

**OFFICE OF AUDITOR OF STATE  
STATE OF IOWA**

Rob Sand  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

**NEWS RELEASE**

FOR RELEASE

June 28, 2019

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Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an audit report on the City of Hudson, Iowa.

The City's receipts totaled \$3,540,591 for the year ended June 30, 2018, a 19.2% decrease from the prior year. The receipts included \$1,193,235 of property tax, \$287,894 of tax increment financing, \$1,140,526 of charges for service, \$470,204 of operating grants, contributions and restricted interest, \$131,496 of capital grants, contributions and restricted interest, \$273,331 of local option sales tax, \$25,398 of commercial/industrial tax replacement and \$18,507 of unrestricted interest on investments.

Disbursements for the year ended June 30, 2018 totaled \$3,818,449, a 29% decrease from the prior year, and included \$780,667 for debt service, \$546,644 for public safety and \$512,543 for general government. Also, disbursements for business type activities totaled \$997,087.

The significant decrease in receipts was primarily due to a reduction in capital grant proceeds which were received in the prior year for a bike trail project. The decrease in disbursements was primarily due to a decrease in capital project disbursements in the current year.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

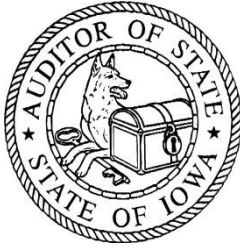
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**CITY OF HUDSON**

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

**JUNE 30, 2018**

**City of Hudson**



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Telephone (515) 281-5834 Facsimile (515) 281-6518

June 17, 2019

Officials of the City of Hudson  
Hudson, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Hudson, Iowa, for the year ended June 30, 2018. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Hudson throughout the audit. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand  
Auditor of State

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**City of Hudson**

**Officials**

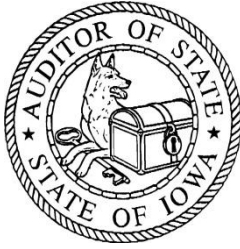
**(Before January 2018)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Wessel	Mayor	Jan 2018
Gail Bunz	Mayor Pro tem	Jan 2018
Kate Wyatt	Council Member	Jan 2018
Brenda Engel	Council Member	Jan 2020
Matt Reisetter	Council Member	Jan 2020
Scott Staebell	Council Member	Jan 2020
Chrissi Wiersma	City Clerk/Treasurer	Indefinite
Colleen Damon	Deputy City Clerk	Indefinite
Katie Boeding (Appointed Oct 2017)	Deputy City Clerk	Indefinite
Heather A. Prendergast	Attorney	Indefinite

**(After January 2018)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
George Wessel	Mayor	Jan 2020
Gail Bunz	Mayor Pro tem	Jan 2022
Brenda Engel	Council Member	Jan 2020
Matt Reisetter	Council Member	Jan 2020
Scott Staebell	Council Member	Jan 2020
Kate Wyatt	Council Member	Jan 2022
Chrissi Wiersma	City Clerk/Treasurer	Indefinite
Colleen Damon	Deputy City Clerk	(Retired May 2018)
Katie Boeding	Deputy City Clerk	Indefinite
Heather A. Prendergast	Attorney	Indefinite

**City of Hudson**



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City'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 City'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 City'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, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hudson as of June 30, 2018, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As discussed 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 opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

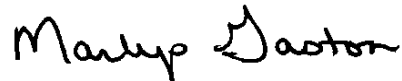
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June, 2017 (which is not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2016 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 14 and 34 through 40, has 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 June 17, 2019 on our consideration of the City of Hudson'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 solely 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 effectiveness of the City's 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 City of Hudson's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA  
Deputy Auditor of State

June 17, 2019

**City of Hudson**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2018. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2018 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 25.4%, or approximately \$873,000 from fiscal year 2017 to fiscal year 2018. Property tax increased approximately \$46,000, local option sales tax decreased 11.7%, or approximately \$36,000, and tax increment financing increased 13.0% or approximately \$33,000.
- Disbursements of the City's governmental activities decreased 38.3%, or approximately \$1,748,000, in fiscal year 2018 from fiscal year 2017. Public safety and capital projects disbursements decreased approximately \$27,000 and \$2,006,000 respectively while public works, community and economic development, general government and debt service disbursements increased approximately \$5,000, \$51,000, \$7,000 and \$222,000, respectively.
- The City's total cash basis net position decreased 10.4%, or approximately \$277,000, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities decreased approximately \$116,000 and the cash basis net position of the business type activities decreased approximately \$162,000.

### **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 Cash Basis Statement of Activities and Net Position. 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 as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial 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.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **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, readers 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system and the solid waste system. 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, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed 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 statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the major water operations, the major sewer operations, the major storm water operations and the nonmajor garbage operations.

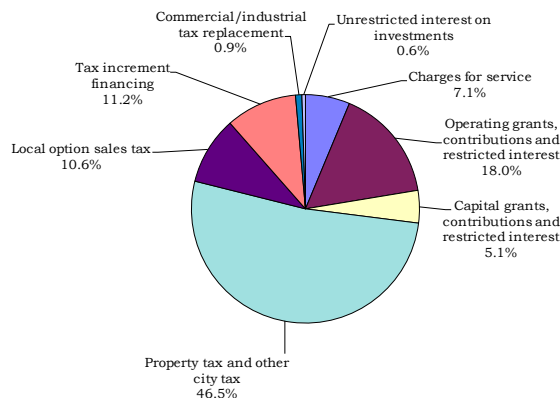
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

