

CITY OF HUDSON

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

JUNE 30, 2008

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City of Hudson

Officials

Before January 2008

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

After January 2008

Bernie Jensen	Mayor	Dec 2009
David Spake	Mayor Pro tem	Dec 2011
George Wessel	Council Member	Dec 2011
Robert Grittmann	Council Member	Dec 2009
Allen Schneider	Council Member	Dec 2011
Dennis Sadler	Council Member	Dec 2009
Sandy Diehl	City Clerk/Treasurer	January 1, 2009
Richard Hansen	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, 2008, 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, 2008, 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 22, 2008 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 VIII and budgetary comparison information on pages 21 through 22 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, 2007 (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, 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.

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

September 22, 2008

MANAGEMENT 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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- The City's revenues decreased by \$1,016,000 from fiscal year 2007 to fiscal year 2008. Receipts in the City's governmental funds increased by \$145,000, while receipts in the City's Proprietary funds decreased by \$998,000.

- μ Disbursements decreased \$1,320,000 from fiscal year 2007. Decreased expenses in the Governmental funds were decreased by \$692,000 and decreased expenses in the Business funds were \$629,000. The decrease in governmental and business funds spending reflects a completion of projects.

- μ The City's total cash basis net assets decreased \$1,321,000 from fiscal year 2007 to fiscal Year 2008 to a total of \$3,608,202. The decrease in the cash basis reflects expenditures on capital projects in which the debt proceeds for the capital projects were received in 2007. Includes....

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:

- μ 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.
- μ 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, 2008			
	2008	% of Total	2007	% of Total
Receipts and transfers:				
Program Receipts:				
Charges for Service	63	4%	41	9%
Miscellaneous	76	5%	32	18%
General Receipts:				
Property Tax	664	42%	663	48%
Tax Increment Financing Revenues	84	5%	53	4%
Local Option Sales Tax	253	16%	225	16%
Licenses & Permits	43	3%	37	4%
Use of money and property	88	6%	115	4%
Intergovernmental	329	21%	289	-4%
Total receipts and transfers	1600	100%	\$ 1,455	99%
Disbursements:				
Public Safety	407	21%	409	16%
Public Works	332	17%	960	36%
Health and Social Services	3	0%	5	0%
Culture and Recreation	311	16%	315	12%
Community and Economic Development	47	2%	601	23%
General Government	241	12%	227	9%
Debt Service	207	11%	107	4%
Capital Projects	383	20%	0	0%
Total Disbursements	1931	100%	\$ 2,624	100%
Increase in cash basis net assets	-331		\$ (1,231)	
Cash basis net assets beginning of year	1632		\$ 2,863	
Cash basis net assets end of year	1335		\$ 1,632	

The City's total receipts and transfers for governmental activities decreased by \$1,016,000. The total cost of all programs and services decreased by \$1,320,000, with no new programs added this year.

The City did not increase general fund property tax rates for 2008. Property tax receipts increased by \$102,900. Tax increment financing revenues increase by \$761.00 in fiscal year 2008. The City had no governmental funds borrowing in fiscal 2008.

The costs of all governmental activities this year was \$3.608 million compared to \$4.928 million last year. Overall the City's governmental program receipts, increased in 2008 from approximately \$514,000 to \$599,000. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$1,001,000 in property tax, local option tax, and tax increment financing receipts. In addition there was a \$50,000 fund transfer from the proprietary funds (electric utility) to the governmental funds (general fund).

Total business type activities receipts for the fiscal year were \$1.847 million compared to \$2.845 million last year. This decrease reflects the receipt of State Revolving Fund loans in 2007 of \$356,923 in the Sewer Fund and \$625,000 in the Water Fund. The cash balance increased by \$136,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by \$872,000 to a total of \$1.494 million.

