# HUDSON MUNICIPAL ELECTRIC UTILITY

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

JUNE 30, 2009

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**HUDSON MUNICIPAL ELECTRIC UTILITY**

**Board of Trustees**

| Name | Title | Term Expires |
|---|---|---|
| Doug Wyatt | Trustee-Board Chairman | December 2014 |
| Kenton Zelle | Trustee | December2013 |
| Gary Cooney | Trustee | December 2012 |
| Bradley Ingamells | Trustee | December 2011 |
| Jeffery Palmer | Trustee | December 2010 |

**HUDSON MUNICIPAL ELECTRIC UTILITY**

RFSW Ridihalgh Fuelling Snitker Weber & Co.
CERTIFIED PUBLIC ACCOUNTANTS

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A
Donald A. Snitker, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

## Independent Auditor's Report

To the Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the Hudson Municipal Electric Utility, as of June 30, 2009 and for the period November 6, 2007 through June 30, 2009, which collectively comprise the Utility's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Hudson Municipal Electric Utility 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 business type activities, each major fund and the aggregate remaining fund information of the Hudson Municipal Electric Utility as of June 30, 2009, and the respective changes in cash basis financial position for the period November 6, 2007 through June 30, 2009 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 November 30, 2009 on our consideration of the Hudson Municipal Electric Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 and budgetary comparison information on pages 7 through 9 and 17 through 18 are not required parts of the basic financial statements, but are

supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., C.P.A.'S

November 30, 2009

# HUDSON MUNICIPAL ELECTRIC UTILITY
# MANAGEMENT DISCUSSION & ANALYSIS
# FISCAL YEAR ENDING JUNE 30, 2009

Hudson Municipal Electric Utility 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, 2009. It is to be used in conjunction with the Utility's Annual Report which follows.

## BASIS OF ACCOUNTING

The Utility has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a method of accounting other than generally accepted accounting principles. Basis of accounting is a reference as to when financial events are recorded. Under the modified cash basis of accounting, revenues and expenses and their related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of this method of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected); as well as certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. 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 modified cash basis of accounting.

## HOW TO USE THE ANNUAL REPORT

The items in the annual report consist of a series of financial statements and other information as follows:

**Basic Financial Statements**

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)
  Presents the major program costs and program receipts associated with that program. This is to determine the extent that the programs are self-supporting.
- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)
  Presents the Utility operations in more detail by providing information on the most significant funds with the non-major funds lumped together.
- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)
  Reconciles any differences between Exhibit A and Exhibit B

**Notes to the 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 Utility budget for the year.

**Other Supplementary Information**

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Non-Major Proprietary Funds** (Schedule 1)
  Presents the non-major funds in more detail that were combined in Exhibit B.

Part of the requirements of the Management Discussion and Analysis is to provide a brief discussion of the Basic Financial Statements included in the Annual Report and the information they provide.

## BASIC FINANCIAL STATEMENTS

- **Statement of Activities and Net Assets – Cash Basis** (Exhibit A)
  The first section of the statement presents the major Functions/Programs. For the Utility, this would be the Electric fund. The Disbursements are listed in the first column with Charges for Service. The result is a Net (Expense)/Revenue. This is to determine the extent to which the program supports itself.

  The next section is the General Receipts. It shows the Unrestricted Interest, Miscellaneous Revenues and Transfers. These revenues are not listed above because they are not generated from the direct operation of the program.

  Adding the Business Type Activities Total with the Total General Receipts and Transfers equals the Change in Cash Basis Net Assets or the total increase/(decrease) in net assets for the Utility for the year. For the fiscal year ending June 30, 2009, the change in net assets was $804,363. Add that to the Beginning Net Assets balance of $29,356 which gives us a new Cash Basis Net Asset – End of Year balance of $830,719.

  The final section of this report shows that the Cash Basis Net Assets consist of $9,294.00 in restricted funds (Meter Deposits) and $821,425.33 in unrestricted funds.

- **Statement of Cash Receipts, Disbursements and Changes in Cash Balances** (Exhibit B)
  The Utility only has one type of fund: Proprietary or Enterprise Funds. These types of funds are used to report Business type activities (activities that are self-supporting). The major funds the Utility maintains are the Electric fund, as well as the Reserve Fund. All other funds are combined for the purpose of this report.

