



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 26, 2018

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Auditor of State Mary Mosiman today released an audit report on the City of Hudson, Iowa.

The City's receipts totaled \$4,379,251 for the year ended June 30, 2017, a 25.4% decrease from the prior year. The receipts included \$1,146,513 of property tax, \$254,985 of tax increment financing, \$1,101,695 of charges for service, \$539,224 of operating grants, contributions and restricted interest, \$992,511 of capital grants, contributions and restricted interest, \$309,279 of local option sales tax, \$18,918 of commercial/industrial tax replacement and \$16,126 of unrestricted interest on investments.

Disbursements for the year ended June 30, 2017 totaled \$5,380,090, a 26.4% increase over the prior year, and included \$2,235,796 for capital projects, \$573,069 for public safety, \$557,444 for debt service and \$504,922 for general government. Also, disbursements for business type activities totaled \$813,557.

The significant decrease in receipts is primarily due to the receipt of bond proceeds of \$2,645,699 in the prior year. The increase in disbursements was primarily due to an increase in capital project disbursements in the current year.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1720-0051-B00F>.

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CITY OF HUDSON

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

JUNE 30, 2017

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City of Hudson

Officials

<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
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, 2017, 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, 2017, 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. The financial statements for the nine 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 15 and 36 through 42, 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 11, 2018 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.


MARY MOSIMAN, CPA
Auditor of State

June 11, 2018

City of Hudson

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 31.0%, or approximately \$1,544,000, from fiscal year 2016 to fiscal year 2017. Property tax decreased approximately \$1,000 and bond proceeds decreased approximately \$2,646,000. Local option sales tax increased 11.1% or approximately \$31,000 and tax increment financing increased 86.1% or approximately \$118,000.
- Disbursements of the City's governmental activities increased 28.0%, or approximately \$998,000, in fiscal year 2017 over fiscal year 2016. Public safety and public works disbursements decreased approximately \$33,000 and \$71,000 respectively while general government, debt service and capital projects increased approximately \$84,000, \$117,000 and \$881,000, respectively.
- The City's total cash basis net position decreased 27.3%, or approximately \$1,001,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities decreased approximately \$752,000 and the cash basis net position of the business type activities decreased approximately \$249,000.

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 in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide 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 and the sanitary sewer 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, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial 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.

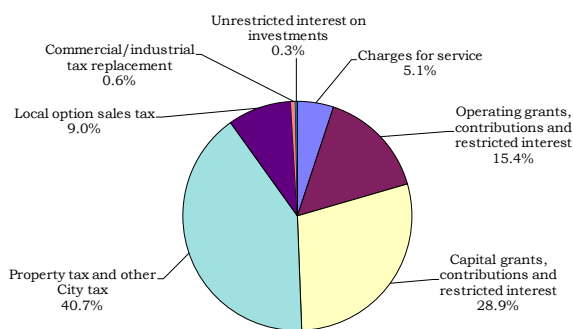
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

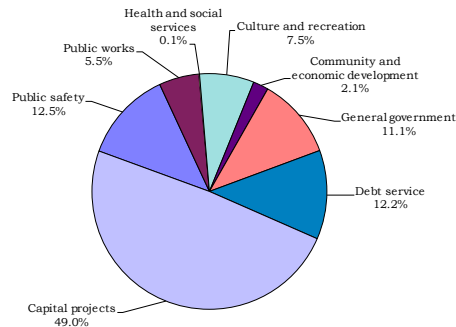
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$2.836 million to approximately \$2.084 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 175	62
Operating grants, contributions and restricted interest	530	570
Capital grants, contributions and restricted interest	993	60
General receipts:		
Property tax and other City tax	1,147	1,148
Local option sales tax	309	278
Tax increment financing	255	137
Commercial/industrial tax replacement	19	-
Unrestricted interest on investments	12	33
Bond proceeds	-	2,646
Other general receipts	-	50
Total receipts	3,440	4,984
Disbursements:		
Public safety	573	606
Public works	253	324
Health and social services	4	4
Culture and recreation	342	335
Community and economic development	96	83
General government	505	421
Debt service	558	441
Capital projects	2,236	1,355
Total disbursements	4,567	3,569
Change in cash basis net position before transfers	(1,127)	1,415
Transfers, net	375	(11)
Change in cash basis net position	(752)	1,404
Cash basis net position beginning of year, as restated	2,836	1,432
Cash basis net position end of year	\$ 2,084	2,836

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 31.0%, or approximately \$1,544,000, from the prior year. The total cost of all programs and services increased approximately \$998,000, or 28%, with no new programs added this year. The significant decrease in receipts was primarily the result of bond proceeds received in fiscal year 2016.

The City increased property tax rates for fiscal year 2017 an average of 2.6%. This increase raised the City's property tax receipts approximately \$1,800 in fiscal year 2017. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$50,000 next year.