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

Description	Year Ended June 30, 2008			
	2008	% of Total	2007	% of Total
Receipts and transfers:				
Program Receipts:				
Charges for Service				
Water	211	11%	209	8%
Sewer	197	11%	196	7%
Electric	1205	65%	1174	41%
Solid Waste Disposal	84	5%	87	3%
General Receipts:				
Unrestricted interest on investments	94	5%	81	3%
Miscellaneous	56	3%	7	0%
Other and Transfers in			1091	38%
Total receipts	\$ 1,847	100%	\$ 2,845	100%
Disbursements:				
Water	201	13%	596	25%
Sewer	143	10%	467	20%
Electric	1176	79%	1091	46%
Solid Waste Disposal	82		89	4%
Meter Deposits		0%	4	0%
Total Disbursements	\$ 1,494	95%	\$ 2,366	100%
Transfers out	-108		119	
Increase (decrease) in cash balance	\$ 136		\$ (479)	
Cash basis net assets beginning of year	\$ 2,799		\$ 2,320	
Cash basis net assets end of year	\$ 2,935		\$ 2,799	

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the city of Hudson completed the year, its governmental funds reported a combined fund balance of \$1,335,276, a decrease of \$296,761 from last year's balance of \$1,632,037. The following are major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$871,871 from the prior year to \$760,166 due primarily to expenditures relating to capital projects completed during the year.
- μ The Road Use Tax Fund cash balance increased by \$8,525 to \$49,478 during the fiscal year.
- μ 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 \$137,999. TIF revenues increased to \$83,096. The General Fund transferred \$397,160 to the TIF Capital Project Fund, of which all but \$14,159 was expended on Capital Projects in the cities TIF District. This activity left a balance of \$156,745 to be used for future Tax Increment Financing Projects.
- μ The Debt Service Fund recorded transfers of \$83,096 from the TIF Fund, \$102,327 from the Road Use Fund, and \$21,526 from the Sewer Fund. The remaining balance from the transfers in the Debt Service Fund was \$9.51.
- μ The Local Option Sales Tax Fund had receipts of \$ and then transferred \$200,000 to the general fund. The net result was an increase \$60,536 leaving an ending Local Option Sales tax Fund balance of \$365,218.
- μ The Water Fund cash balance decreased by \$19,300 to \$487,716 due to expenses relating to capital projects. Ending balance for the Water Fund is \$487,716.
- μ The Sewer Fund cash balance increased by \$54,938 to \$443,518 due to the receipt of loan proceeds reimbursing loan notes for State Revolving Funding.
- μ The Electric Fund cash balance increased by \$94,841 to \$1,964,163. The increase was after a \$50,000 transfer to the general fund. Electric revenues increased by \$31,000 in the 2008 fiscal year. Operating expenses increased by \$85,000.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The net result of that amendment was to increase revenues by \$195,647. Budgeted expenditures increased by \$156,888, with 100% of the increase in expenditures attributable to governmental activities. The budget increase was primarily for capital street, water and sewer projects not included in the original FY08 budget.

DEBT ADMINISTRATION

At June 30, 2008 the City had \$2,500,000 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. The net comparison is as show below

Outstanding Debt at Year End
(Expressed in Thousands)

Description	Year Ended June 30,	
	2008	2007
General Obligation-Capital Loan Note	2500	2600
Water Revenue Capital Loan Note	578	602
Sewer Revenue Capital Loan Note	318	338
Total Outstanding Debt	3396	3540

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 \$2,500,000 is below its constitutional debt limit of \$7,476,007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2009 budget.

Amounts available for appropriation in the operating budget are 3.739 million, a decrease of \$733,000 over the 2008 estimated budgetary amounts. This is due in a large part to a reduction in transfers between funds, and not an actual reduction in revenues received by the city. Budgeted disbursements are \$1,179,000 less than budgeted for 2008. This decrease is due to a reduction in the governmental fund expenditures of \$489,000 and budgeted transfers decreased by \$625,000 over the 2008 estimated budgetary amounts. The City has added no major new programs; however, the electric utility was established as a new agency the Hudson Municipal Electric Utility Board. If these budgeted estimates are realized, the City's budgeted cash balance is expected to decrease \$176,932 by the close of the 2009 current budget; an improvement to the proposed decrease of \$622,766 for the expected close of the 2008 fiscal budget.

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 any questions about this report or need additional financial information, contact Sandie Deahl, 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, 2008

Functions / Programs:	Disbursements	Program Receipts	
		Charges for Service	Oper. Grants, Contributions, and Restricted Interest
Governmental activities:			
Public safety	\$ 407,123	137,471	213,172
Public works	332,346	-	-
Health and social services	3,000	-	-
Culture and recreation	310,679	18,063	37,054
Community and economic development	46,921	23,532	-
General government	241,598	20,357	-
Debt service	206,939	-	-
Capital projects	383,001	-	-
Total governmental activities	1,931,607	199,423	250,226
Business type activities:			
Sewer	173,256	197,349	-
Electric	1,176,915	1,205,141	-
Water	244,751	210,419	-
Nonmajor business type funds	81,673	84,201	-
Total business type activities	1,676,595	1,697,110	-
Total	\$ 3,608,202	1,896,533	250,226