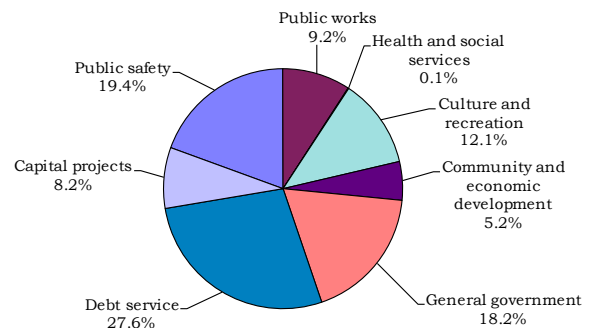
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$2.084 million to approximately \$1,969 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2018	2017
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 181	175
Operating grants, contributions and restricted interest	461	530
Capital grants, contributions and restricted interest	131	993
General receipts:		
Property tax and other city tax	1,193	1,147
Local option sales tax	273	309
Tax increment financing	288	255
Commercial/industrial tax replacement	25	19
Unrestricted interest on investments	15	12
<b>Total receipts</b>	<b>2,567</b>	<b>3,440</b>
<b>Disbursements:</b>		
Public safety	546	573
Public works	258	253
Health and social services	4	4
Culture and recreation	342	342
Community and economic development	147	96
General government	512	505
Debt service	780	558
Capital projects	230	2,236
<b>Total disbursements</b>	<b>2,819</b>	<b>4,567</b>
Change in cash basis net position before transfers	(252)	(1,127)
Transfers, net	137	375
Change in cash basis net position	(115)	(752)
Cash basis net position beginning of year	2,084	2,836
Cash basis net position end of year	\$ 1,969	2,084

**Receipts by Source**



**Disbursements by Function**



The City's total receipts for governmental activities decreased 25.4%, or approximately \$873,000, from the prior year. The total cost of all programs and services decreased approximately \$1,748,000, or 38.3%, with no new programs added this year. The significant decrease in costs was primarily the result of capital projects in fiscal year 2017.

The City increased property tax rates for fiscal year 2018 an average of 6.1%. This increase raised the City's property tax receipts approximately \$46,000 in fiscal year 2018. Based on decreases in the total assessed valuation, property tax receipts are budgeted to decrease approximately \$5,000 next year.

The cost of all governmental activities this year was approximately \$2.819 million compared to approximately \$4.567 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$2.047 million because some of the cost was paid by those directly benefited from the programs (approximately \$181,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$593 million). The City paid for the remaining governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2018 from approximately \$1.698 million to approximately \$773,000, principally due to receiving a RISE grant and right of way proceeds from the Iowa Department of Transportation to complete capital projects in 2017.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 431	398
Sewer	333	341
Storm sewer	39	38
Nonmajor - garbage	157	150
Non-operating receipts (disbursements)		
Intergovernmental	9	9
Unrestricted interest on investments	3	3
Total receipts	972	939
Disbursements:		
Water	354	339
Sewer	437	270
Storm sewer	72	58
Nonmajor	134	146
Total disbursements	997	813
Change in cash basis net position before transfers	(25)	126
Transfers, net	(137)	(375)
Change in cash basis net position	(162)	(249)
Cash basis net position beginning of year, as restated	581	830
Cash basis net position end of year	\$ 419	581

Total business type activities receipts for the fiscal year were approximately \$972,000 compared to approximately \$939,000 last year primarily due to an increase in utility rates. Total business type activities disbursements for fiscal year 2018 were approximately \$997,000 compared to approximately \$813,000 last year, an increase of approximately \$184,000 or 22.6%. The total cash balance decreased approximately \$162,000 from the prior year.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As City of Hudson completed the year, its governmental funds reported a combined fund balance of \$1,969,174, a decrease of approximately \$116,000 compared to last year's total of \$2,084,882. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$69,102 from the prior year to \$1,760,495. Approximately \$56,000 of this increase was due to an increase in property tax receipts.
- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance was \$123,834, a decrease of \$215,004 from the previous year. The decrease was primarily the result of a decrease of approximately \$36,000 in local option sales tax receipts and increases in disbursements of approximately \$96,000. LOST receipts are used for various governmental programs.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$194,910, a decrease of \$89,202 from the previous year. The decrease was primarily the result of increases in disbursements offset by an increase in receipts of approximately \$35,000 and an increase in transfers to other funds.
- The Special Revenue, Road Use Tax Fund cash balance remains unchanged because all receipts are transferred to the general fund for street costs.
- The Debt Service Fund cash balance decreased \$33,845 to \$126,069. This decrease was primarily due to a decrease in property tax receipts of \$25,273.
- The Capital Projects Fund cash balance increased \$205,917 to (\$298,847). This increase was attributable to a decrease of approximately \$2,005,000 of payments on capital projects, a decrease of approximately \$870,000 of intergovernmental receipts and an increase of approximately \$194,000 of transfers in from other funds this fiscal year.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased \$52,148 to \$317,463, due primarily to an increase in the sale of water over the prior year.
- The Enterprise, Sewer Fund cash balance decreased \$128,343 to \$(112,095), due to an increase in disbursements related to contracts for sewer aeration projects in fiscal year 2018.
- The Enterprise, Storm Water cash balance decreased \$63,788 to \$178,573, due to an increase in disbursements primarily related to the storm water project and transfers to the Debt Service Fund for general obligation bond debt payments.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment was approved on May 29, 2018 and resulted in an increase in disbursements for debt service which were not included in the original budget. The City had sufficient cash balances to absorb these costs.



The City's receipts were \$2,855,881 less than budgeted. This was primarily due to the City budgeting more in intergovernmental and miscellaneous receipts than received, even after the amendment.

With the budget amendment, total disbursements were \$2,858,735 less than the amended budget. This was primarily due to the City overestimating the expenses for the capital projects and business type activities.

## **DEBT ADMINISTRATION**

At June 30, 2018, the City had \$6,250,000 of general obligation bonds outstanding, compared to \$6,840,000 last year.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. 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 \$6,302,000, including \$52,000 of annually appropriate rebate agreements, is significantly below its constitutional debt limit of approximately \$9.6 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

City of Hudson's elected and appointed officials and citizens considered many factors when setting the fiscal year 2019 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in Black Hawk County now stands at 2.8% versus 4.0% a year ago. This compares with the State's unemployment rate of 2.5% and the national rate of 4.0%.