The cost of all governmental activities this year was approximately \$4.567 million compared to approximately \$3,569 million last year. However, as shown in the Statement of Activities and Net Position on pages 18-19, the amount taxpayers ultimately financed for these activities was approximately \$2.869 million because some of the cost was paid by those directly benefited from the programs (approximately \$175,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1,523 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, increased in fiscal year 2017 from approximately \$692,000 to approximately \$1.698 million, principally due to receiving a RISE grant and Right of Way proceeds from the Iowa Department of Transportation to complete capital projects.

Changes in Cash Basis Net Position of Business Type Activities		
(Expressed in Thousands)		
	Year ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 392	375
Sewer	341	309
Storm sewer	38	37
Nonmajor - garbage	150	143
Non-operating receipts (disbursements)		
Intergovernmental	9	-
Unrestricted interest on investments	3	3
Miscellaneous	6	18
Total receipts	939	885
Disbursements:		
Water	339	292
Sewer	270	231
Storm sewer	58	16
Nonmajor	146	149
Total disbursements	813	688
Change in cash basis net position before transfers	126	197
Transfers, net	(375)	10
Change in cash basis net position	(249)	207
Cash basis net position beginning of year, as restated	830	623
Cash basis net position end of year	\$ 581	830

Total business type activities receipts for the fiscal year were approximately \$939,000 compared to approximately \$885,000 last year. Total business type activities disbursements for fiscal year 2017 were approximately \$813,000 compared to approximately \$688,000 last year, an increase of approximately \$125,000 or 18.1%. The total cash balance decreased approximately \$250,000 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 \$2,084,882, a decrease of more than \$751,000 compared to last year's restated total of \$2,836,124. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$105,598 from the prior year to \$1,691,393. Approximately \$101,000 of this decrease was due to a decrease in intergovernmental receipts.
- The Special Revenue, Local Option Sales Tax Fund cash balance was \$338,838, an increase of \$165,763 over the previous year. The increase was primarily the result of an increase of approximately \$32,000 in local option sales tax receipts and decreases in disbursements and transfers to other funds of approximately \$25,000 and \$89,000, respectively. These proceeds will be used for various governmental programs.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance was \$284,112, an increase of \$103,451 over the previous year. The increase was primarily the result of an increase of approximately \$118,000 in tax increment financing receipts.
- The Debt Service Fund cash balance increased \$155,902 to \$159,914. This increase was primarily due to an increase in transfers from other funds. Bond principal and interest payments increased \$127,314 in fiscal year 2017.
- The Capital Projects Fund cash balance decreased \$1,125,734 to (\$504,764). This decrease was attributable to approximately \$2,236,000 of payments on capital projects this fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$7,895 to \$265,315, due primarily to an increase in the sale of water over the prior year.
- The Enterprise, Sewer Fund cash balance decreased \$230,256 to \$16,248, due to an increase in expenses related to contracts for sewer cleaning projects in fiscal year 2017 and transfers to the Debt Service Fund for general obligation bond debt payments.
- The Enterprise, Storm Water cash balance decreased \$21,688 to \$242,361, due to an increase in expenses primarily related to the Jefferson Street storm sewer 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 22, 2017 and resulted in an increase in disbursements for capital projects that were not included in the original budget. The City was able to obtain additional funding from the Iowa Department of Transportation to fund this increase of approximately \$2,301,000. The City had sufficient cash balances to absorb these costs.

The City's receipts were \$1,166,214 more than budgeted. This was primarily due to the City receiving more in intergovernmental receipts than anticipated, even after the amendment.

With the budget amendment, total disbursements were \$1,000,913 less than the amended budget. However, actual disbursements for the general government and debt service functions were \$13,425 and \$218,733, respectively, more than the amended budget. This was primarily due to the City underestimating the expenses for the general government and not knowing the exact bond payment amounts at the time of setting the budget.

The City expended less than the amounts budgeted in the capital project and business type activities functions for the year ended June 30, 2017 due to timing of billings for the completion of capital projects and reduced costs for business type activities.

DEBT ADMINISTRATION

At June 30, 2017, the City had \$6,840,000 of bonds and other long-term debt outstanding, compared to \$7,202,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2017	2016
General obligation bonds	\$ 6,840	7,175
Bank loan	-	27
Total	\$ 6,840	7,202

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 \$6,840,000 is significantly below its constitutional debt limit of approximately \$9.3 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 2018 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 4.0% versus 5.5% a year ago. This compares with the State's unemployment rate of 3.2% and the national rate of 4.4%.

These indicators were taken into account when adopting the budget for fiscal year 2018. Amounts available for appropriation in the operating budget are approximately \$6.7 million, an increase of 110% over the final fiscal year 2017 budget. Property tax (benefiting from the fiscal year 2017 rate increases and increases in assessed valuations) and proceeds from intergovernmental grants and the urban renewal tax increment financing revenue bonds are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major urban renewal project of the City. Budgeted disbursements increased approximately \$290,000. Increased health care costs, increases in street construction and maintenance and the urban renewal project represent the largest increases. The City has added no major new programs or initiatives to the fiscal year 2018 budget.

If these estimates are realized, the City's cash balance is expected to increase approximately \$60,000 by the close of fiscal year 2018.

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.