General Receipts:

Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Unrestricted interest	
Rents	
Miscellaneous	
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
Capital projects
Debt service
Unrestricted

Total cash basis net assets

Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Governmental Activities	Business Type Activities	Total
-	(56,480)	-	(56,480)
42,046	(290,300)	-	(290,300)
-	(3,000)	-	(3,000)
1,010	(254,552)	-	(254,552)
-	(23,389)	-	(23,389)
-	(221,241)	-	(221,241)
-	(206,939)	-	(206,939)
-	(383,001)	-	(383,001)
43,056	(1,438,902)	-	(1,438,902)
-	-	24,093	24,093
-	-	28,226	28,226
-	-	(34,332)	(34,332)
-	-	2,528	2,528
-	-	20,515	20,515
43,056	(1,438,902)	20,515	(1,418,387)
	664,085	-	664,085
	83,541	-	83,541
	-	-	-
	252,649	-	252,649
	45,694	90,242	135,936
	7,809	-	7,809
	53,838	59,796	113,634
	34,525	(34,525)	-
	1,142,141	115,513	1,257,654
	(296,761)	136,028	(160,733)
	1,632,037	2,798,766	4,430,803
	\$1,335,276	2,934,794	4,270,070
	49,334	-	49,334
	379,387	-	379,387
	142,140	-	142,140
	756,726	2,895,003	3,651,729
	\$1,327,587	2,895,003	4,222,590

City of Hudson

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

As of and for the year ended June 30, 2008

	General	Local Option Tax	TIF Capital Project	G.O. Capital Note	Nonmajor Governmental Funds	Total
Receipts:						
Property tax	\$ 555,031	-	-	-	109,054	664,085
TIF collections	-	-	-	-	83,541	83,541
Other city tax	-	252,649	-	-	-	252,649
Licenses and permits	43,283	-	-	-	-	43,283
Use of money and property	75,969	7,887	-	-	4,142	87,998
Intergovernmental	147,673	-	-	-	181,369	329,042
Charges for service	63,575	-	-	-	-	63,575
Special assessments	-	-	-	-	-	-
Miscellaneous	76,147	-	-	-	-	76,147
Total receipts	961,678	260,536	-	-	378,106	1,600,320
Disbursements:						
Operating:						
Public safety	407,123	-	-	-	-	407,123
Public works	261,829	-	-	-	70,517	332,346
Health and social services	3,000	-	-	-	-	3,000
Culture and recreation	310,679	-	-	-	-	310,679
Community and economic development	46,921	-	-	-	-	46,921
General government	241,598	-	-	-	-	241,598
Debt service	-	-	-	206,939	-	206,939
Capital projects	-	-	383,001	-	-	383,001
Total disbursements	1,271,150	-	383,001	206,939	70,517	1,931,607
Excess of receipts over disbursements	(309,472)	260,536	(383,001)	(206,939)	307,589	(331,287)
Other financing sources (uses):						
Loan to MCU	-	-	-	-	-	-
Operating transfers in	359,643	-	397,160	206,949	-	963,752
Operating transfers out	(434,160)	(200,000)	-	-	(295,066)	(929,226)
Total other financing sources (uses)	(74,517)	(200,000)	397,160	206,949	(295,066)	34,526
Net change in cash balances	(383,989)	60,536	14,159	10	12,523	(296,761)
Cash balances beginning of year	1,148,404	304,682	-	-	178,951	1,632,037
Cash balances end of year	\$ 764,415	365,218	14,159	10	191,474	1,335,276
Cash Basis Fund Balances						
Unreserved:						
General fund	\$ 764,415	-	-	-	-	764,415
Special revenue funds	-	-	-	-	49,334	49,334
Capital projects	-	365,218	14,159	10	-	379,387
Debt service	-	-	-	-	142,140	142,140
Total cash basis fund balances	\$ 764,415	365,218	14,159	10	191,474	1,335,276

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, 2008

Total governmental funds cash balances	\$ 1,335,276
The city does not have an internal service fund. Therefore there are no reconciling items.	-
Cash basis net assets of governmental activities	<u>\$ 1,335,276</u>
Net change in cash balances	\$ (296,761)
The city does not have an internal service fund. Therefore there are no reconciling items.	-
Change in cash balance of governmental activities	<u>\$ (296,761)</u>