These indicators were taken into account when adopting the budget for fiscal year 2019. Amounts available for appropriation in the operating budget are approximately \$3.9 million, a decrease of 39% under the final fiscal year 2018 budget. The most significant decrease is due to less intergovernmental receipts anticipated. The City will use current and future receipts to finance programs we currently offer. Budgeted disbursements decreased approximately \$2.8 million. Decreases in capital project costs, debt service and business type expenses represent the largest decreases and public works costs represent the largest increase. The City has added no major new programs or initiatives to the fiscal year 2019 budget.

If these estimates are realized, the City's cash balance is expected to decrease approximately \$3,000 by the close of fiscal year 2019.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Chrissi Wiersma, City Clerk, 525 Jefferson Street, Hudson, Iowa 50643-0536.

## **Basic Financial Statements**

City of Hudson

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2018

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 546,644	80,183	103,595	11,091
Public works	258,121	-	291,161	-
Health and social services	4,055	-	-	-
Culture and recreation	341,917	73,604	16,686	-
Community and economic development	146,764	-	-	-
General government	512,543	27,442	49,634	-
Debt service	780,667	-	-	-
Capital projects	230,651	-	-	120,405
Total governmental activities	2,821,362	181,229	461,076	131,496
Business type activities:				
Water	354,001	431,211	-	-
Sewer	436,521	332,418	-	-
Storm sewer	72,194	38,746	9,128	-
Nonmajor	134,371	156,922	-	-
Total business type activities	997,087	959,297	9,128	-
<b>Total Primary Government</b>	<b>\$ 3,818,449</b>	<b>1,140,526</b>	<b>470,204</b>	<b>131,496</b>
<b>Component Unit:</b>				
Hudson Municipal Electric Utility	\$ 1,801,660	1,714,591	-	-
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
<b>Cash Basis Net Position</b>				
Restricted:				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Primary Government		Hudson Municipal Electric Utility	
Governmental Activities	Business Type Activities	Total	
(351,775)	-	(351,775)	
33,040	-	33,040	
(4,055)	-	(4,055)	
(251,627)	-	(251,627)	
(146,764)	-	(146,764)	
(435,467)	-	(435,467)	
(780,667)	-	(780,667)	
(110,246)	-	(110,246)	
(2,047,561)	-	(2,047,561)	
-	77,210	77,210	
-	(104,103)	(104,103)	
-	(24,320)	(24,320)	
-	22,551	22,551	
-	(28,662)	(28,662)	
(2,047,561)	(28,662)	(2,076,223)	
			(87,069)
1,108,225	-	1,108,225	-
85,010	-	85,010	-
287,894	-	287,894	-
273,331	-	273,331	-
25,398	-	25,398	-
15,301	3,206	18,507	1,914
136,694	(136,694)	-	-
1,931,853	(133,488)	1,798,365	1,914
(115,708)	(162,150)	(277,858)	(85,155)
2,084,882	580,802	2,665,684	969,044
\$ 1,969,174	418,652	2,387,826	883,889
\$ 320,979	-	320,979	-
186,547	18,997	205,544	211,652
1,461,648	399,655	1,861,303	672,237
\$ 1,969,174	418,652	2,387,826	883,889

City of Hudson

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

As of and for the year ended June 30, 2018

	General	Special	
		Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 859,789	-	-
Tax increment financing	-	-	287,894
Other city tax	-	273,331	-
Licenses and permits	65,384	-	-
Use of money and property	22,175	4,982	2,959
Intergovernmental	107,426	-	-
Charges for service	103,539	-	-
Miscellaneous	58,741	-	-
Total receipts	1,217,054	278,313	290,853
Disbursements:			
Operating:			
Public safety	478,612	-	-
Public works	249,820	-	-
Health and social services	4,055	-	-
Culture and recreation	317,455	-	-
Community and economic development	47,862	95,812	52,011
General government	446,447	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	1,544,251	95,812	52,011
Excess (deficiency) of receipts over (under) disbursements	(327,197)	182,501	238,842
Other financing sources (uses):			
Transfers in	919,325	-	-
Transfers out	(523,026)	(397,505)	(328,044)
Total other financing sources (uses)	396,299	(397,505)	(328,044)
Change in cash balances	69,102	(215,004)	(89,202)
Cash balances (deficits) beginning of year	1,691,393	338,838	284,112
Cash balances (deficits) end of year	\$ 1,760,495	123,834	194,910
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Debt service	\$ -	-	194,910
Other purposes	-	123,834	-
Unassigned	1,760,495	-	-
Total cash basis fund balances (deficit)	\$ 1,760,495	123,834	194,910

See notes to financial statements.

Revenue				
Road Use Tax	Debt Service	Capital Projects	Nonmajor	Total
	85,010	-	248,436	1,193,235
	-	-	-	287,894
	-	-	-	273,331
	-	-	-	65,384
	-	-	4	30,120
291,161	1,998	117,075	5,009	522,669
	-	-	-	103,539
	-	3,330	30,717	92,788
291,161	87,008	120,405	284,166	2,568,960
-	-	-	68,032	546,644
-	-	-	8,301	258,121
-	-	-	-	4,055
-	-	-	24,462	341,917
-	-	-	3,090	198,775
-	-	-	14,085	460,532
-	780,667	-	-	780,667
-	-	230,651	-	230,651
-	780,667	230,651	117,970	2,821,362
291,161	(693,659)	(110,246)	166,196	(252,402)
-	659,814	316,163	-	1,895,302
(291,161)	-	-	(218,872)	(1,758,608)
(291,161)	659,814	316,163	(218,872)	136,694
-	(33,845)	205,917	(52,676)	(115,708)
-	159,914	(504,764)	115,389	2,084,882
-	126,069	(298,847)	62,713	1,969,174
-	126,069	-	-	320,979
-	-	-	62,713	186,547
-	-	(298,847)	-	1,461,648
-	126,069	(298,847)	62,713	1,969,174