City of Hudson

Basic Financial Statements

City of Hudson

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 573,069	96,176	146,003	5,643
Public works	253,324	-	283,696	-
Health and social services	4,264	-	-	-
Culture and recreation	341,875	49,494	50,246	-
Community and economic development	95,839	-	-	-
General government	504,922	29,112	50,151	-
Debt service	557,444	-	-	-
Capital projects	2,235,796	-	-	986,868
Total governmental activities	4,566,533	174,782	530,096	992,511
Business type activities:				
Water	339,298	397,805	-	-
Sewer	270,247	340,908	-	-
Storm sewer	57,528	150,146	9,128	-
Nonmajor	146,484	38,054	-	-
Total business type activities	813,557	926,913	9,128	-
Total Primary Government	\$ 5,380,090	1,101,695	539,224	992,511
Component Unit:				
Hudson Municipal Electric Utility	\$ 1,578,253	1,590,651		
General Receipts and Transfers:				
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, as restated				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net position				

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	
(325,247)	-	(325,247)	
30,372	-	30,372	
(4,264)	-	(4,264)	
(242,135)	-	(242,135)	
(95,839)	-	(95,839)	
(425,659)	-	(425,659)	
(557,444)	-	(557,444)	
(1,248,928)	-	(1,248,928)	
(2,869,144)	-	(2,869,144)	
-	58,507	58,507	
-	70,661	70,661	
-	101,746	101,746	
-	(108,430)	(108,430)	
-	122,484	122,484	
(2,869,144)	122,484	(2,746,660)	
			12,398
1,036,230	-	1,036,230	-
110,283	-	110,283	-
254,985	-	254,985	-
309,279	-	309,279	-
18,918	-	18,918	-
12,722	3,404	16,126	2,492
375,485	(375,485)	-	-
2,117,902	(372,081)	1,745,821	2,492
(751,242)	(249,597)	(1,000,839)	14,890
2,836,124	830,399	3,666,523	954,154
\$ 2,084,882	580,802	2,665,684	969,044
\$ 284,112	-	284,112	-
159,914	-	159,914	-
454,227	13,160	467,387	147,377
1,186,629	567,642	1,754,271	821,667
\$ 2,084,882	580,802	2,665,684	969,044

City of Hudson

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

As of and for the year ended June 30, 2017

	General	Special Revenue	
		Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 804,196	-	-
Tax increment financing	-	-	254,985
Other city tax	-	309,279	-
Licenses and permits	75,844	-	-
Use of money and property	18,418	3,133	811
Intergovernmental	127,767	-	-
Charges for service	87,978	-	-
Miscellaneous	105,763	-	-
Total receipts	<u>1,219,966</u>	<u>312,412</u>	<u>255,796</u>
Disbursements:			
Operating:			
Public safety	490,191	-	-
Public works	243,944	-	-
Health and social services	4,264	-	-
Culture and recreation	318,484	-	-
Community and economic development	66,670	-	26,276
General government	482,889	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>1,606,442</u>	<u>-</u>	<u>26,276</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(386,476)</u>	<u>312,412</u>	<u>229,520</u>
Other financing sources (uses):			
Transfers in	399,025	-	-
Transfers out	(118,147)	(146,649)	(126,069)
Total other financing sources (uses)	<u>280,878</u>	<u>(146,649)</u>	<u>(126,069)</u>
Change in cash balances	(105,598)	165,763	103,451
Cash balances beginning of year, as restated	<u>1,796,991</u>	<u>173,075</u>	<u>180,661</u>
Cash balances end of year	<u>\$ 1,691,393</u>	<u>338,838</u>	<u>284,112</u>
Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	\$ -	-	284,112
Debt service	-	-	-
Other purposes	-	338,838	-
Unassigned	<u>1,691,393</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 1,691,393</u>	<u>338,838</u>	<u>284,112</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
110,283	-	232,034	1,146,513
-	-	-	254,985
-	-	-	309,279
-	-	-	75,844
-	-	11	22,373
1,700	986,868	289,805	1,406,140
-	-	-	87,978
-	1,000	29,931	136,694
111,983	987,868	551,781	3,439,806
-	-	82,878	573,069
-	-	9,380	253,324
-	-	-	4,264
-	-	23,391	341,875
-	-	2,893	95,839
-	-	22,033	504,922
557,444	-	-	557,444
-	2,235,796	-	2,235,796
557,444	2,235,796	140,575	4,566,533
(445,461)	(1,247,928)	411,206	(1,126,727)
601,363	122,194	-	1,122,582
-	-	(356,232)	(747,097)
601,363	122,194	(356,232)	375,485
155,902	(1,125,734)	54,974	(751,242)
4,012	620,970	60,415	2,836,124
159,914	(504,764)	115,389	2,084,882
-	-	-	284,112
159,914	-	-	159,914
-	-	115,389	454,227
-	(504,764)	-	1,186,629
159,914	(504,764)	115,389	2,084,882

