	-	-	-	4,500
Culture and recreation	314,752	-	-	-	314,752
Community and economic development	34,265	-	567,063	-	601,328
General government	227,196	-	-	-	227,196
Debt service	-	-	-	106,938	106,938
Capital projects	-	-	-	-	-
Total disbursements	1,850,551	-	567,063	206,071	2,623,685
Excess of receipts over disbursements	(965,487)	228,871	(567,063)	135,379	(1,168,300)
Other financing sources (uses):					
Loan to MCU	(15,000)	-	-	-	(15,000)
Operating transfers in	504,342	-	567,063	114,039	1,185,444
Operating transfers out	(717,627)	(300,000)	-	(215,807)	(1,233,434)
Total other financing sources (uses)	(228,285)	(300,000)	567,063	(101,768)	(62,990)
Net change in cash balances	(1,193,772)	(71,129)	-	33,611	(1,231,290)
Cash balances beginning of year	2,342,176	375,811	-	145,340	2,863,327
Cash balances end of year	\$ 1,148,404	304,682	-	178,951	1,632,037
Cash Basis Fund Balances					
Unreserved:					
General fund	\$ 1,148,404	-	-	-	1,148,404
Special revenue funds	-	-	-	40,953	40,953
Capital projects	-	304,682	-	-	304,682
Debt service	-	-	-	137,998	137,998
Total cash basis fund balances	\$ 1,148,404	304,682	-	178,951	1,632,037

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, 2007

Total governmental funds cash balances	\$ 1,632,037
The city does not have an internal service fund. Therefore there are no reconciling items.	-
Cash basis net assets of governmental activities	\$ 1,632,037
Net change in cash balances	(1,231,290)
The city does not have an internal service fund. Therefore there are no reconciling items.	-
Change in cash balance of governmental activities	\$ (1,231,290)

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, 2007

	Sewer	Electric	Water	Nonmajor	Total
Operating receipts:					
Use of money and property	\$ 7,907	57,789	14,805	-	80,501
Charges for service	196,007	1,173,954	209,317	87,021	1,666,299
Miscellaneous	-	284	-	6,567	6,851
Total operating receipts	203,914	1,232,027	224,122	93,588	1,753,651
Operating disbursements:					
Business type activities	466,899	1,091,174	595,914	93,666	2,247,653
Total operating disbursements	466,899	1,091,174	595,914	93,666	2,247,653
Excess (deficiency) of receipts over (under) disbursements	(262,985)	140,853	(371,792)	(78)	(494,002)
Non-operating receipts (disbursements):					
SRF Loan	356,923	-	625,000	-	981,923
Operating transfers in	108,871	-	-	-	108,871
Operating transfers out	(10,881)	(50,000)	-	-	(60,881)
Debt service	(24,512)	-	(33,045)	-	(57,557)
Total financing sources(uses)	430,401	(50,000)	591,955	-	972,356
Net change in cash balances	167,416	90,853	220,163	(78)	478,354
Cash balances beginning of year	221,163	1,778,469	286,853	33,927	2,320,412
Cash balances end of year	\$388,579	1,869,322	507,016	33,849	2,798,766
Cash Basis Fund Balances					
Unreserved	\$388,579	1,869,322	507,016	33,849	2,798,766
Total cash basis fund balances	\$388,579	1,869,322	507,016	33,849	2,798,766

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, 2007

Total enterprise funds cash balances	\$ 2,798,766
<p>The city does not have an internal service fund. Therefore there are no reconciling items.</p>	
	-
Cash basis net assets of business type activities	\$ 2,798,766
Net change in cash balances	\$ 478,354
<p>The city does not have an internal service fund. Therefore there are no reconciling items.</p>	
	-
Change in cash balance of business type activities	\$ 478,354

See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2007

(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.

Capital Project:

The Local Option Tax Fund is used to account for the receipt and disbursement of the Local Option Tax.

The TIF Capital Project Fund is used to account for the receipt and disbursement capital projects under TIF.

The City reports the following major proprietary funds:

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.