**City of Hudson**

## City of Hudson

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

As of and for the year ended June 30, 2018

	Enterprise				Total
	Water	Sewer	Storm Water	Nonmajor Garbage	
Operating receipts:					
Charges for service	\$ 421,854	332,418	38,746	156,922	949,940
Miscellaneous	9,357	-	-	-	9,357
Total operating receipts	431,211	332,418	38,746	156,922	959,297
Operating disbursements:					
Business type activities	354,001	436,521	72,194	134,371	997,087
Excess (deficiency) of operating receipts over (under) operating disbursements	77,210	(104,103)	(33,448)	22,551	(37,790)
Non-operating receipts:					
Intergovernmental	-	-	-	9,128	9,128
Interest on investments	2,719	487	-	-	3,206
Non-operating receipts	2,719	487	-	9,128	12,334
Excess (deficiency) of receipts over (under) disbursements	79,929	(103,616)	(33,448)	31,679	(25,456)
Other financing sources (uses):					
Transfers in	219	-	-	-	219
Transfers out	(28,000)	(24,727)	(30,340)	(53,846)	(136,913)
Total other financing sources (uses)	(27,781)	(24,727)	(30,340)	(53,846)	(136,694)
Change in cash balances	52,148	(128,343)	(63,788)	(22,167)	(162,150)
Cash balances beginning of year	265,315	16,248	242,361	56,878	580,802
Cash balances (deficit) end of year	\$ 317,463	(112,095)	178,573	34,711	418,652
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Deposits	\$ 18,997	-	-	-	18,997
Unrestricted	298,466	(112,095)	178,573	34,711	399,655
Total cash basis fund balances (deficit)	\$ 317,463	(112,095)	178,573	34,711	418,652

See notes to financial statements.



City of Hudson

Notes to Financial Statements

June 30, 2018

**(1) Summary of Significant Accounting Policies**

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, storm water and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, 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.

These financial statements present the City of Hudson (the primary government), the Hudson Municipal Electric Utility and the Hudson Volunteer Firefighters (component units). These component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit – The Hudson Municipal Electric Utility (HMEU) is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The HMEU is governed by a six-member Board. The HMEU trustees are appointed by the Mayor of the City and approved by the City Council. A financial benefit/burden relationship exists between the City and HMEU in that HMEU collects customer fees for electric service for the City. HMEU is presented as a discretely presented component unit in these financial statements. Complete financial statements can be obtained from the Hudson Municipal Electric Utility, 615 Washington Street, Hudson, Iowa 50643-0536

Blended Component Unit – The Hudson Volunteer Firefighters is an entity which is legally separate from the City but is so intertwined with the City they are, in substance, the same as the City. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Hudson Volunteer Firefighters meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City

#### 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. City officials are members of the following boards and commissions: Black Hawk County Assessor's Conference Board, Black Hawk County Emergency Management Commission, Black Hawk County Landfill Commission and Black Hawk County Joint 911 Service Board.

#### B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position 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 receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 from general and emergency levies 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 not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for receipts from the local option sales tax collections.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

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

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

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

#### C. Measurement Focus and 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2018, disbursements exceeded the amount budgeted in the debt service function prior to amendment of the budget.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2018 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 ensure 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.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

**(3) Bonds Payable**

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 595,000	178,108	773,108
2020	610,000	166,208	776,208
2021	610,000	152,913	762,913
2022	625,000	139,053	764,053
2023	645,000	122,818	767,818
2024-2028	2,640,000	328,690	2,968,690
2029-2031	525,000	42,400	567,400
Total	\$ 6,250,000	1,130,190	7,380,190

**(4) Pension Plan**

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member’s highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member’s monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member’s highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2018 totaled \$63,120.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$405,791 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the City's proportion was 0.006092%, which was a decrease of 0.000171% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$75,894, \$214,525 and \$97,362, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 791,704	405,791	81,680

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**(5) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payable to employees at June 30, 2018, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 45,000
Sick leave	18,000
Compensatory time	25,000
Total	<u>\$ 88,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2018.

**(6) Contractual Commitments**

The City has entered into various construction contracts totaling approximately \$2,285,000. The unpaid contract balance as of June 30, 2018 totaled approximately \$44,400, which will be paid as work on the projects progress.



**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 278,221
	Employee Benefits	218,872
	Local Option Sales Tax	397,505
	Enterprise:	
	Sewer	24,727
		<u>919,325</u>
Debt Service	General	206,644
	Special Revenue:	
	Tax Increment Financing	328,044
	Road Use Tax	12,940
	Enterprise:	
	Water	28,000
	Garbage	53,846
	Storm Water	30,340
		<u>659,814</u>
Capital Projects	General	<u>316,163</u>
Enterprise:		
Water	General	<u>219</u>
Total		<u>\$ 1,895,521</u>

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

**(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) Deficit Balance**

The Capital Projects and Enterprise, Sewer Funds have deficit balances of \$298,847 and \$112,095, respectively at June 30, 2018. The deficit balances were a result of project costs and repair costs incurred prior to the availability of funds. These deficits will be eliminated upon receipt of state grants, allowable transfers from other funds and increases to the sewer utility rates.

**(10) Development Agreements**

The City has entered into a development agreement with Casey's Marketing Company (Developer) for the construction of a retail facility with a minimum assessed value of \$1,000,000. The City agreed to pay the Developer an amount not to exceed \$235,000 subject to annual appropriation by the City Council. The agreement requires up to twenty-one semi-annual payments, provided the Developer is in compliance with the terms of the agreement. During the year ended June 30, 2018, the City rebated \$26,693 of incremental property tax to the Developer. At June 30, 2018, the remaining balance to be paid on the agreement was \$124,187.

The City has entered into a development agreement with Equity Trust Custodian (Developer) (Boever's Phase I) for the construction of new storage buildings with a minimum assessed value of \$1,250,000. The City agreed to pay the developer an amount not to exceed \$75,000 subject to annual appropriation by the City Council. The agreement requires up to six semiannual payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2018, the City rebated \$25,318 of the incremental property tax to the developer. At June 30, 2018, the remaining balance to be paid on the agreement was \$49,682.