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, 2017

	Enterprise				Total
	Water	Sewer	Storm Water	Nonmajor Garbage	
Operating receipts:					
Use of money and property	\$ 1,709	1,695	-	-	3,404
Charges for service	392,248	340,909	38,054	150,146	921,357
Miscellaneous	5,556	-	-	-	5,556
Total operating receipts	399,513	342,604	38,054	150,146	930,317
Operating disbursements:					
Business type activities	339,298	270,247	57,528	146,484	813,557
Excess of operating receipts over operating disbursements	60,215	72,357	(19,474)	3,662	116,760
Non-operating receipts:					
Intergovernmental	-	-	-	9,128	9,128
Excess (deficiency) of receipts over (under) disbursements	60,215	72,357	(19,474)	12,790	125,888
Other financing sources (uses):					
Transfers in	14,061	-	-	-	14,061
Transfers out	(66,381)	(302,613)	(2,214)	(18,338)	(389,546)
Total other financing sources (uses)	(52,320)	(302,613)	(2,214)	(18,338)	(375,485)
Change in cash balances	7,895	(230,256)	(21,688)	(5,548)	(249,597)
Cash balances beginning of year, as restated	257,420	246,504	264,049	62,426	830,399
Cash balances end of year	\$ 265,315	16,248	242,361	56,878	580,802
Cash Basis Fund Balances					
Restricted for:					
Deposits	\$ 13,160	-	-	-	13,160
Unrestricted	252,155	16,248	242,361	56,878	567,642
Total cash basis fund balances	\$ 265,315	16,248	242,361	56,878	580,802

See notes to financial statements.

City of Hudson

Notes to Financial Statements

June 30, 2017

(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 E-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 revenues, 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 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, 2017, disbursements exceeded the amounts budgeted in the general government and debt service functions. Also, disbursements exceeded the amount budgeted in the capital projects function prior to amendment of the budget.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 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
2018	\$ 590,000	189,068	779,068
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
2023-2027	3,120,000	423,908	3,543,908
2028-2031	690,000	70,000	760,000
Total	\$ 6,840,000	1,319,258	8,159,258

Bank Loan

On March 11, 2014 the City entered into a loan agreement with a bank for the purchase of a utility tractor with a loader and snow blade. The term of the agreement was for fifty nine months, with interest at a rate of 3.95%. The City paid the remaining balance of \$27,197 on the loan during the year ended June 30, 2017.

(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 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9117 or at 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 2017, 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, 2017 totaled \$61,646.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$394,128 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016, the City’s proportion was 0.006263%, which was a decrease of 0.000575% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$62,392, \$162,913 and \$79,132, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 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, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

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
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. 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 7.50%, 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 (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 738,279	394,128	103,789

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.

(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, 2017, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 42,000
Sick leave	15,000
Compensatory time	24,000
Total	<u>\$ 81,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

(6) Contractual Commitments

The City has entered into various construction contracts totaling approximately \$3,270,000. The unpaid contract balance as of June 30, 2017 totaled approximately \$1,032,000, which will be paid as work on the projects progress.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 283,696
	Employee Benefits	72,536
	Local Option Sales Tax	24,455
	Enterprise:	
	Garbage	18,338
		<u>399,025</u>
Debt Service	General	104,086
	Special Revenue:	
	Tax Increment Financing	126,069
	Enterprise:	
	Water	66,381
	Sewer	302,613
	Storm Water	2,214
		<u>601,363</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	<u>122,194</u>
Enterprise:		
Water	General	<u>14,061</u>
Total		<u>1,136,643</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 Fund had a deficit balance of \$504,764 at June 30, 2017. The deficit balance was a result of project costs incurred prior to the availability of funds. The deficit will be eliminated upon receipt of state grants.

(10) Development Agreement

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, 2017, the City rebated \$26,276 of incremental property tax to the developer. At June 30, 2017, the remaining balance to be paid on the agreement was \$150,880.

(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 revenues 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, 2017, the City abated \$9,944 of property tax under the urban renewal and economic development projects.

(12) Restatement/Reclassification

Beginning fund balances for the Governmental Activities and Special Revenue, Volunteer Firefighters were restated to properly report beginning balances for the inclusion of a legally separate component unit in accordance with criteria set forth by the Governmental Accounting Standards Board.

In addition, the Governmental Activities, Business Type Activities, General, certain Special Revenue and Enterprise, Electric Funds have been reclassified to properly report the activity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54.

The restated/reclassification cash basis net position/fund balances are as follows:

	Governmental Activities	Business Type Activities	General Fund	Special Revenue, Economic Development	Special Revenue, Building Condemnations	Special Revenue, Volunteer Firefighters	Enterprise, Electric Fund
Balances June 30, 2016, as previously reported	\$ 2,788,108	846,902	1,575,488	200,000	5,000	-	16,503
Legally separate component unit previously omitted:							
Volunteer Firefighters	31,513	-	-	-	-	31,513	-
Reclassify funds previously reported in the wrong fund type:							
Electric	16,503	(16,503)	16,503	-	-	-	(16,503)
Economic Development	-	-	200,000	(200,000)	-	-	-
Building Condemnations	-	-	5,000	-	(5,000)	-	-
Balances July 1, 2016, as restated	\$ 2,836,124	830,399	1,796,991	-	-	31,513	-

(13) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about the City's tax abatements.