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

Under the terms of grand agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and/or general receipts. Thus, when program disbursements are paid, there may be both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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 fund's 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, 2007 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, 2007, 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 General Obligation Capital Loan Notes and Revenue Bonds are as follows:

Year Ending Jun	Capital Obligation Capital Loan Notes		Sewer Revenue Bonds Clean Water SRF		Water Revenue Bonds Drinking Water SRF		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2008	100,000	106,938	19,000	14,430	24,000	18,210	143,000
2009	100,000	102,938	20,000	13,860	25,000	17,490	145,000	134,288
2010	100,000	98,938	20,000	13,260	26,000	16,740	146,000	128,938
2011	105,000	94,938	21,000	12,660	26,000	15,960	152,000	123,558
2012	110,000	90,738	22,000	12,030	27,000	15,180	159,000	117,948
2013-2017	605,000	386,418	117,000	50,040	150,000	63,150	872,000	499,608
2018-2022	755,000	251,580	118,923	31,380	171,000	39,450	1,044,923	322,410
2023-2027	725,000	79,505	-	-	153,000	12,000	878,000	91,505
	<u>2,600,000</u>	<u>1,211,993</u>	<u>337,923</u>	<u>147,660</u>	<u>602,000</u>	<u>198,180</u>	<u>3,539,923</u>	<u>1,557,833</u>

Capital Obligation – Capital Loan Notes:

The City issued \$2,600,000 General Obligation Capital Loan Notes, dated June 1, 2006, with variable interest ranging from 3.85% to 4.30%. The notes were issued for the purpose of paying costs of construction of improvements or extensions to the Municipal Water Utility, and construction or reconstruction of streets, water, sewer and storm sewer, together with related work.

- a. Principal and interest on the notes will be paid from the Debt Service Fund.
- b. The notes are subject to prepayment at the option of the Issuer; as a whole or in part, in any order of maturity and within a maturity by lot from any source of available funds, beginning June 1, 2012 and on any date thereafter, at a prepayment price equal to the principal amount of the Notes, together with accrued interest to the date fixed for prepayment, without premium.

Revenue Bonds:

The City has two Revenue Bonds from Iowa Finance Authority and its partner Iowa Department of Natural Resources through the State Revolving Fund.

\$500,000 Sewer Revenue Capital Loan Note (SRF):

The Sewer Revenue Capital Loan Note, series 2006, with a principal sum of \$500,000 has an interest rate of 3% and matures June 1, 2026. As of June 30, 2007 the City had borrowed \$356,923 on this note. The funds were used in conjunction with other City funds to construct a diffuser across the receiving stream with the objective of meeting NPDES effluent limits. This project also includes the repair of the lagoon liner to prevent leakage. Sludge removal and installation of emergency power are also part of facility improvements. There are three collection system improvements proposed to replace existing sewers because they are hydraulically overloaded and have excessive infiltration and inflow.”

Interest is payable December 31, 2006 and semiannually thereafter on the 1st day of June and December in each year. Principal is payable June 1, 2007 and annually thereafter on the first day of June. The City paid \$4,293 interest and \$19,000 in principal during year ended June 30, 2007.

The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten(10) year anniversary date of the Loan and Disbursement Agreement. Any optional redemption of this Note may be made from any funds regardless of source, in whole or from time to time in part, in reverse order of maturity, by lot by giving thirty (30) days notice of redemption by certified or registered mail, to the Iowa Finance Authority or other registered owner of the Note.

The City is to set up a Sinking Fund to receipt money from the Revenue Fund for the purpose of paying principal and interest on the Notes. The fund shall be known as the "Sewer Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus 1/12th of the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable. As of June 30, 2007 the City had not set up the Sinking Fund. They are waiting final proceeds of the Revenue Note and an updated amortization schedule.

\$630,000 Water Revenue Capital Loan Note:

The Water Revenue Capital Loan Note, series 2006, with a principal sum of \$630,000 has an interest rate of 3% and matures June 1, 2026. As of June 30, 2007 the City had borrowed \$625,000 on this note. The funds were used for the purpose of paying costs of construction of certain improvements and extensions to the Municipal Water Utility of the City.

Interest is payable December 31, 2006 and semiannually thereafter on the 1st day of June and December in each year. Principal is payable June 1, 2007 and annually thereafter on the first day of June. The City paid \$8,536 in interest and \$23,000 in principal during year ended June 30, 2007.

The note is subject to optional redemption at a price of par plus accrued interest on any interest payment date after the ten(10) year anniversary date of the Loan and Disbursement Agreement. Any optional redemption of this Note may be made from any funds regardless of source, in whole or from time to time in part, in reverse order of maturity, by lot by giving thirty (30) days notice of redemption by certified or registered mail, to the Iowa Finance Authority or other registered owner of the Note.

The City is to set up a Sinking Fund to receipt money from the Revenue Fund for the purpose of paying principal and interest on the Notes. The fund shall be known as the "Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6th of the installment of interest coming due on the next interest payment date on the then outstanding Notes and Parity Obligations, plus 1/12th of the installment of principal coming due on such Notes on the next succeeding principal payment date until the full amount of such installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely

installment is on hand. If the amount in the Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Sinking Fund shall be used solely for the purpose of paying principal of and interest on the Notes and Parity Obligations as the same shall become due and payable. As of June 30, 2007 the City had not set up the Sinking Fund. They are waiting final proceeds of the Revenue Note and an updated amortization schedule.