**(11) Tax Abatements**

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax receipts to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2018, the City abated \$19,285 of property tax under the urban renewal and economic development projects.

**(12) Subsequent Event**

On January 28, 2019, the City entered into a contract with Peterson Contractors, Inc. for \$783,151 for the completion of the Highway 63 Bike Trail underpass project.

**City of Hudson**

## **Other 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

Other Information

Year ended June 30, 2018

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,193,235	-	-
Tax increment financing	287,894	-	-
Other city tax	273,331	-	-
Licenses and permits	65,384	-	-
Use of money and property	30,120	3,206	4
Intergovernmental	522,669	9,128	2,200
Charges for service	103,539	949,940	-
Miscellaneous	92,788	9,357	30,717
Total receipts	2,568,960	971,631	32,921
Disbursements:			
Public safety	546,644	-	23,943
Public works	258,121	-	-
Health and social services	4,055	-	-
Culture and recreation	341,917	-	-
Community and economic development	198,775	-	-
General government	460,532	-	-
Debt service	780,667	-	-
Capital projects	230,651	-	-
Business type activities	-	997,087	-
Total disbursements	2,821,362	997,087	23,943
Excess (deficiency) of receipts over (under) disbursements	(252,402)	(25,456)	8,978
Other financing sources, net	136,694	(136,694)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(115,708)	(162,150)	8,978
Balances beginning of year	2,084,882	580,802	25,614
Balances end of year	\$ 1,969,174	418,652	34,592

See accompanying independent auditor's report.

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Total	Budgeted Amounts		Final to
	Original	Final	Total
			Variance
1,193,235	1,193,575	1,193,575	(340)
287,894	281,000	281,000	6,894
273,331	293,643	293,643	(20,312)
65,384	134,698	134,698	(69,314)
33,322	304,600	304,600	(271,278)
529,597	2,523,078	2,523,078	(1,993,481)
1,053,479	950,957	950,957	102,522
71,428	682,000	682,000	(610,572)
<u>3,507,670</u>	<u>6,363,551</u>	<u>6,363,551</u>	<u>(2,855,881)</u>
522,701	677,368	677,368	154,667
258,121	504,912	504,912	246,791
4,055	5,000	5,000	945
341,917	351,986	351,986	10,069
146,765	228,215	228,215	81,450
511,577	588,369	588,369	76,792
780,668	762,691	782,691	2,023
230,651	1,854,000	1,854,000	1,623,349
997,427	1,660,076	1,660,076	662,649
<u>3,793,882</u>	<u>6,632,617</u>	<u>6,652,617</u>	<u>2,858,735</u>
(286,212)	(269,066)	(289,066)	2,854
-	326,000	326,000	(326,000)
(286,212)	56,934	36,934	(323,146)
<u>2,640,070</u>	<u>3,345,016</u>	<u>3,345,016</u>	<u>(704,946)</u>
<u>2,353,858</u>	<u>3,401,950</u>	<u>3,381,950</u>	<u>(1,028,092)</u>

City of Hudson

Notes to Other Information – Budgetary Reporting

June 30, 2018

The budgetary comparison is presented 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 the General Fund and each major Special Revenue Fund.

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 the component units. 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. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$20,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2018, disbursements exceeded the amount budgeted in the debt service function prior to amendment of the budget.

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City of Hudson

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Four Years\*  
(In Thousands)

Other Information

	2018	2017	2016	2015
City's proportion of the net pension liability	0.006092%	0.006263%	0.005688%	0.005254%
City's proportionate share of the net pension liability	\$ 406	394	301	245
City's covered payroll	\$ 642	638	661	627
City's proportionate share of the net pension liability as a percentage of its covered payroll	63.24%	61.76%	45.54%	39.07%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.



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City of Hudson

Schedule of City Contributions

Iowa Public Employees' Retirement System  
For the Last Ten Years  
(In Thousands)

Other Information

	2018	2017	2016	2015
Statutorily required contribution	\$ 63	62	59	59
Contributions in relation to the statutorily required contribution	(63)	(62)	(59)	(59)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered payroll	\$ 684	642	638	661
Contributions as a percentage of covered payroll	9.21%	9.66%	9.25%	8.93%

See accompanying independent auditor's report.

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2014	2013	2012	2011	2010	2009
56	54	54	46	44	39
(56)	(54)	(54)	(46)	(44)	(39)
-	-	-	-	-	-
627	623	669	662	662	614
8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

City of Hudson

Notes to Other Information – Pension Liability

Year ended June 30, 2018

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

**Supplementary Information**

**City of Hudson**

## City of Hudson

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

As of and for the year ended June 30, 2018

	<u>Special Revenue</u>		
	Employee Benefits	Volunteer Firefighters	Total
Receipts:			
Property tax	\$ 248,436	-	248,436
Use of money and property	-	4	4
Intergovernmental	2,809	2,200	5,009
Miscellaneous	-	30,717	30,717
Total receipts	<u>251,245</u>	<u>32,921</u>	<u>284,166</u>
Disbursements:			
Operating:			
Public safety	44,089	23,943	68,032
Public works	8,301	-	8,301
Cultures and recreation	24,462	-	24,462
Community and economic development	3,090	-	3,090
General government	14,085	-	14,085
Total disbursements	<u>94,027</u>	<u>23,943</u>	<u>117,970</u>
Excess of receipts over disbursements	157,218	8,978	166,196
Other financing uses:			
Transfers out	(218,872)	-	(218,872)
Change in cash balances	(61,654)	8,978	(52,676)
Cash balances beginning of year	89,775	25,614	115,389
Cash balances end of year	<u>\$ 28,121</u>	<u>34,592</u>	<u>62,713</u>
<b>Cash Basis Fund Balances</b>			
Restricted for other purposes	<u>\$ 28,121</u>	<u>34,592</u>	<u>62,713</u>

See accompanying independent auditor's report.

