HUDSON MUNICIPAL ELECTRIC UTILITY

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

JUNE 30, 2014

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HUDSON MUNICIPAL ELECTRIC UTILITY

Board of Trustees

Name	Title	Term Expires
Randy Hodgin-Chairman	Trustee	December 2015
Kenton Zelle-Vice Chairman	Trustee	December 2019
Doug Wyatt	Trustee	December 2014
Pamela Davis	Trustee	December 2016
Jereme Trotter	Trustee	December 2017

HUDSON MUNICIPAL ELECTRIC UTILITY

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Hudson Municipal Electric Utility, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 from material misstatement.

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

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

Opinions

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 Hudson Municipal Electric Utility as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hudson Municipal Electric Utility's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended June 30, 2013 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 9 and 18 through 19 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2014 on our consideration of Hudson Municipal Electric Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utility's internal control over financial reporting and compliance.

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

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

December 15, 2014

HUDSON MUNICIPAL ELECTRIC UTILITY
MANAGEMENT DISCUSSION & ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2014

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, 2014. It is to be used in conjunction with the Utility's Annual Report which follows.

BASIS OF ACCOUNTING

The 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. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the 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.

OTHER INFORMATION

- Further explains and supports the financial statements with a comparison of the Utility budget for the year.

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 Position – 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 listed in the second column. 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 Position or the total increase/(decrease) in net assets for the Utility for the year. For the fiscal year ending June 30, 2014, the change in net assets was an increase of $15,108. Beginning Net Position had a balance of $766,139. Subtracting the change from the beginning balance yields a Cash Basis Net Position – End of Year balance of $781,247.

  The final section of this report shows that the Cash Basis Net Position consist of $37,138 in restricted funds (Meter Deposits and System Upgrades), and $744,109 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 fund the Utility maintains is the Electric fund. The utility also has the Meter Deposit fund which is a non-major fund.

  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 Position** (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 $1,585,450 for the year.
- The total disbursements were $1,570,342 for the year.

2014 BUDGETARY HIGHLIGHTS

The budget for the year ended June 30, 2014 was not amended.

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, 615 Washington Street, 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

Cash Basis Statement of Activities and Net Position

As of and for the Year Ended June 30, 2014

	Disbursements	Program Receipts: Charges for Service	Program Receipts: Operating Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position: Business Type Activities Total
Functions / Programs:				
Business type activities:				
Electric	$ 1,565,240	1,552,365	-	(12,875)
Non-major funds	5,102	23,068	-	17,966
Total business type activities	$ 1,570,342	1,575,433	-	5,091
General Receipts:				
Funds received from the City of Hudson				-
Unrestricted interest on investments				2,763
Miscellaneous income				7,254
Total general receipts and transfers				10,017
Change in cash basis net assets				15,108
Cash basis net assets beginning of year				766,139
Cash basis net assets end of year				$ 781,247
Cash Basis Net Position				
Restricted-Expendable:				
Meter Deposits				$ 23,933
System Upgrades				13,205
Unrestricted				744,109
Total cash basis net position				$ 781,247

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 and for the Year Ended June 30, 2014

	Major Fund Electric	Nonmajor Proprietary Fund Meter Deposits	Nonmajor Proprietary Fund System Upgrade	Total
Operating receipts:				
Use of money and property	$ 2,763	-	-	2,763
Charges for service	1,552,365	9,863	13,205	1,575,433
Miscellaneous	6,944	310	-	7,254
Total operating receipts	1,562,072	10,173	13,205	1,585,450
Operating disbursements:				
Business type activities	1,565,240	5,102	-	1,570,342
Total operating disbursements	1,565,240	5,102	-	1,570,342
Net change in cash balances	(3,168)	5,071	13,205	15,108
Cash balances beginning of year	747,277	18,862	-	766,139
Cash balances end of year	$ 744,109	23,933	13,205	781,247
Cash Basis Fund Balances				
Reserved-Meter Deposits	$ -	23,933	-	23,933
Reserved-System Upgrade	-	-	13,205	13,205
Unrestricted	744,109	-	-	744,109
Total cash basis fund balances	$ 744,109	23,933	13,205	781,247

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 Cash Basis Statement of Activities and Net Position-
Proprietary Funds

As of and for the Year Ended June 30, 2014

Total enterprise funds cash balances (page 11)	$ 781,247
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)	$ 781,247
Net change in cash balances (page 11)	$ 15,108
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)	$ 15,108

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 Utility's 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.

(3) Cash and Pooled Investments

The Utility's deposits in banks at June 30, 2014 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, 2014.

(4) Revenue Bonds Payable

The utility had no bonded debt at June 30, 2014.