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, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,146,513	-	-
Tax increment financing	254,985	-	-
Other city tax	309,279	-	-
Licenses and permits	75,844	-	-
Use of money and property	22,373	3,405	11
Intergovernmental	1,406,140	9,128	2,200
Charges for service	87,978	921,356	-
Miscellaneous	136,694	5,556	29,931
Total receipts	<u>3,439,806</u>	<u>939,445</u>	<u>32,142</u>
Disbursements:			
Public safety	573,069	-	38,041
Public works	253,324	-	-
Health and social services	4,264	-	-
Culture and recreation	341,875	-	-
Community and economic development	95,839	-	-
General government	504,922	-	-
Debt service	557,444	-	-
Capital projects	2,235,796	-	-
Business type activities	-	813,557	-
Total disbursements	<u>4,566,533</u>	<u>813,557</u>	<u>38,041</u>
Excess (deficiency) of receipts over (under) disbursements	(1,126,727)	125,888	(5,899)
Other financing sources, net	375,485	(375,485)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(751,242)	(249,597)	(5,899)
Balances beginning of year, as restated	<u>2,836,124</u>	<u>830,399</u>	<u>31,513</u>
Balances end of year	<u>\$ 2,084,882</u>	<u>580,802</u>	<u>25,614</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
1,146,513	1,142,706	1,142,706	3,807
254,985	206,000	206,000	48,985
309,279	295,027	295,027	14,252
75,844	37,694	37,694	38,150
25,767	19,800	19,800	5,967
1,413,068	305,149	305,149	1,107,919
1,009,334	1,133,719	1,133,719	(124,385)
112,319	40,800	40,800	71,519
<u>4,347,109</u>	<u>3,180,895</u>	<u>3,180,895</u>	<u>1,166,214</u>
535,028	623,618	623,618	88,590
253,324	352,666	352,666	99,342
4,264	5,000	5,000	736
341,875	348,237	348,237	6,362
95,839	151,768	151,768	55,929
504,922	491,497	491,497	(13,425)
557,444	338,711	338,711	(218,733)
2,235,796	390,000	2,672,313	436,517
813,557	1,359,152	1,359,152	545,595
<u>5,342,049</u>	<u>4,060,649</u>	<u>6,342,962</u>	<u>1,000,913</u>
(994,940)	(879,754)	(3,162,067)	2,167,127
-	879,754	2,509,043	2,509,043
(994,940)	-	(653,024)	(341,916)
<u>3,635,010</u>	<u>1,836,702</u>	<u>1,836,702</u>	<u>1,798,308</u>
<u>2,640,070</u>	<u>1,836,702</u>	<u>1,183,678</u>	<u>1,456,392</u>

City of Hudson

Notes to Other Information – Budgetary Reporting

June 30, 2017

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 \$2,282,313. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the general government and debt service functions. Also, disbursements exceeded the amount budgeted in the capital projects function prior to amendment of the budget.

City of Hudson

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

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

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.006263%	0.005688%	0.005254%
City's proportionate share of the net pension liability	\$ 394	301	245
City's covered-employee payroll	\$ 638	661	627
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.76%	45.54%	39.07%
IPERS' net position as a percentage of the total pension liability	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.

City of Hudson

Schedule of City Contributions

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

Other Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 62	59	59	56
Contributions in relation to the statutorily required contribution	<u>(62)</u>	<u>(59)</u>	<u>(59)</u>	<u>(56)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 642	638	661	627
Contributions as a percentage of covered-employee payroll	9.66%	9.25%	8.93%	8.93%

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
54	54	46	44	39	39
(54)	(54)	(46)	(44)	(39)	(39)
-	-	-	-	-	-
623	669	662	662	614	645
8.67%	8.07%	6.95%	6.65%	6.35%	6.05%

City of Hudson

Notes to Other Information – Pension Liability

Year ended June 30, 2017

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.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

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, 2017

	Special Revenue			Total
	Employee Benefits	Road Use Tax	Volunteer Firefighters	
Receipts:				
Property tax	\$ 232,034	-	-	232,034
Use of money and property	-	-	11	11
Intergovernmental	3,909	283,696	2,200	289,805
Miscellaneous	-	-	29,931	29,931
Total receipts	235,943	283,696	32,142	551,781
Disbursements:				
Operating:				
Public safety	44,837	-	38,041	82,878
Public works	9,380	-	-	9,380
Cultures and recreation	23,391	-	-	23,391
Community and economic development	2,893	-	-	2,893
General government	22,033	-	-	22,033
Total disbursements	102,534	-	38,041	140,575
Excess (deficiency) of receipts over (under) disbursements	133,409	283,696	(5,899)	411,206
Other financing uses:				
Transfers out	(72,536)	(283,696)	-	(356,232)
Change in cash balances	60,873	-	(5,899)	54,974
Cash balances beginning of year, as restated	28,902	-	31,513	60,415
Cash balances end of year	\$ 89,775	-	25,614	115,389
Cash Basis Fund Balances				
Restricted for other purposes	\$ 89,775	-	25,614	115,389

See accompanying independent auditor's report.