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, 2008

	Sewer	Electric	Water	Nonmajor	Total
Operating receipts:					
Use of money and property	\$ 15,372	63,973	15,032	-	94,377
Charges for service	197,349	1,205,141	210,419	84,201	1,697,110
Miscellaneous	-	48,983	-	6,679	55,662
Total operating receipts	212,721	1,318,097	225,451	90,880	1,847,149
Operating disbursements:					
Business type activities	143,322	1,176,915	201,297	81,673	1,603,207
Total operating disbursements	143,322	1,176,915	201,297	81,673	1,603,207
Excess (deficiency) of receipts over (under) disbursements	69,399	141,182	24,154	9,207	243,942
Non-operating receipts (disbursements):					
Operating transfers in	37,000	-	-	-	37,000
Operating transfers out	(21,526)	(50,000)	-	-	(71,526)
Debt service	(29,934)	-	(43,454)	-	(73,388)
Total financing sources(uses)	(14,460)	(50,000)	(43,454)	-	(107,914)
Net change in cash balances	54,939	91,182	(19,300)	9,207	136,028
Cash balances beginning of year	388,579	1,869,322	507,015	33,849	2,798,765
Cash balances end of year	\$ 443,518	1,960,504	487,715	43,056	2,934,793
Cash Basis Fund Balances					
Unreserved	\$ 443,518	1,960,504	487,715	43,056	2,934,793
Total cash basis fund balances	\$ 443,518	1,960,504	487,715	43,056	2,934,793

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, 2008

Total enterprise funds cash balances	\$ 2,934,793
The city does not have an internal service fund. Therefore there are no reconciling items.	-
Cash basis net assets of business type activities	\$ 2,934,793
Net change in cash balances	\$ 136,028
The city does not have an internal service fund. Therefore there are no reconciling items.	-
Change in cash balance of business type activities	\$ 136,028

See notes to financial statements

City of Hudson

Notes to Financial Statements

June 30, 2008

(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 for capital projects under TIF.

Debt Service-G.O. Capital Note Fund is used to account for the receipt and disbursement of funds in payment of the 2006 General Obligation Capital Loan Note.

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 grant 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, 2008 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, 2008, 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 <u>Capital Loan Notes</u>		Sewer Revenue Bonds Clean Water SRF		Water Revenue Bonds Drinking Water SRF		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	110,000	86,338	22,000	11,370	28,000	14,370	160,000	112,078
2014-2018	635,000	362,430	121,000	46,530	154,000	58,650	910,000	467,610
2019-2023	785,000	220,233	92,923	18,870	177,000	34,320	1,054,923	273,423
2024-2027	<u>555,000</u>	<u>48,503</u>	-	-	<u>115,000</u>	<u>6,645</u>	<u>670,000</u>	<u>55,148</u>
	<u>2,500,000</u>	<u>1,105,056</u>	<u>318,923</u>	<u>128,580</u>	<u>578,000</u>	<u>179,355</u>	<u>3,396,923</u>	<u>1,412,991</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, 2008 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 semiannually on the 1st day of June and December in each year. Principal is payable annually on the first day of June. The City paid \$10,934 interest and \$19,000 in principal during year ended June 30, 2008.

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, 2008 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, 2008 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 semiannually on the 1st day of June and December in each year. Principal is payable annually on the first day of June. The City paid \$19,454 in interest and \$24,000 in principal during year ended June 30, 2008.

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 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, 2008 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 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007 and 2006 were \$39,352, \$37,973 and \$36,358 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, 2008 is \$16,453. The City's approximate liability for earned comp time payable to employees at June 30, 2008 is \$8,824. This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 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	\$ 200,000
	Business Type:	
	Electric	50,000
	Employee Benefits	<u>109,643</u>
		<u>359,643</u>
Business Type:		
Sewer	General	<u>37,000</u>
Capital Projects:	General	<u>397,160</u>
	Special Revenue:	
Debt Service:	TIF – Special Revenue	83,096
	General:	
	Road Use Tax	102,327
	Business Type:	
	Sewer	<u>21,526</u>
		<u>206,949</u>
Total Interfund Transfers		<u>\$1,000,752</u>

(7) Related Party Transactions

The City had business transactions between the City and City employees totaling \$5,841 during the year ended June 30, 2008.

(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 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.

(9) Special Revenue

Employee Benefits had a deficit balance of \$589. The deficit will be eliminated with the receipt of additional property taxes.