(4) 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$37,973, \$36,358, and \$34,383 respectively, equal to the required contributions for each year.

(5) 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, 2007 is \$14,321. The City's approximate liability for earned comp time payable to employees at June 30, 2007 is \$12,267. This liability has been computed based on rates of pay in effect at June 30, 2007.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 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	\$ 300,000
	Business Type:	
	Electric	50,000
	Special Revenue:	
	Road Use Tax	45,502
	Employee Benefits	<u>108,840</u>
		<u>504,342</u>
Business Type:		
Sewer	General	<u>108,871</u>
Capital Projects:	General	563,254
	Special Revenue:	
	TIF - Special Revenue	<u>3,809</u>
		<u>567,063</u>
Debt Service:	Special Revenue:	
TIF - Surplus	TIF - Special Revenue	<u>7,101</u>
Debt Service	General	45,502
	Special Revenue:	
	TIF Special Revenue	42,534
	Capital Projects:	
	G.O. Capital Loan	8,020
	Business Type:	
	Sewer	<u>10,881</u>
		<u>106,937</u>
Total Interfund Transfers		<u>\$1,294,314</u>

(7) Related Party Transactions

The City had business transactions between the City and City employees totaling \$5,786 during the year ended June 30, 2007.

(8) 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

(9) 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.

(10) Wholesale Power 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 could cause a delay, which could ultimately affect operating results. City has sent notice that it will terminate this agreement at December 31, 2008.

(11) Municipal Communications Utility

The City has formed a Municipal Communication Utility (MCU) under code section 388.10.2 to determine status of telecommunications for the City of Hudson. MCU's financial activity will be kept separate from the City and it will receive its own audit. During the year ended June 30, 2006 The City loaned MCU \$5,000.

During the year ended June 30, 2007, The City loaned MCU \$15,000.

Both loans to MCU are at 4% interest and are due June 30, 2008.

(12) Subsequent Events

No significant subsequent events were noted.

(13) Litigation

There is no pending litigation pending involving the City of Hudson.

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, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 663,057	-	-
Tax increment financing collections	53,445	-	-
Other city tax	224,717	-	-
Licenses and permits	37,024	-	-
Use of money and property	114,536	80,501	-
Intergovernmental	288,862	-	-
Charges for service	41,355	1,666,299	-
Special assessments	-	-	-
Miscellaneous	32,389	6,851	-
Total receipts	1,455,385	1,753,651	-
Disbursements:			
Public safety	408,563	-	-
Public works	960,408	-	-
Health and social services	4,500	-	-
Culture and recreation	314,752	-	-
Community and economic development	601,328	-	-
General government	227,196	-	-
Debt service	106,938	-	-
Capital projects	-	-	-
Business type activities	-	2,305,210	-
Total disbursements	2,623,685	2,305,210	-
Excess of receipts over disbursements	(1,168,300)	(551,559)	-
Other financing sources, net	(62,990)	1,029,913	-
Excess of receipts and other financing sources over disbursements and other financing uses	(1,231,290)	478,354	-
Balances beginning of year	2,863,327	2,320,412	-
Balances end of year	\$ 1,632,037	2,798,766	-

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
663,057	657,643	657,643	5,414
53,445	30,566	49,566	3,879
224,717	222,513	228,513	(3,796)
37,024	41,225	41,225	(4,201)
195,037	76,784	142,784	52,253
288,862	287,947	293,432	(4,570)
1,707,654	1,710,710	1,744,310	(36,656)
-	-	-	-
39,240	26,500	45,025	(5,785)
3,209,036	3,053,888	3,202,498	6,538
408,563	469,398	469,398	60,835
960,408	987,951	1,116,301	155,893
4,500	4,500	4,500	-
314,752	353,259	368,357	53,605
601,328	1,035,537	673,237	71,909
227,196	237,405	246,665	19,469
106,938	106,938	106,938	-
-	21,000	21,000	21,000
2,305,210	2,586,733	2,517,345	212,135
4,928,895	5,802,721	5,523,741	594,846
(1,719,859)	(2,748,833)	(2,321,243)	601,384
966,923	1,130,000	974,000	(7,077)
(752,936)	(1,618,833)	(1,347,243)	594,307
5,183,739	5,183,739	5,183,739	-
4,430,803	3,564,906	3,836,496	594,307

City of Hudson

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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, the budget was amended and increased budgeted receipts by \$148,610 and decreased budgeted disbursements by \$278,980.