City of Hudson  
 Schedule of Indebtedness  
 Year ended June 30, 2018

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sanitary sewer, storm water, water system construction, street improvements and refunding	Aug 22, 2011	0.35-4.00%	\$ 4,815,000
Refunding	Jun 24, 2013	0.90-3.00	935,000
Street, sanitary sewer, water system, sidewalk and storm water improvements and an urban renewal project	Dec 30, 2015	2.00-3.00	2,600,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
3,585,000	-	280,000	3,305,000	109,235
655,000	-	70,000	585,000	16,220
2,600,000	-	240,000	2,360,000	63,612
<u>\$ 6,840,000</u>	<u>-</u>	<u>590,000</u>	<u>6,250,000</u>	<u>189,067</u>



**City of Hudson**

## City of Hudson

## Bond Maturities

June 30, 2018

Year Ending June 30,	General Obligation Bonds							Total
	Issued Aug 22, 2011		Issued Jun 24, 2013		Issued Dec 30, 2015			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2019	2.10%	\$ 280,000	1.60%	\$ 70,000	2.00%	\$ 245,000	595,000	
2020	2.30	295,000	2.30	70,000	2.00	245,000	610,000	
2021	2.50	290,000	2.30	70,000	2.00	250,000	610,000	
2022	2.75	300,000	2.30	70,000	2.50	255,000	625,000	
2023	2.85	310,000	3.00	75,000	2.50	260,000	645,000	
2024	3.00	320,000	3.00	75,000	2.50	265,000	660,000	
2025	3.15	330,000	3.00	75,000	2.75	275,000	680,000	
2026	4.00	330,000	3.00	80,000	3.00	280,000	690,000	
2027	4.00	160,000	-	-	3.00	285,000	445,000	
2028	4.00	165,000	-	-	-	-	165,000	
2029	4.00	170,000	-	-	-	-	170,000	
2030	4.00	175,000	-	-	-	-	175,000	
2031	4.00	180,000	-	-	-	-	180,000	
Total		<u>\$ 3,305,000</u>		<u>\$ 585,000</u>		<u>\$ 2,360,000</u>	<u>6,250,000</u>	

See accompanying independent auditor's report.

City of Hudson

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

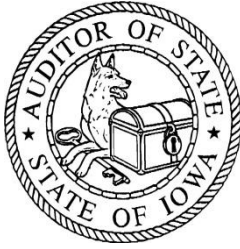
For the Last Ten Years

	2018	2017	2016	2015
Receipts:				
Property tax	\$ 1,193,235	1,146,513	1,148,128	1,094,450
Tax increment financing	287,894	254,985	136,952	86,372
Other city tax	273,331	309,279	277,588	278,533
Licenses and permits	65,384	75,844	58,796	61,499
Use of money and property	30,120	22,373	33,461	296,573
Intergovernmental	522,669	1,406,140	571,269	320,791
Charges for service	103,539	87,978	62,290	57,266
Miscellaneous	92,788	136,694	49,589	102,596
Total	<u>\$ 2,568,960</u>	<u>3,439,806</u>	<u>2,338,073</u>	<u>2,298,080</u>
Disbursements:				
Operating:				
Public safety	\$ 546,644	573,069	605,518	443,862
Public works	258,121	253,324	324,496	297,465
Health and social services	4,055	4,264	4,400	2,200
Culture and recreation	341,917	341,875	334,502	308,135
Community and economic development	146,764	95,839	83,146	69,772
General government	512,543	504,922	421,041	377,813
Debt service	780,667	557,444	441,130	432,648
Capital projects	230,651	2,235,796	1,355,171	785,252
Total	<u>\$ 2,821,362</u>	<u>4,566,533</u>	<u>3,569,404</u>	<u>2,717,147</u>

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
918,582	869,695	807,128	767,740	735,485	702,182
83,749	83,686	85,072	89,587	85,291	85,849
292,538	275,678	288,484	255,398	260,965	256,879
81,857	96,641	98,309	63,266	47,850	39,445
68,434	39,407	59,277	36,051	116,637	109,803
382,499	388,007	650,579	369,220	339,158	304,243
75,066	71,773	90,566	71,704	61,605	65,139
106,085	48,666	107,956	55,207	24,788	26,476
<u>2,008,810</u>	<u>1,873,553</u>	<u>2,187,371</u>	<u>1,708,173</u>	<u>1,671,779</u>	<u>1,590,016</u>
499,380	533,173	606,162	466,753	390,220	733,212
393,628	401,690	324,787	420,462	339,263	325,640
2,366	-	2,750	3,000	3,000	3,045
343,113	384,374	402,206	362,891	319,378	306,881
37,388	66,861	52,982	46,994	43,225	44,230
275,916	243,496	240,157	192,430	245,411	240,505
68,876	121,053	200,988	200,388	199,338	203,338
1,409,890	731,035	2,653,824	289,216	80,341	-
<u>3,030,557</u>	<u>2,481,682</u>	<u>4,483,856</u>	<u>1,982,134</u>	<u>1,620,176</u>	<u>1,856,851</u>

**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**



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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 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, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 17, 2019. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hudson's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hudson's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Hudson's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

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 the City of Hudson's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A) through (D) to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings as items (E) through (I) to be significant deficiencies.

### 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 which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2018 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.

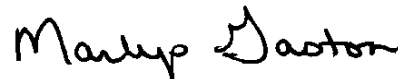
### City of Hudson's Responses to the Findings

The City of Hudson's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Hudson's responses were not subjected to the auditing procedures applied in the audit of the financial statements 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 results 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 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.



Marlys K. Gaston, CPA  
Deputy Auditor of State

June 17, 2019

City of Hudson

Schedule of Findings

Year ended June 30, 2018

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – One individual in the City has control over each of the following areas for the City:

- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
- (2) Investments – investing, recording and custody.
- (3) Receipts – opens mail, collecting, depositing, recording, bank reconciling and maintaining detailed accounts receivable records.
- (4) Transfers – recording and reconciling.
- (5) Utility Receipts – billing, collecting, depositing and recording.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Responses – The City will investigate ways in which we can segregate duties further. When transfers are completed, the Mayor initials and dates the transfer journal.