(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) 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.

The City has a new contract with Butler County Rural Electric Cooperative to supply electric power and energy requirements effective January 1, 2009 and ending December 31, 2018.

(12) 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.

Loans to MCU are at 4% interest and are due June 30, 2008. This has not been paid as of September 9, 2008.

(13) Hudson Electric Municipal Utility

The City has formed Hudson Municipal Electric Utility (HMEU) and transferred \$35,000 during the year ended June 30, 2008 as start up costs. See Note 14 for additional information on HMEU.

(14) Subsequent Events

On July 1, 2008 Hudson Municipal Electric Utility (HMEU) took over all electric operations of the City. In addition HEMU will do billing and collection on all utilities of the City and remit all utility collections to the City, retaining collections for electric billings. On July 1, 2008 the City transferred \$804,660 to Hudson Municipal Electric Utility.

(15) 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, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 664,085	-	-
Tax increment financing collections	83,541	-	-
Other city tax	252,649	-	-
Licenses and permits	43,283	-	-
Use of money and property	87,998	94,377	-
Intergovernmental	329,042	-	-
Charges for service	63,575	1,697,110	-
Special assessments	-	-	-
Miscellaneous	76,147	55,662	-
Total receipts	<u>1,600,320</u>	<u>1,847,149</u>	-
Disbursements:			
Public safety	407,123	-	-
Public works	332,346	-	-
Health and social services	3,000	-	-
Culture and recreation	310,679	-	-
Community and economic development	46,921	-	-
General government	241,598	-	-
Debt service	206,939	-	-
Capital projects	383,001	-	-
Business type activities	-	1,676,595	-
Total disbursements	<u>1,931,607</u>	<u>1,676,595</u>	-
Excess of receipts over disbursements	(331,287)	170,554	-
Other financing sources, net	34,526	(34,526)	-
Excess of receipts and other financing sources over disbursements and other financing uses	(296,761)	136,028	-
Balances beginning of year	<u>1,632,037</u>	<u>2,798,765</u>	-
Balances end of year	<u>\$ 1,335,276</u>	<u>2,934,793</u>	-

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
664,085	659,365	659,365	4,720
83,541	83,096	83,096	445
252,649	222,353	250,000	2,649
43,283	35,550	43,550	(267)
182,375	92,284	172,284	10,091
329,042	338,849	338,849	(9,807)
1,760,685	1,675,450	1,705,450	55,235
-	-	-	-
131,809	39,510	89,510	42,299
3,447,469	3,146,457	3,342,104	105,365
407,123	477,449	477,449	70,326
332,346	275,958	399,830	67,484
3,000	3,000	3,500	500
310,679	327,379	327,379	16,700
46,921	56,930	89,446	42,525
241,598	242,167	242,167	569
206,939	206,949	206,949	10
383,001	422,160	422,160	39,159
1,676,595	1,901,583	1,901,583	224,988
3,608,202	3,913,575	4,070,463	462,261
(160,733)	(767,118)	(728,359)	567,626
-	144,352	144,352	(144,352)
(160,733)	(622,766)	(584,007)	423,274
4,430,802	4,430,803	4,430,803	(1)
4,270,069	3,808,037	3,846,796	423,273

City of Hudson

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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 \$195,647 and increased budgeted disbursements by \$156,888.

Other Supplementary Information

Schedule 1

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, 2008

	Special Revenue			Debt Service	Total
	TIF	Road Use Tax	Employee Benefits	TIF Surplus	
Receipts:					
Property tax	\$ -	-	109,054	-	109,054
Tax increment financing collections	83,541	-	-	-	83,541
Other city tax	-	-	-	-	-
Use of money and property	-	-	-	4,142	4,142
Intergovernmental	-	181,369	-	-	181,369
Total receipts	83,541	181,369	109,054	4,142	378,106
Disbursements:					
Operating:					
Public works	-	70,517	-	-	70,517
Community and economic development	-	-	-	-	-
Debt service	-	-	-	-	-
Total disbursements	-	70,517	-	-	70,517
Excess (deficiency) of receipts over (under) disbursements	83,541	110,852	109,054	4,142	307,589
Other financing sources:					
Operating transfers in	-	-	-	-	-
Operating transfers out	(83,096)	(102,327)	(109,643)	-	(295,066)
Net change in cash balances	445	8,525	(589)	4,142	12,523
Cash balances beginning of year	-	40,953	-	137,998	178,951
Cash balances end of year	\$ 445	49,478	(589)	142,140	191,474
Cash Basis Fund Balances					
Unreserved:					
Special revenue	\$ 445	49,478	(589)	-	49,334
Debt service	-	-	-	142,140	142,140
Capital projects fund	-	-	-	-	-
Total cash basis fund balances	\$ -	49,478	(589)	142,140	191,474