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, 2007

	Special Revenue		
	TIF	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ -	-	108,840
Tax increment financing collections	53,445	-	-
Other city tax	-	-	-
Use of money and property	-	-	-
Intergovernmental	-	176,441	-
Total receipts	53,445	176,441	108,840
Disbursements:			
Operating:			
Public works	-	99,133	-
Community and economic development	-	-	-
Debt service	-	-	-
Total disbursements	-	99,133	-
Excess (deficiency) of receipts over (under) disbursements	53,445	77,308	108,840
Other financing sources:			
Operating transfers in	-	-	-
Operating transfers out	(53,445)	(45,502)	(108,840)
Net change in cash balances	-	31,806	-
Cash balances beginning of year	-	9,147	-
Cash balances end of year	\$ -	40,953	-
Cash Basis Fund Balances			
Unreserved:			
Special revenue	\$ -	40,953	-
Debt service			
Capital projects fund			
Total cash basis fund balances	\$ -	40,953	-

See accompanying independent auditor's report

Debt Service		Cap Project	
TIF Surplus	Debt Service	G.O. Capital Loan	Total
-	-	-	108,840
-	-	-	53,445
-	-	-	-
2,724	-	-	2,724
-	-	-	176,441
2,724	-	-	341,450
-	-	-	99,133
-	-	-	-
-	106,938	-	106,938
-	106,938	-	206,071
2,724	(106,938)	-	135,379
7,101	106,938	-	114,039
-	-	(8,020)	(215,807)
9,825	-	(8,020)	33,611
128,173	-	8,020	145,340
137,998	-	-	178,951
137,998	-	-	40,953
-	-	-	137,998
137,998	-	-	178,951

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, 2007

	Meter Deposits	Solid Waste	Total
Operating Receipts:			
Charges for service	\$ -	87,021	87,021
Use of money and property	-	-	-
Miscellaneous	6,567	-	6,567
	<hr/>		
Total operating receipts	6,567	87,021	93,588
	<hr/>		
Operating Disbursements:			
Business type activities	4,168	89,498	93,666
	<hr/>		
Total operating disbursements	4,168	89,498	93,666
	<hr/>		
Excess (deficiency) of receipts over (under) disbursements	2,399	(2,477)	(78)
	<hr/>		
Other financing sources:			
SRF Loan	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
	<hr/>		
Net change in cash balances	2,399	(2,477)	(78)
	<hr/>		
Cash balances beginning of year	6,890	27,037	33,927
	<hr/>		
Cash balances end of year	\$ 9,289	24,560	33,849
	<hr/> <hr/>		
Cash Basis Fund Balances			
Unreserved:	\$ 9,289	24,560	33,849
	<hr/>		
Total cash basis fund balances	\$ 9,289	24,560	33,849
	<hr/> <hr/>		

See accompanying independent auditor's report

Schedule 3

City of Hudson
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year
General Obligation Capital Loan Notes, Series 2006	June 1, 2006	3.85-4.30%	\$2,600,000	<u>2,600,000</u>
Water Revenue Capital Loan Note, Series 2006, DWSRF	June 16, 2006	3.00%	630,000	<u>-</u>
Sewer Revenue Capital Loan Notes, Series 2006 CWSRF	June 16, 2006	3.00%	500,000	<u>-</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
-	-	2,600,000	106,938	-
625,000	23,000	602,000	8,536	-
356,923	19,000	337,923	4,292	-

City of Hudson

Bond and Note Maturities

June 30, 2007

Year Ending June 30,	General Obligation Capital Loan Notes		Sewer Revenue Clean Water SRF		Water Revenue Drinking Water SRF	
	Issued June 1, 2006		Issued June 16,2006		Issued June 16,2006	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	4.00	\$ 100,000	3.00	19,000	3.00	24,000
2009	4.00	100,000	3.00	20,000	3.00	25,000
2010	4.00	100,000	3.00	20,000	3.00	26,000
2011	4.00	105,000	3.00	21,000	3.00	26,000
2012	4.00	110,000	3.00	22,000	3.00	27,000
2013	3.85	110,000	3.00	22,000	3.00	28,000
2014	3.90	115,000	3.00	23,000	3.00	29,000
2015	3.95	125,000	3.00	23,000	3.00	30,000
2016	4.00	125,000	3.00	24,000	3.00	31,000
2017	4.10	130,000	3.00	25,000	3.00	32,000
2018	4.10	140,000	3.00	26,000	3.00	32,000
2019	4.10	145,000	3.00	26,000	3.00	33,000
2020	4.15	155,000	3.00	27,000	3.00	34,000
2021	4.20	155,000	3.00	28,000	3.00	35,000
2022	4.20	160,000	3.00	11,923	3.00	37,000
2023	4.25	170,000	3.00	-	3.00	38,000
2024	4.25	175,000	3.00	-	3.00	39,000
2025	4.30	185,000	3.00	-	3.00	40,000
2026	4.30	195,000	3.00	-	3.00	36,000
		<u>\$2,600,000</u>		<u>337,923</u>		<u>602,000</u>

Note:

Sewer Revenue Note totals \$500,000, but at June 30, 2007 the City had borrowed only \$356,923 and had paid back \$19,000 leaving a balance of \$337,923. The above is based on the original schedule.