  Each fund has its own column to report the different types of Receipts, with the disbursements subtracted to obtain the Excess (Deficiency) of the Operating Receipts Over (Under) Operating Disbursements. This gives us the Net Operating Revenue (loss) for the fund.

  After adding the Net Change in Cash Balances to the Cash Beginning Balances, we have the new Cash Ending Balance for the fund. The statement also breaks down the balance by reserved or unreserved funds.

- **Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets** (Exhibit C)

  This reconciles any differences in the Cash Ending Balance or Net Change in Cash from Exhibits A and B.

## FINANCIAL HIGHLIGHTS

- The total revenue was $1,495,964 during our first year of operation. This figure does include monies received on behalf of the City of Hudson's Water, Sewer and Garbage Funds which was transferred to the City. The Utility originally received a transfer of $804,660 from the City of Hudson, when the Utility was established as a separate entity.
- The total disbursements were $1,510,334 which includes transfers to the City of Hudson for Water, Sewer and Garbage utility payments. Additionally, initial costs such as office furniture, computers and software were unavoidable for the first year of operation.

## 2009 BUDGETARY HIGHLIGHTS

Over the course of the year, the Utility amended its budget once. The Amendment was approved in June, 2009. This was due largely to the fact that the Utility started operating under the budget approved for the Electric Department by the City of Hudson, and did not allow for the Utility's initial disbursements for start up costs, and the Utility initially collecting for the City's water, sewer and garbage funds, then resulting transfers.

## CONTACTING THE UTILITY FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility is accountable for the money it receives. If you have questions about this report or need additional information, contact Sue Theisen, Hudson Municipal Electric Utility, PO Box 416, 117 Eldora Road, Hudson, Iowa 50643 in person, or by phone at (319) 988-4100. Sue can also be reached by e-mail at stheisen@hmeu.net.

# Basic Financial Statements

**Exhibit A**

Hudson Municipal Electric Utility

Statement of Activities and Net Assets - Cash Basis

As of June 30, 2009 and for the period November 6, 2007 to June 30, 2009

| | | Program Receipts | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets |
|---|---|---|---|---|
| | Disbursements | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Business Type Activities Total |
| **Functions / Programs:** | | | | |
| Business type activities: | | | | |
| Electric | $ 1,508,595 | 1,468,731 | - | (39,864) |
| Non-major funds | 7,383 | 5,604 | - | (1,779) |
| Total business type activities | $ 1,515,978 | 1,474,335 | - | (41,643) |

| | |
|---|---|
| **General Receipts:** | |
| Funds received from the City of Hudson | 850,733 |
| Unrestricted interest on investments | 18,101 |
| Miscellaneous income | 3,528 |
| Total general receipts and transfers | 872,362 |
| Change in cash basis net assets | 830,719 |
| Cash basis net assets beginning of year | - |
| Cash basis net assets end of year | $ 830,719 |

| | |
|---|---|
| **Cash Basis Net Assets** | |
| Restricted: | |
| Meter Deposits | $ 9,294 |
| Unrestricted | 821,425 |
| **Total cash basis net assets** | $ 830,719 |

See notes to financial statements

**Exhibit B**

Hudson Municipal Electric Utility

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

As of June 30, 2009 and for the period November 6, 2007 to June 30, 2009

| | Major Fund Electric | Nonmajor Proprietary Fund Meter Deposits | Total |
|---|---|---|---|
| Operating receipts: | | | |
| Use of money and property | $ 18,101 | - | 18,101 |
| Charges for service | 1,468,731 | 5,604 | 1,474,335 |
| Miscellaneous | 3,528 | - | 3,528 |
| Total operating receipts | 1,490,360 | 5,604 | 1,495,964 |
| Operating disbursements: | | | |
| Business type activities | 1,508,595 | 7,383 | 1,515,978 |
| Total operating disbursements | 1,508,595 | 7,383 | 1,515,978 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | (18,235) | (1,779) | (20,014) |
| Non-operating receipts (disbursements): | | | |
| Bond proceeds | - | - | - |
| Debt service | - | - | - |
| Total non-operating receipts (disbursements) | - | - | - |
| Excess (deficiency) of receipts over (under) disbursements | (18,235) | (1,779) | (20,014) |
| Funds received from the city | 839,660 | 11,073 | 850,733 |
| Net change in cash balances | 821,425 | 9,294 | 830,719 |
| Cash balances beginning of year | - | - | - |
| Cash balances end of year | $ 821,425 | 9,294 | 830,719 |
| **Cash Basis Fund Balances** | | | |
| Unreserved | $ 821,425 | - | 821,425 |
| Reserved | - | 9,294 | 9,294 |
| Total cash basis fund balances | $ 821,425 | 9,294 | 830,719 |

