



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

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Des Moines, Iowa 50319-0006

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Rob Sand  
Auditor of State

NEWS RELEASE

FOR RELEASE

January 14, 2021

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released an audit report on Hudson Municipal Electric Utility in Hudson, Iowa.

**FINANCIAL HIGHLIGHTS:**

The Utility's receipts totaled \$1,895,412 for the year ended June 30, 2020, a 1.1% decrease from the prior year. Disbursements for the year ended June 30, 2020 totaled \$1,576,815, a 5.6% decrease from the prior year. The decrease in disbursements is due primarily to a decrease in work done on capital projects in fiscal year 2020.

**AUDIT FINDINGS:**

Sand reported seven findings related to the receipt and disbursement of taxpayer funds and statutory compliance. They are found on pages 32 through 37 of this report. The findings address issues such as a lack of segregation of duties, lack of independent review of bank and utility reconciliations and unrecorded interest income. Sand provided the Utility with recommendations to address each of the findings.

The seven findings discussed above are repeated from the prior year. The Utility Board Trustees have a fiduciary responsibility to provide oversight of the Utility's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

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

###

**HUDSON MUNICIPAL ELECTRIC UTILITY**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENT**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2020**

**Hudson Municipal Electric Utility**



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Rob Sand  
Auditor of State

January 4, 2021

Officials of Hudson Municipal Electric Utility  
Hudson, Iowa

Dear Trustees:

I am pleased to submit to you the financial and compliance audit report for Hudson Municipal Electric Utility for the year ended June 30, 2020. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

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

Sincerely,

A handwritten signature in black ink that reads "Rob Sand".

Rob Sand  
Auditor of State

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## Hudson Municipal Electric Utility

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dan Brobst	Chairperson	Jan 2022
Gary Downey	Vice Chairperson	Jan 2023
Wanda Birdsong	Trustee	Jan 2021
Reed Braden	Trustee	Jan 2024
Dan Takle	Trustee	Jan 2025
Sue Theisen	Office Manager	Indefinite
Jerry Zipse	Billing Clerk	Indefinite
Dennis Suckow	Utility Tech	Indefinite



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Independent Auditor's Report

To the Board of Trustees of the Hudson Municipal Electric Utility:

Report on the Financial Statement

We have audited the accompanying financial statement of the Hudson Municipal Electric Utility as of and for the year ended June 30, 2020, and the related Notes to Financial Statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement 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 statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

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

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

## Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Hudson Municipal Electric Utility as of June 30, 2020 and the 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, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Other Matters

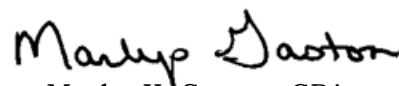
### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement. The supplementary information included in Schedule 1 is for purposes of additional analysis and is not a required part of the basic financial statement. 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 financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, 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 financial statement taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability and the Schedule of Utility Contributions on pages 6 through 8 and 20 through 26, has not been subjected to the auditing procedures applied in the audit of the financial statement 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 January 4, 2021 on our consideration of the Hudson Municipal Electric Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 Utility'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 Hudson Municipal Electric Utility's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA  
Deputy Auditor of State

January 4, 2021



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

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The Hudson Municipal Electric Utility provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2020. We encourage readers to consider this information in conjunction with the Utility's financial statement, which follows.

### **2020 FINANCIAL HIGHLIGHTS**

- The Utility's total receipts decreased 1.1%, or approximately \$21,000, from fiscal year 2019 to fiscal year 2020. The utility rates remained consistent from fiscal year 2019 to fiscal year 2020, but metered consumption decreased in fiscal year 2020 resulting in a decrease in charges for services of approximately \$57,000. This amount was offset by revenue of approximately \$30,000 for work done installing electric equipment to an underpass located in Hudson, IA.
- The Utility's total disbursements decreased 5.6%, or approximately \$94,000, from fiscal year 2019 to fiscal year 2020.
- The Utility's total cash balance increased 28.2%, or approximately \$319,000, from June 30, 2019 to June 30, 2020.

### **USING THIS ANNUAL REPORT**

The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Utility's financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Utility's receipts and disbursements, non-operating receipts and disbursements and whether the Utility's cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

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

Supplementary Information provides detailed information about the individual Enterprise Fund Accounts.