(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 5.78% of their annual covered salary and the Utility is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the year ended June 30, 2014, 2013 and 2012 were $9,440, $8,325, and $6,443 equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan description-The Utility operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees and retired employees and their spouses. There were two active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy-The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Utility and plan members are $549 medical and $25 dental for single coverage, $1,040 medical and $43 dental for employee and children, $1,686 medical and $76 dental for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2014 the Utility contributed $20,240 and plan members eligible for benefits contributed $3,917 to the plan.

(7) 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, 2014, primarily relating to the Electric Fund, is as follows:

Type of Benefit	Amount
Vacation	$ 4,845
Sick leave	1,766
Total	$ 6,611

This liability has been computed based on rates of pay in effect at June 30, 2014.

(8) Interfund Transfers

There were no transfers during the year ended June 30, 2014.

(9) Related Party Transactions

No related party transactions were noted.

(10) 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 year.

(11) Contracts

The Utility has contracted with Butler County REC for purchase of electricity. Originally a twenty year contract signed in 2014.

The Utility contracts with Van Wert for the reading of utility meters. The contract is $225 per month and renews automatically each year.

The Utility contracts with Traer Municipal Utilities for "Outside Service Work". The contract is for a minimum of $1,575 per month and renews automatically each year.

The Utility contracts with Great Plains Locating Service for locating underground cables/services. The contract is for $400 per month and renews automatically.

(12) Loan Agreements

The Utility has two loans from Butler County Rural Electric. The first $100,000 was borrowed on July 22, 2011. The second $100,000 was borrowed on December 15, 2011. These funds were used for remodeling purposes on the building. Payment on each note is $965.61 per month for 120 months. Interest rate on both loans is 3%. Balance of the notes at June 30, 2014 was $73,877 and $77,728 respectively.

(13) Rental Agreement

The Utility has rental agreement with East Central Iowa Cooperative for real estate. Rent is $500 per year to be paid in advance.

(14) Pole Agreement

The Utility has an agreement with TRX for the attachment of fiber optic communications cables and other attachments to certain utility poles owned by Hudson Municipal Electric Utility. There is an annual minimum license fee of $5 per pole.

(15) Litigation

There is no pending litigation involving Hudson Municipal Electric Utility.

(16) Subsequent Events

No subsequent events were noted that we believe needed to be noted. Subsequent events were considered by the Utility through December15, 2014.

Other Information

Hudson Municipal Electric Utility

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

Other Information

Year Ended June 30, 2014

	Proprietary Funds Actual	Budgeted Amounts	Final to Net Variance
Receipts:			
Use of money and property	$ 2,763	4,000	(1,237)
Charges for service	1,575,433	1,721,112	(145,679)
Miscellaneous	7,254	6,600	654
Total receipts	1,585,450	1,731,712	(146,262)
Disbursements:			
Business type activities	1,570,342	1,731,712	161,370
Total disbursements	1,570,342	1,731,712	161,370
Excess (deficiency) of operating receipts over (under) operating disbursements	15,108	-	15,108
Balances beginning of year, adjusted	766,139	678,568	(87,571)
Balances end of year	$ 781,247	678,568	(87,571)

See accompanying independent auditor's report.

Hudson Municipal Electric Utility

Notes to Other Information – Budgetary Reporting

JUNE 30, 2014

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 nine major classes of disbursements known as functions, not by fund. Of these nine 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 functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2014, disbursements did not exceed amounts budgeted in the business type activities function.

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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 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, 2014 and for the year ended June 30, 2014, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated December 15, 2014. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Hudson Municipal Electric Utility's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-14 to be material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged

with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-14 to be a significant deficiency.

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.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2014 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.

Responses to Findings

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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

December 15, 2014

Hudson Municipal Electric Utility

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

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) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

MATERIAL DEFICIENCY:

II-A-14 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.

SIGNIFICANT DEFICIENCY:

II-B-14 Accounting Staff Technical Expertise- Hudson Municipal Electric Utility's staff produce financial information for the board on a monthly basis, but does not employ staff with technical expertise to produce financial statements in conformity with accounting principles generally accepted in the United States of America to comply with the State's requirements or to comply with GASB 34 and therefore, it relies on its auditors to prepare such statements.

Response- Management feels that the auditors draft the financial statements and notes is a tolerable situation. to satisfy GASB 34 is sufficient. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different

than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements. Management approves the draft financial statements prior to their issuance.

Part III: Other Findings Related to Statutory Reporting:

III-A-14 Certified Budget – Disbursements during the year ended June 2014 did not exceed budgeted.

III-B-14 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-14 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

III-D-14 Business Transactions – There were no business transactions between the Utility and Utility officials or employees.

III-E-14 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-14 Board of Trustee Minutes – No transactions were noted that we believe should have been approved in board minutes but were not.

III-G-14 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-14 Revenue Notes – The Utility did not have any revenue debt at June 30, 2014.

III-I-14 Investment Policy – HMEU has adopted an investment policy to comply with Chapter 12B.10B of the Code of Iowa.