Conclusion – Response accepted.



City of Hudson

Schedule of Findings

Year ended June 30, 2018

(B) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are in integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – During fiscal year 2018, certain material amounts of receipts were not posted correctly.

Adjustments were subsequently made by the City to properly report these amounts in the City's financial statements.

Cause – City policies do not require and procedures have not been established to require review of transactions posted to the accounting records by an independent person to ensure the City's financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the City's financial statements were necessary.

Recommendation – The City should implement procedures to ensure all transactions are properly recorded in the City's financial statements. Documentation for the transactions should be compared to the accounting records by an independent person and the evidence of review should be documented.

Response – The City will continue to look for ways to improve the procedures. The City will also continue to work with their software system in order to identify any variances sooner. The City can use their software system to locate variances by double checking the ledger printed to verify the proper general ledger accounts were used. They can also use the software system's Cash Report to verify the fund balances are what they expected.

Conclusion – Response accepted.

(C) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

City of Hudson

Schedule of Findings

Year ended June 30, 2018

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Also, although the software company enters the utility rates on the system, there is no evidence of the review of the rates entered.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent account balances, reconcile utility collections to deposits and review utility rates entered on the system.

Effect – This condition could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review. Utility rates entered should be reviewed for accuracy.

Response – The delinquent listing is now printed and reviewed by the City Council. The utility billings, including utility rates, will also be reconciled on a monthly basis and reviewed and initialed by the Mayor and reviewed by the City Council.

Conclusion – Response accepted.

(D) Journal Entries/Transfers

Criteria – An effective internal control system provides for internal controls related to proper approval and support of journal entries and ensuring transfers are made in the correct amount.

Condition – Support and approval for journal entries is not always retained. Also, transfers were not recorded at the amount approved by the City Council.

Cause – Policies and procedure have not been established and procedures have not been implemented to ensure approval and support for journal entries is retained and transfers are reviewed by an independent person to ensure their accuracy.

Effect – Inappropriate journal entries and transfers may be posted and not detected and corrected.

Recommendation – The City should establish and implement policies and procedures to ensure journal entries are properly supported and approved and the entries, including transfers, are reviewed by an independent person for accuracy.

City of Hudson

Schedule of Findings

Year ended June 30, 2018

Response – Journal entries are now being reviewed and signed off by the Mayor. Explanations are also indicated on the printed journals. The journal entries are now retained in a separate file folder for easier access and verification for audit purposes. The City will make sure that the amounts transferred will be the amount stated on the resolution. This will be verified by the Mayor’s signature.

Conclusion – Response acknowledged. The City Clerk should work with the City Council to determine whether authorized transfers were made accurately and prepare corrective transfers as necessary.

(E) Deposits

Criteria – An effective internal control system provides for internal controls related to timely deposit of receipts collected.

Condition – Certain receipts are not deposited timely. Although checks are scanned to the bank on a daily basis for deposit, cash received is not taken to the bank at least weekly.

Cause – Policies have not been established and procedures have not been implemented to ensure timely deposit of cash receipts.

Effect – This procedure could result in lost or misappropriated receipts.

Recommendation – All receipts collected should be deposited intact to the bank on a timely (weekly) basis.

Response – Noted. The City will continue to look at a policy that requires the deposits to be taken to the bank any time cash is used to pay utility bills.

Conclusion – Response acknowledged. All receipts collected, including cash and checks, should be deposited at least weekly.

(F) Taxable Meals for Travel

Criteria – An effective internal control system provides for internal controls related to taxable meals for travel reimbursement in accordance with IRS rules.

Condition – The City does not have written procedures to identify and report taxable meals for travel reimbursements.

Cause – Policies and procedures have not been established and procedures have not been implemented to identify and report taxable meals for travel reimbursements.

Effect – The City may not be in compliance with IRS rules.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over compliance with IRS rules.

Response – The City will establish a policy for taxable meals for travel in order to be in compliance with IRS rules.

Conclusion – Response accepted.

City of Hudson

Schedule of Findings

Year ended June 30, 2018

(G) Interest Earned

Criteria - Interest earned on the City's CDs should be recorded in the City's financial records.

Condition - At June 30, 2018, \$583 of interest earned and added to the CD value was not properly recorded in the City's financial statements.

Cause - Policies and procedures have not been established and procedures have not been implemented to ensure all interest earned is recorded in the City's financial statements.

Effect - Interest earned is understated in the City's financial statements.

Recommendation - The City should ensure all interest earned is properly recorded in the City's financial statements.

Response - The City will work with the Library personnel to make sure CD interest amounts are given to the City Clerk so the interest can be posted to the system in a timely manner.

Conclusion - Response accepted.

(H) Credit Cards

Criteria - The City has credit cards for use by various employees for business transactions.

Condition - The City does not have a formal written credit card policy.

Cause - The City has not adopted a formal written policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Effect - This condition could result in unauthorized or inappropriate charges.

Recommendations - The City should adopt a formal written policy regulating the use of City credit cards. Each person using the credit card should sign an acknowledgement of the City policy. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - The City will approve and implement a credit card policy.

Conclusion - Response accepted.

City of Hudson

Schedule of Findings

Year ended June 30, 2018

(I) Computer System

Criteria – Properly designed policies and procedures pertaining to control activities over the City’s computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, and helps ensure the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition – The City does not have written policies and procedures for:

- (1) Requiring separate user ID and password for each intern.
- (2) Immediate removal of terminated employees.
- (3) Installation of fire alarms or smoke detectors in the computer area.

Also, although the City has a disaster recovery plan, several essential elements are not included or addressed in the plan. Also, employees have not been trained for appropriate response to emergency situations.

Cause – Management has not required written policies for the above computer based controls.

Effect – Lack of written policies for computer based systems could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system. A written disaster recovery plan should also be developed.