City of Hudson
Schedule of Indebtedness
Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Corporate purpose and refunding	Aug 22, 2011	0.35-4.00%	\$ 4,815,000
Refunding	Jun 24, 2013	0.90-3.00	935,000
Corporate purpose	Dec 30, 2015	2.00-3.00	2,600,000
Total			
 Bank loan	 Mar 11, 2014	 3.95%	 \$ 47,258

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
3,850,000	-	265,000	3,585,000	113,210
725,000	-	70,000	655,000	17,340
2,600,000	-	-	2,600,000	90,294
<u>\$ 7,175,000</u>	-	<u>335,000</u>	<u>6,840,000</u>	<u>220,844</u>
<u>\$ 27,197</u>	-	<u>27,197</u>	-	<u>682</u>

City of Hudson

City of Hudson

Bond Maturities

June 30, 2017

Year Ending June 30,	General Obligation Bonds							
	Issued Aug 22, 2011		Issued Jun 24, 2013		Issued Dec 30, 2015		Total	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2018	1.80%	\$ 280,000	1.60%	\$ 70,000	2.00%	\$ 240,000	590,000	
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>\$ 3,585,000</u>		<u>\$ 655,000</u>		<u>\$ 2,600,000</u>	<u>6,840,000</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

	2017	2016	2015	2014
Receipts:				
Property tax	1,146,513	1,148,128	1,094,450	918,582
Tax increment financing	254,985	136,952	86,372	83,749
Other city tax	309,279	277,588	278,533	292,538
Licenses and permits	75,844	58,796	61,499	81,857
Use of money and property	22,373	33,461	296,573	68,434
Intergovernmental	1,406,140	571,269	320,791	382,499
Charges for service	87,978	62,290	57,266	75,066
Miscellaneous	136,694	49,589	102,596	106,085
Total	3,439,806	2,338,073	2,298,080	2,008,810
Disbursements:				
Operating:				
Public safety	573,069	605,518	443,862	499,380
Public works	253,324	324,496	297,465	393,628
Health and social services	4,264	4,400	2,200	2,366
Culture and recreation	341,875	334,502	308,135	343,113
Community and economic development	95,839	83,146	69,772	37,388
General government	504,922	421,041	377,813	275,916
Debt service	557,444	441,130	432,648	68,876
Capital projects	2,235,796	1,355,171	785,252	1,409,890
Total	4,566,533	3,569,404	2,717,147	3,030,557

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
869,695	807,128	767,740	735,485	702,182	664,085
83,686	85,072	89,587	85,291	85,849	83,541
275,678	288,484	255,398	260,965	256,879	252,649
96,641	98,309	63,266	47,850	39,445	43,283
39,407	59,277	36,051	116,637	109,803	87,998
388,007	650,579	369,220	339,158	304,243	329,042
71,773	90,566	71,704	61,605	65,139	63,575
48,666	107,956	55,207	24,788	26,476	76,147
<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>	<u>1,600,320</u>
533,173	606,162	466,753	390,220	733,212	407,123
401,690	324,787	420,462	339,263	325,640	332,346
-	2,750	3,000	3,000	3,045	3,000
384,374	402,206	362,891	319,378	306,881	310,679
66,861	52,982	46,994	43,225	44,230	46,921
243,496	240,157	192,430	245,411	240,505	241,598
121,053	200,988	200,388	199,338	203,338	206,939
731,035	2,653,824	289,216	80,341	-	383,001
<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>	<u>1,931,607</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, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 11, 2018. 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 (C) 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 (D) through (J) 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, 2017 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.


MARY MOSIMAN, CPA
Auditor of State

June 11, 2018

City of Hudson

Schedule of Findings

Year ended June 30, 2017

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, journalizing, posting, bank reconciliation and maintains detailed accounts receivable records.
- (4) Payroll – approval, preparation, distribution and enters rates.
- (5) Transfers – recording and reconciling.
- (6) Utility Receipts – billing, collecting, depositing, posting, enters rates.
- (7) Journal Entries – preparing, posting.

In addition, an initial listing of mail receipts is not prepared by the mail opener.

We also noted that one individual for the Hudson Volunteer Firefighters accounts handles collections of receipts, prepares deposits, records and accounts for receipts, approves disbursements and signs checks. Also a bank reconciliation is not prepared.

Cause – The City and the Volunteer Firefighters have 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.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, operating procedures should be reviewed to obtain the maximum internal control possible under the circumstances. Evidence of review of reconciliations should be indicated by the signature or initials of the independent reviewer and the date of the review.

Responses –

City – The Mayor initials the bank reconciliation reports on a monthly basis. The staff that is entering the transactions in to our system has their own sign-in. That sign-in is used to identify who is entering any transactions throughout the day. The transactions are closed, printed, and initialed by the person closing on a daily basis. The City will do what they can to divide duties as much as staffing will allow.