See notes to financial statements

**Exhibit C**

Hudson Municipal Electric Utility

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 June 30, 2009 and for the period November 6,2007 to June 30, 2009

| | |
|---|---|
| **Total enterprise funds cash balances (page 11)** | $ 830,719 |
| The utility does not have an internal service fund. Therefore there are no reconciling items. | - |
| **Cash basis net assets of business type activities (page 10)** | $ 830,719 |
| **Net change in cash balances (page 11)** | $ 830,719 |
| The utility does not have an internal service fund. Therefore there are no reconciling items. | - |
| **Change in cash balance of business type activities (page 10)** | $ 830,719 |

See notes to financial statements

## (1) Summary of Significant Accounting Policies

A. Reporting Entity

The Hudson Municipal Electric Utility is a component unit of the City of Hudson, Iowa. The Utility is a legally separate organization, which has the authority to modify and approve it's budget, modify and approve it's rates, and is not dependent on any other organization. The Utilities' trustees are appointed by the mayor of the City of Hudson, and they are approved by the City Council.

For financial reporting purposes, the Hudson Municipal Electric Utility has included all funds.

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 Utility. For the most part, the effect of interfund activity has been removed from this statement. The Utility reports business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utility'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.

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

The Utility reports the following major proprietary fund:

The Electric Fund accounts for the operation and maintenance of the Utility's electricity.

C. Measurement Focus and Basis of Accounting

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary 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) Hudson Municipal Electric Utility Formed

On November 6, 2007 the City of Hudson in a general election, passed a referendum to create the City of Hudson Municipal Electric Utility. Prior to this the Electric Utility operated as a proprietary fund within the City of Hudson accounts, controlled by the City Council. In January 2008 the City of Hudson through an ordinance created a board of trustees to operate Hudson Municipal Electric Utility.

Hudson Municipal Electric Utility requested a waiver from the Office of Auditor of State that the initial audit for the period November 6, 2007 through June 30, 2008 be waived. In a letter dated June 18, 2008 that request was granted by the Office of Auditor of State.

During the year ended June 30, 2008 the City transferred $35,000 to the Utility for start up costs.

## (3) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2009 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 Utility 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 Board of Trustees; 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.

The Utility's had no investments at June 30, 2009.

## (4) Revenue Bonds Payable

The utility had no bonded debt at June 30, 2009.

## (5) Pension and Retirement Benefits

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

Plan members are required to contribute 4.10% of their annual covered salary and the Utility is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the period November 6, 2007 to June 30, 2009, was $4,886, equal to the required contributions for each year.

## (6) Compensated Absences

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2009, primarily relating to the Electric Fund, is as follows:

| Type of Benefit | Amount |
|---|---|
| Vacation | $ 2,488 |
| Sick leave | 110 |
| Total | $ 2,598 |

This liability has been computed based on rates of pay in effect at June 30, 2009.

## (7) Interfund Transfers

There were no transfers during the period November 6, 2007 to June 30, 2009.

## (8) Risk Management

The Utility 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 Utility 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) Litigation

There is no pending litigation involving Hudson Municipal Electric Utility.

## (10) Subsequent Events

No significant events were noted.

# Required Supplementary Information

Hudson Municipal Electric Utility

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

Required Supplementary Information

Period November 6, 2007 to June 30, 2009

| | Proprietary Funds Actual | Budgeted Amounts Original | Budgeted Amounts Final | Final to Net Variance |
|---|---|---|---|---|
| Receipts: | | | | |
| Use of money and property | $ 18,101 | 52,000 | 19,450 | (1,349) |
| Charges for service | 1,217,913 | 1,195,155 | 1,480,000 | (262,087) |
| Miscellaneous | 259,950 | - | 1,300 | 258,650 |
| Total receipts | 1,495,964 | 1,247,155 | 1,500,750 | (4,786) |
| Disbursements: | | | | |
| Business type activities | 1,515,978 | 1,183,595 | 1,527,000 | 11,022 |
| Total disbursements | 1,515,978 | 1,183,595 | 1,527,000 | 11,022 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | (20,014) | 63,560 | (26,250) | 6,236 |
| Other financing sources (uses): | | | | |
| Funds from the City | 850,733 | - | 815,733 | 35,000 |
| Other financing sources (uses), net | 850,733 | - | 815,733 | 35,000 |
| Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements and other financing sources (uses) | 830,719 | 63,560 | 789,483 | 41,236 |
| Balances beginning of year | - | 29,356 | 29,356 | 29,356 |
| Balances end of year | $ 830,719 | 92,916 | 818,839 | 70,592 |