See accompanying independent auditor's report

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, 2008

	Meter Deposits	Solid Waste	Total
Operating Receipts:			
Charges for service	\$ -	84,201	84,201
Use of money and property	-	-	-
Miscellaneous	6,679	-	6,679
Total operating receipts	6,679	84,201	90,880
Operating Disbursements:			
Business type activities	4,895	76,778	81,673
Total operating disbursements	4,895	76,778	81,673
Excess (deficiency) of receipts over (under) disbursements	1,784	7,423	9,207
Other financing sources:			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Net change in cash balances	1,784	7,423	9,207
Cash balances beginning of year	9,289	24,560	33,849
Cash balances end of year	\$ 11,073	31,983	43,056
Cash Basis Fund Balances			
Unreserved:	\$ 11,073	31,983	43,056
Total cash basis fund balances	\$ 11,073	31,983	43,056

See accompanying independent auditor's report

Schedule 3

City of Hudson

Schedule of Indebtedness

Year ended June 30, 2008

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>602,000</u>
Sewer Revenue Capital Loan Notes, Series 2006 CWSRF	June 16, 2006	3.00%	500,000	<u>337,923</u>

See accompanying independent auditor's report

Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
-	100,000	2,500,000	106,939	-
-	24,000	578,000	19,454	-
-	19,000	318,923	10,934	-

City of Hudson

Bond and Note Maturities

June 30, 2008

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
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>\$2,500,000</u>		<u>318,923</u>		<u>578,000</u>

Note:

Sewer Revenue Note totals \$500,000, but at June 30, 2008 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, 2008 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

Schedule 5

City of Hudson

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

For the Last Four Years Ended June 30

	2008	2007	2006	2005
Receipts:				
Property tax	\$ 664,085	663,057	679,949	579,612
Tax increment financing	83,541	53,445	61,042	337,583
Other city tax	252,649	224,717	233,252	218,195
Licenses and permits	43,283	37,024	40,125	33,009
Use of money and property	87,998	114,536	104,153	76,821
Intergovernmental	329,042	288,862	400,681	430,497
Charges for service	63,575	41,355	25,971	27,054
Special assessments	-	-	-	-
Miscellaneous	76,147	32,389	37,620	32,569
Total	\$ 1,600,320	1,455,385	1,582,793	1,735,340
Disbursements:				
Operating:				
Public safety	\$ 407,123	408,563	435,337	344,562
Public works	332,346	960,408	599,231	321,786
Health and social services	3,000	4,500	2,500	1,787
Culture and recreation	310,679	314,752	276,246	346,490
Community and economic development	46,921	601,328	140,978	74,673
General government	241,598	227,196	245,170	208,078
Debt service	206,939	106,938	952,913	177,773
Capital projects	383,001	-	38,395	123,745
Total	\$ 1,931,607	2,623,685	2,690,770	1,598,894

See accompanying independent auditor's report

City of Hudson



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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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 22, 2008. 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, including 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-08, is a material weakness. Prior year reportable condition, segregation of duties, has 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, 2008 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 22, 2008

City of Hudson

City of Hudson

Schedule of Findings and Questioned Costs

June 30, 2008

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.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 Reconciliation of Bank Statement – One important aspect of the control of cash is the reconciliation of City's Fund Balance to bank statements. That reconciliation should be reviewed by another individual and in turn reconciled to the Clerk's report. We noted that the City is not reconciling the City's Fund Balance to bank statements, and therefore not reconciling to the Clerk's report. Consequently the Clerk's report was understated.

Recommendation – The City should reconcile the City's Fund Balance to bank statements and then to the Clerk's report.

Response – The City has begun reconciling the City's Fund Balance to bank statements and then to the Clerk's report. As of August 31, 2008 all funds have been reconciled to the Clerk's report.

Conclusion – Response accepted.

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-08 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, 2008.

- IV-B-08 Certified Budget – City disbursements during the year ended June 30, 2008 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-08 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-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-08 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	\$ 5,841

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-08 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-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-H-08 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