Timesheets are initialed by the Mayor. The payroll report is signed by the Mayor and the Mayor Pro Tem. The person preparing the payroll will print off the calculation register for the Mayor to initial to make sure that the hours and pay entered match the timesheet. At which point, everything will be initialed and dated for review.

Hudson Volunteer Firefighters – The Hudson Volunteer Fire Department will have two of its members review the books monthly and have those members initial and date the reviews.

Conclusion – Responses accepted.

(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 2017, certain fund balances were restated to be in compliance with Governmental Accounting Standards Board (GASB) Statement No. 54. Note 12 to the financial statements describes the prior period restatement. In addition, during the audit we identified material amounts of receipts, disbursements and transfers not posted correctly, as follows:

- (1) Negative transfer in and negative transfer out.
- (2) Transfers in did not agree with transfers out.
- (3) Transactions were posted as negative receipts or negative disbursements.
- (4) Receipts were coded to an incorrect source code.

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

City of Hudson

Schedule of Findings

Year ended June 30, 2017

Cause – City policies do not require and procedures have not been established to require review of transactions entries 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 – We will review the fund balance classification in the future for agreement with requirements. The City will continue to look for ways to improve the procedures for negative transfers in and transfer out, as well as transactions that were posted as negative receipts or negative disbursements. Rather than putting the receipts in a disbursement source code, the transaction will be put into the fund to retain part of the overall budget function. The transfers are now being done correctly. Once a transfer or journal entry is done, the report will be printed off and initialed by the Mayor or their designee. If a transaction is coded incorrectly, it will be corrected when it is found and the Mayor or their designee, will initial and date the correction report. The City will continue to work closely with our software support team to identify and correct, in a timely manner, any variances that the City may have.

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.

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.

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 and to reconcile utility collections to deposits.

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

City of Hudson

Schedule of Findings

Year ended June 30, 2017

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.

Response – The delinquent accounts report is typically printed off monthly. Those accounts will be reviewed by someone from the City Council or someone designated by the City Council on a monthly basis. The utility billing reconciliation reports will be printed and reviewed and dated by an independent person from who maintains the accounts receivable. Procedures will be established to reconcile the utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The review of the reconciliation will be initialed and dated.

Conclusion – Response accepted.

(D) Disbursements

Criteria – An effective internal control system provides for internal controls related to propriety of disbursements.

Condition – Two of 42 disbursements tested did not have evidence of approval by the department heads. In addition, support for one of 42 disbursements tested was not retained and four of 42 disbursements tested were not supported by an itemized invoice.

Cause – Policies have not been established and procedures have not been implemented to ensure evidence of approval by the department heads and retention of appropriate itemized support.

Effect – This condition could result in inappropriate disbursements.

Recommendation – Evidence of approval by the department head should be included on the invoice. Evidence should be indicated by signature or initials of the department head and date. Also, appropriate itemized support should be retained.

Response – The City will do a better job of maintaining invoices. The Mayor and Mayor Pro Tem look at the invoices before the council meeting. The City will make sure the invoices are initialed and coded by the department head before payment.

Conclusion – Response accepted.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

(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 until the total collected reaches \$500.

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 basis.

Response – Noted. The City will create a policy that the police department is required to go to the bank to deposit cash on a day that any amount of cash is received. The City will also look into establishing a new bank account within Hudson specifically for cash deposits.

Conclusion – Response accepted.

(F) Payroll

Criteria – An effective internal control system provides for internal controls related to payroll is a review by an independent person.

Condition – The following reviews are not performed:

- Time records are not compared to payroll by an independent person
- Review of payroll rates entered by an independent person
- Payroll registers are not reviewed and approved by someone in authority.
- Time records are not compared to payroll records by an independent person.

Also, employee's contributions for health insurance benefits were not accurately withheld.

Cause – Policies have not been established and procedures have not been implemented to perform independent reviews.

Effect – This condition could result in inappropriate payroll payments and withholdings.

Recommendation – Evidence of review by and independent person should be retained. Evidence should be indicated by signature or initials of the reviewer and date of review.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

Response – The City will comply with the recommendation. Timesheets are initialed by the Mayor. The payroll report is signed by the Mayor and the Mayor pro Tem. The person preparing the payroll will print off the calculation register for the Mayor to initial to make sure the hours and pay entered match the timesheet and that the pay rate and withholdings are accurate. At which point, everything will be reviewed, initialed and dated.

Conclusion – Response accepted.

(G) Journal Entries

Criteria – An effective internal control system provides for internal controls related to posting of journal entries.

Condition – Support and approval for journal entries is not retained. Also, certain transactions were not posted for the correct amount as approved by City Council in the resolution.

Cause – Policies and procedure have not been established and procedures have not been implemented to ensure approval and support is retained and transactions are not reviewed by an independent person.

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

Recommendation – The City should establish and implement policies and procedures to ensure support and approval for journal entries is retained and the entries are reviewed by an independent person.

Response – The City will establish a policy for journal entries. Any journal entry that is completed will be printed off and initialed by the person doing the entry and an appointed person. The journals, along with supporting documentation, will be retained by month in a locked file drawer and then scanned into the system at the end of the fiscal year.