See accompanying independent auditor's report.

Hudson Municipal Electric Utility

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major fund.

In accordance with the Code of Iowa, the Board of Trustees 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. Of these ten functions only business type activities is budgeted by Hudson Municipal Electric Utility. Function disbursements required to be budgeted include disbursements for the Proprietary Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by $253,595 and budgeted disbursements by $343,405. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements did not exceed amounts budgeted in the business type activities function.

RFSW Ridihalgh Fuelling Snitker Weber & Co.
CERTIFIED PUBLIC ACCOUNTANTS

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A
Donald A. Snitker, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

## 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 Board of Trustees:

We have audited the accompanying financial statements of the business type activities, each major fund and the aggregate remaining fund information of the Hudson Municipal Electric Utility, as of June 30, 2009 and for the period November 6, 2007 to June 30, 2009, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated November 30, 2009. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with another 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 Hudson Municipal Electric Utility 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 Hudson Municipal Electric Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hudson Municipal Electric Utility'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 Municipal Electric Utility 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 Hudson Municipal Electric Utility's financial statements that is more than inconsequential will not be prevented or detected by Hudson Municipal Electric Utility's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiency 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 Municipal Electric Utility 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 deficiency described above, we believe item II-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hudson Municipal Electric Utility 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. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utility's operations for the period November 6, 2007 through June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. 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.

Hudson Municipal Electric Utility'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 Utility's responses, we did not audit Hudson Municipal Electric Utility'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 Hudson Municipal Electric Utility and other parties to whom Hudson Municipal Electric Utility 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hudson Municipal Electric Utility 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.

RIDIHALGH, FUELLING, SNITKER, WEBER, & CO., P.C., CPA'S

November 30, 2009

## Other Supplementary Information

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

(a) Unqualified opinions were 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:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT DEFICIENCIES:**

II-A-09 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.

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

Response – We will consider this.

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

**Part III: Other Findings Related to Statutory Reporting:**

III-A-09 Certified Budget – Utility budget was amended in June 2009. Code of Iowa section 384.18 states that the budget shall be amended by May 31 of the current fiscal year. At the time of amendment disbursements had exceeded the original budget.

Recommendation – Budgets should have been amended by May 31 and before disbursements exceed the budget.

Response – The budget will be amended by May 31 and before disbursements exceed the budget in the future, when applicable.

Conclusion – Response accepted.

III-B-09 Questionable Disbursements – No disbursements were found that we believe did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-09 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

III-D-09 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.

III-E-09 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-F-09 Board of Trustee Minutes – No transactions were noted that we believe should have been approved in board minutes but were not.

III-G-09 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 Utility's investment policy.

III-H-09 Revenue Notes – The Utility did not have any revenue debt at June 30, 2009.

III-I-09 Publication of Minutes – Although minutes were published timely, the publication did not contain total disbursements by fund, a list of claims, nor a summary of receipts in accordance with Chapter 372.13(6) of the code of Iowa.

Recommendation – Publication of minutes should include disbursements by fund, a list of claims and a summary of receipts.

Response – In the future Hudson Municipal Electric Utility will publish minutes with appropriate information to comply with Chapter 372.13(6) of the code of Iowa.

III-J-09 Investment Policy – HMEU has not adopted an investment policy to comply with Chapter 12B.10B of the Code of Iowa.

Recommendation – Although the Utility does not have any investments it should adopt an Investment Policy to comply with Chapter 12B.10B of the Code of Iowa.

Response – The Utility is in the process of adopting an Investment Policy.

Conclusion – Response accepted.

HUDSON MUNICIPAL ELECTRIC UTILITY

Staff

This audit was performed by:

Donald A. Snitker, CPA, Partner
Al Flick, CPA, Staff