## BASIS OF ACCOUNTING

The Hudson Municipal Electric Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Hudson Municipal Electric Utility is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does 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.

## FINANCIAL ANALYSIS OF THE HUDSON MUNICIPAL ELECTRIC UTILITY

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statement is to present the receipts received by the Utility and the disbursements paid by the Utility, both operating and non-operating. The statement also presents a fiscal snapshot of the Utility's cash balance at year-end. Over time, readers of the financial statement are able to determine the Utility's financial position by analyzing the increase or decrease in cash balance.

Receipts include metered electric sales, fees for upkeep and/or upgrade of individual service lines, electric turn on/off fees, rent for space on the poles and miscellaneous fees. A summary of cash receipts, disbursements and changes in the cash balance for the years ended June 30, 2019 and June 30, 2020 is presented below:

	Changes in Cash Balance	
	Year ended June 30,	
	2020	2019
<b>Receipts:</b>		
Interest on investments	\$ 11,021	12,164
Intergovernmental	30,000	-
Charges for service	1,838,002	1,894,645
Miscellaneous	16,389	9,463
Total receipts	1,895,412	1,916,272
<b>Disbursements:</b>		
Operating	1,576,815	1,641,566
Capital outlay	-	28,782
Total disbursements	1,576,815	1,670,348
Change in cash balance	318,597	245,924
Cash balance beginning of year	1,129,813	883,889
Cash balance end of year	\$ 1,448,410	1,129,813

The Utility's unrestricted cash balance is available for use in the routine operations and administrative areas of the electric utility and for the capital improvements to the infrastructure areas.

## **BUDGETARY HIGHLIGHTS**

Over the course of the fiscal year ended June 30, 2020, the Utility did not amend its budget.

For the fiscal year ended June 30, 2020, the Utility's charges for service receipts were \$51,246 less than budgeted and intergovernmental receipts were \$30,000 more than budgeted. Charges for service receipts were less than budgeted due to consumption going down more than expected. Intergovernmental receipts were more than budgeted due to a development to an underpass located in Hudson, IA during the fiscal year which was not originally included in the budget.

For the fiscal year ended June 30, 2020, the Utility's disbursements were \$254,068 less than budgeted for the year. Disbursements were less than budgeted due to overly optimistic projections for development in the Upper Ridge and Prairie Ridge subdivisions.

## **DEBT ADMINISTRATION**

The Utility had no long-term debt outstanding at June 30, 2020.

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

Current economic conditions beyond the Utility Trustees' control play a significant role in the daily operations of the distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, vehicles and machinery.
- The need to comply with federal and state regulations for the distribution of electricity.
- The need to maintain up-to-date technology at a reasonable cost.

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

This financial report is designed to provide the citizens, customers and creditors with a general overview of the Hudson Municipal Electric Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hudson Municipal Electric Utility, 615 Washington, PO Box 416, Hudson, Iowa 50643.

**Basic Financial Statement**

**Hudson Municipal Electric Utility**

Hudson Municipal Electric Utility  
Statement of Cash Receipts, Disbursements and  
Changes in Cash Balance

As of and for the year ended June 30, 2020

	2020	2019
Operating receipts:		
Intergovernmental	\$ 30,000	-
Charges for service	1,838,002	1,894,645
Miscellaneous	16,389	9,463
Total operating receipts	1,854,391	1,904,108
Operating disbursements:		
Business type activities	1,576,815	1,641,566
Excess of operating receipts over operating disbursements	277,576	262,542
Non-operating receipts (disbursements):		
Interest on investments	11,021	12,164
Capital outlay	-	(28,782)
Net non-operating receipts (disbursements)	11,021	(16,618)
Change in cash balance	288,597	245,924
Cash balance beginning of year	1,129,813	883,889
Cash balance end of year	\$ 1,418,410	1,129,813
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Customer deposits	\$ 12,895	10,251
Capital improvements	363,671	270,212
Total restricted cash basis fund balance	376,566	280,463
Unrestricted	1,071,844	849,350
Total cash basis fund balance	\$ 1,448,410	1,129,813

See notes to financial statement.