Conclusion – Response accepted.

(H) Separately Maintained Records

Criteria – The Hudson Volunteer Fire Department maintains accounting records separate from the City Clerk records. Chapter 384.20 of the Code of Iowa states in part that “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.”

Condition – Although the Volunteer Fire Department submits accounting records on an annual basis, the records are not submitted on a monthly basis and included in the City Clerk’s monthly financial reports.

Cause – The City does not have written procedures to require separately maintained accounting records to be submitted for inclusion on a monthly basis in the City Clerks monthly financial reports.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

Effect – The City is not aware of all funds held by the City.

Recommendation – The City should establish and implement policies and procedures to ensure all separately maintained accounting records are submitted to the City for inclusion in the monthly financial reports.

Response – The Hudson Volunteer Fire Department will submit a financial report to the City of Hudson for the prior month's financials.

Conclusion – Response accepted.

(I) 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.

(J) Computer Systems

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, 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) Immediately 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 elements are not included or address in the plan. Employees have not been trained for appropriate response to emergency situations.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

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 systems. A written disaster recovery plan should also be developed.

Response – The City will work with their IT company to establish a policy that will fit to the City's needs. The City will install smoke detection.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the general government and debt service activities functions. Also, disbursements exceeded the amount budgeted in the capital projects function prior to amendment of the budget. In addition, evidence of publication of the budget was not retained. 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. In addition, evidence of publication of the budget should be retained.

Response – The City will amend the budget before disbursements exceed the budget and retain publication confirmation.

Conclusion – Response accepted.

- (2) Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in the Attorney General’s opinion date April 25, 1979.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mary Bucy, Head Librarian, Owner of Bucy Janitorial	Custodial service	\$ 8,504

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with for custodial service appear to represent conflicts of interest since total transactions were greater than \$1,500 during the fiscal year.

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

Response – The City will consult our legal counsel.

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.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

- (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.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Actual Amount</u>	<u>Approved Amount</u>
General	Employee Benefits	\$ 72,536	\$ 47,233
Debt Service	General	104,086	136,781
Debt Service	Storm Sewer	2,214	14,657
Water	General	14,061	No approval documented

In addition, one of five City Council meeting minutes tested did not have evidence of publication. Also, the City did not publish a summary of receipts and one of five City Council meetings tested did not include a list of disbursements in the publication. Four City Council meeting minutes were not signed by the City Clerk.

Recommendation – The City should ensure actual transfers made have been approved. In addition, the City should comply with Chapter 21 of the Code of Iowa and publish minutes including a summary of receipts and list of disbursements. The meeting minutes should be signed to authenticate the record.

Response – Once a transfer is complete, the report will be printed and approved by the Mayor or their designee. In addition, the City is now complying with Chapter 21 of the Code of Iowa. The City is including a list of receipts and disbursement in every set of minutes published. The minutes will be signed by the City Clerk.

Conclusion – Response accepted.

- (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 (AFR) – Chapter 384.22 of the Code of Iowa requires the City’s Annual financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City and all expenditures...”. The City’s Annual Financial Report reported fund balances and revenue and expenditure balances which did not agree materially with the City records.

Recommendation – The City should ensure the Annual Financial Report materially agrees with the City’s records.

Response – The City will comply.

Conclusion – Response accepted.

- (9) Financial Condition – The Capital Projects Fund had a deficit balance of \$504,764 at June 30, 2017.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

Response – The City will work on eliminating the deficit balance before the end of fiscal year 2019.

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, 2017, the City transferred \$78,832 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 – The City will use the employee benefits levy as required.

Conclusion – Response accepted.

- (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.

We noted the following regarding the City's TIF debt certification dated November 28, 2016:

- 1) Amounts certified by the City are not supported.
- 2) Amount certified for the rebate agreement was for the maximum amount of the agreement rather than the annual appropriation amount.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City's TIF certifications, including the amount of TIF debt to be decertified, if any. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa and includes only allowable debt approved by the City Council prior to certification.

Response – The City will work with the County Auditor and financial advisor to correct the TIF report.

Conclusion – Response accepted.

City of Hudson

Schedule of Findings

Year ended June 30, 2017

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

However, the following exceptions were noted:

- 1) The City's beginning cash balances and expenditures for the Special Revenue, Urban Renewal Tax Increment Fund reported on the Levy Authority Summary do not agree with the City's general ledger.
- 2) The outstanding debt amount did not agree with outstanding debt records.

Recommendation – The City should ensure the cash balances, expenditure amounts and outstanding debt reported on the Levy Authority Summary agree with the City's records.

Response – Noted. The City is working with the County Auditor and financial advisor to make sure that the Urban Renewal Report is correct.

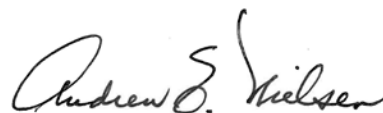
Conclusion – Response accepted.

City of Hudson

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Janet K. Mortvedt, CPA, Senior Auditor II
Zachary J. Koziolk, Staff Auditor
Jon G. Hanson, Auditor Intern

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State