Response – The City will research and approve an updated policy.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Hudson

Schedule of Findings

Year ended June 30, 2018

**Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements exceeded the amount budgeted in the debt service function prior to amendment of the budget. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will amend the budget sooner in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – A disbursement we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The City paid \$6,120 to Capella University for tuition related to a Master of Public Administration for the City Clerk in advance of classes taken.

Recommendation – According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved scrutiny. The line to be drawn between a proper and improper purpose is very thin. While job-related education is beneficial to the City, it is unclear how assisting the City Clerk in obtaining a Master of Public Administration is required or necessary for this position.

Response – Tuition Assistance is done on a case by case scenario and ultimately has to be presented to the Administration, Personnel Committee and then approved by the City Council. As documented in the December 2018 Council meeting minutes, the benefit to the City is in making a good investment in the City Clerk. In addition, a resolution was passed by the City Council allowing for the reimbursement to be paid prior to the start of the class as long as the City Clerk is meeting a certain grade point average and successfully completes the course. Should that not happen, then the reimbursements will stop. The City will consider establishing a better, more specific tuition reimbursement policy.

Conclusion – Response acknowledged. Prior to approving future tuition payments, the City should document how the public is benefiting from these disbursements.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Hudson

Schedule of Findings

Year ended June 30, 2018

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jo Kramer, part-time Library employee, custodial contractor	Custodial service	\$ 5,760
Brenda Engel, City Council Member, Office Manager of Hudson Hardware Plumbing and Heating	Purchase repair supplies	68,689

The transactions for custodial service and the purchase of repair supplies may represent a conflict of interest in accordance with Chapter 362.5(3)(k) of the Code of Iowa, since total transactions were greater than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the proper disposition of this matter.

Response – Noted. The City will continue to work with legal counsel on this matter.

Conclusion – Response accepted.

- (5) 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 ensure the coverage is adequate for current operations.

- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not, except as noted.

Transfer to	Transfer from	Actual Amount	Approved Amount
General	Employee Benefits	\$ 218,872	No approval documented
Debt Service	General	181,287	70,675
Debt Service	Water	28,000	111,965
Debt Service	Sewer	-	420,694
Debt Service	TIF	328,044	60,320
Water	General	219	No approval documented

Recommendation – The City should ensure transfers are approved and are recorded at the approved amounts.

Response – The City Clerk will comply and will have transfers approved by the City Council sooner. Documentation will be retained with Mayor’s signature.

Conclusion – Response acknowledged. The City Clerk should work with the City Council to determine whether authorized transfers were made accurately and prepare corrective transfers as necessary.

City of Hudson

Schedule of Findings

Year ended June 30, 2018

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City and all expenditures ...” We noted certain receipts and disbursements did not agree with the City’s records. Total receipts were \$374,417 understated and total disbursements were \$139,150 understated. Transfers in and out did not agree with City records.

The ending balances reported did not agree with the City’s records. The governmental fund total ending balance was understated by \$476,980 and the proprietary fund total ending balance was overstated by \$441,407.

Recommendation – The City should establish procedures to ensure the AFR ending balances and financial activity is properly supported and reported.

Response – The City will comply.

Conclusion – Response accepted.

- (9) Financial Condition – The Capital Projects Fund and the Sewer Proprietary Fund had a deficit balance of \$298,847 and \$112,346, respectively, at June 30, 2018.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The City will continue to investigate alternatives to eliminate the deficits.

Conclusion – Response accepted.

- (10) Employee Benefits Levy – The City levies property tax for employee benefits. The proceeds of the property tax levy must be used for benefits for employees whose salary is paid from the General fund or the Special Revenue, Road Use Tax Fund. During the year ended June 30, 2018, the City transferred \$3,365 of employee benefit levy funds to the Enterprise funds. This transfer was subsequently corrected for reporting purposes.

Recommendation – The City should ensure employee benefit levy funds are only used for employee benefits paid from the General Fund and Special Revenue, Road Use Tax Fund.

Response – Noted. The City is complying now.

Conclusion – Response accepted.



City of Hudson

Schedule of Findings

Year ended June 30, 2018

(11) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor. We noted the following regarding the City’s TIF obligations, certifications to the County Auditor and the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund) transfers:

- Based on a review of the December 12, 2017 TIF reconciliation provided to the City by the County Auditor, the City did not decertify the 2006 refunded bonds which were previously certified as TIF debt outstanding. In addition, the total amount of \$2,648,445 certified as the TIF portion of the 2011 general obligation bonds is overstated by \$194,110 based on support provided by the City.
- During the year ended June 30, 2018, the City transferred \$328,044 from the TIF fund to the Debt Service Fund for the payment of debt related to the 2011, 2013 and 2015 general obligation bonds. However, the 2015 general obligation bonds were not certified to the County Auditor as TIF debt until November 2018 and the 2013 bonds are yet to be certified.

Recommendation – The City should review TIF debt certifications to determine the amount over certified for principal and interest payments already reimbursed by the County. The excess balance certified should be decertified to the County Auditor using Form 3 to correct the error. Also, the City should review current and past principal and interest transfers from the TIF fund and ensure amounts transferred made from the TIF fund are for allowable certified TIF obligations.

Response – The City will consult TIF council and continue to work with our financial advisor and County Auditor to ensure compliance.

Conclusion – Response accepted.

(12) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1.

However, the following exceptions were noted:

- The amount reported by the City as TIF debt outstanding for the 2011 general obligation bond did not include the entire portion previously certified as TIF indebtedness.
- Rebate agreement payments were not included.

Recommendation – The City should ensure the Annual Urban Renewal Report agrees with the City’s records.

City of Hudson

Schedule of Findings

Year ended June 30, 2018

Response – The City now ensures that the cash balances, expenditure amounts and outstanding debt report are correct and agree with the City’s records. The City Clerk (or whoever prepares the report) has documentation to help verify the numbers match what is being inputted into the report.

Conclusion – Response accepted.

City of Hudson

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy  
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Janet K. Mortvedt, CPA, Senior Auditor II  
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