Water Revenue Note totals \$630,000, but at June 30, 2007 the City had borrowed only \$625,000 and had paid back \$23,000 leaving a balance of \$602,000. The above is based on the original schedule.

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

	2007	2006	2005
Receipts:			
Property tax	\$ 663,057	679,949	579,612
Tax increment financing	53,445	61,042	337,583
Other city tax	224,717	233,252	218,195
Licenses and permits	37,024	40,125	33,009
Use of money and property	114,536	104,153	76,821
Intergovernmental	288,862	400,681	430,497
Charges for service	41,355	25,971	27,054
Special assessments	-	-	-
Miscellaneous	32,389	37,620	32,569
	<u>\$1,455,385</u>	<u>1,582,793</u>	<u>1,735,340</u>
Disbursements:			
Operating:			
Public safety	\$ 408,563	435,337	344,562
Public works	960,408	599,231	321,786
Health and social services	4,500	2,500	1,787
Culture and recreation	314,752	276,246	346,490
Community and economic development	601,328	140,978	74,673
General government	227,196	245,170	208,078
Debt service	106,938	952,913	177,773
Capital projects	-	38,395	123,745
	<u>\$2,623,685</u>	<u>2,690,770</u>	<u>1,598,894</u>

See accompanying independent auditor's report

City of Hudson

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Grantor/Program	CFDA Number	Agency Pass- through Number	Program Expenditures
Indirect:			
Environmental Protection Agency Capitalization Grant for Clean Water State Revolving Funds	66.458	SRF Project No. CS192282 01	\$ 274,424
Environmental Protection Agency Capitalization Grant for Drinking Water State Revolving Funds	66.468	Project No. FS- 07-05-DWSRF-007	401,688
	Total		<u>\$ 676,112</u>

Basis of Presentation-

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

See accompanying independent auditor's report

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 7, 2007. Our report expressed unqualified opinions 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hudson's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Hudson's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hudson's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Hudson's financial statements that is more than inconsequential will not be prevented or detected by the City of Hudson's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Hudson's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07, is a material weakness. Prior year reportable condition, segregation of duties, has not been resolved.

Compliance and Other Matters

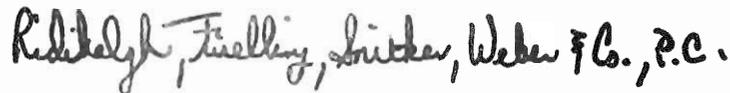
As part of obtaining reasonable assurance about whether the City of Hudson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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 or other matters 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, 2007 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.

The City of Hudson's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit Hudson's responses and, accordingly, we express no opinion on them.

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 Hudson may report, including federal awarding agencies. 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 7, 2007

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, C.P.A.
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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
In Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of Hudson, Iowa with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. Hudson's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Hudson's management. Our responsibility is to express an opinion on Hudson's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards, and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hudson's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hudson's compliance with those requirements.

In our opinion, Hudson complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Hudson is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Hudson's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hudson's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Hudson and other parties to whom Hudson may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



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

September 7, 2007

City of Hudson

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2007

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) Significant deficiencies 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.
- (d) No significant deficiencies in internal control over the major program were disclosed by the audit of the financial statements, which is considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) Audit findings that are required to be reported in accordance with Section 510(a) of Office of Management and Budget Circular A-133 are reported in this Schedule.
- (g) The major program was CFDA Number 66.458 – Clean Water State Revolving Funds and 66.468 – Drinking Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Hudson did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 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.

INSTANCES OF NON-COMPLIANCE

Part III: Findings and Questioned Costs for Federal Awards:

There were no findings and questioned costs for federal awards.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-07 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, 2007.

IV-B-07 Certified Budget – City disbursements during the year ended June 30, 2007 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.

IV-C-07 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.

IV-D-07 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-07 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mary Bucy, Library Director, Owner of Bucy Cleaning	Janitorial services	\$ 5,786

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

IV-F-07 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.

IV-G-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-H-07 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