Hudson Municipal Electric Utility

Notes to Financial Statement

June 30, 2020

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

A. Reporting Entity

The Hudson Municipal Electric Utility is a component unit of the City of Hudson, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Utility is governed by a five-member Board of Trustees appointed by the Mayor of the City of Hudson, and then approved by the Board of Trustees, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Utility are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise 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 an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

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

D. Restricted Cash Basis Fund Balance

Funds set aside for customer deposits and system upgrades are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

**(2) Cash and Pooled Investments**

The Utility's deposits in banks at June 30, 2020 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 Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

### **(3) Pension Plan**

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

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

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

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

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 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Utility contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Utility’s contributions to IPERS for the years ended June 30, 2020 and 2019 were \$13,386 and \$15,382, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – June 30, 2020, the Utility reported a liability of \$102,792 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility’s proportion of the net pension liability was based on the Utility’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Utility’s proportion was 0.001775%, which was an increase of 0.000099% over its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Utility’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$18,909, \$16,154 and \$20,139, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement:

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Utility 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 to 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 the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability for fiscal year 2020 calculated using the discount rate of 7.00%, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Utility's proportionate share of the net pension liability	\$ 182,525	102,792	35,912

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

#### (4) **Compensated Absences**

Utility employees accumulate a limited amount of earned but unused vacation, sick, and compensatory time leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utility's approximate liability for earned vacation, sick leave and compensatory time payable to employees at June 30, 2020 is as follows:

Type of Benefit	Amount
Vacation	\$ 13,000
Sick leave	3,000
Compensatory time	9,000
Total	<u>\$ 25,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2020.

#### (5) **Risk Management**

The Hudson Municipal Electric Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### (6) **COVID-19**

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Hudson Municipal Electric Utility (HMEU), remains uncertain.

To date, the outbreak has not created a material disruption to the operations of HMEU. The Iowa Utilities Board (IUB) issued an order on March 27, 2020, that restricted the disconnection of utility service to any customers by all electric, and natural gas utilities, including municipal, cooperative, and investor-owned, and all investor-owned water utilities. The order issued by the IUB on March 27 was tied to the Governor's proclamation and therefore, extended the winter moratorium until May 27, 2020. Accordingly, HMEU suspended late charges until after May 27, 2020. In connection with the May 27, 2020 expiration of Governor Kim Reynolds' proclamation that eases restrictions and permits the reopening of some businesses, the Iowa Utilities board (IUB), on May 20, 2020, issued an order that establishes requirements Iowa utilities must follow before they can resume disconnections of customers' utility service.

Currently, HMEU has not seen a loss of sales due to the COVID-19 pandemic. While HMEU anticipates an increase in delinquent accounts, the impact on HMEU may not be known for several months. The extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Hudson Municipal Electric Utility's operations and finances.

**Hudson Municipal Electric Utility**

## **Other Information**

Hudson Municipal Electric Utility  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements and Changes in Balance -  
 Budget and Actual  
 Other Information

Year ended June 30, 2020

	Actual	Original/Final Budgeted Amounts	Final to Net Variance
Receipts:			
Use of money and property	\$ 11,021	6,000	5,021
Intergovernmental	30,000	-	30,000
Charges for service	1,838,002	1,889,248	(51,246)
Miscellaneous	16,389	3,000	13,389
Total receipts	1,895,412	1,898,248	(2,836)
Disbursements:			
Business type activities	1,576,815	1,830,883	254,068
Change in cash balance	318,597	67,365	251,232
Cash balance beginning of year	1,129,813	680,070	449,743
Cash balance end of year	\$ 1,448,410	747,435	700,975

See accompanying independent auditor's report.

Hudson Municipal Electric Utility

Notes to Other Information – Budgetary Reporting

June 30, 2020

The Hudson Municipal Electric Utility prepares a budget on the cash basis of accounting for all funds and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Utility, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Utility's disbursements are budgeted in the business type activities function.

During the year ended June 30, 2020, disbursements did not exceed the amount budgeted.



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Hudson Municipal Electric Utility

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

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

Other Information

	2020	2019	2018	2017
Utility's proportion of the net pension liability	0.001775%	0.001676%	0.001642%	0.001691%
Utility's proportionate share of the net pension liability	\$ 103	106	109	106
Utility's covered payroll	\$ 142	126	123	121
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	72.54%	84.13%	88.62%	87.60%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%

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

See accompanying independent auditor's report.

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2016	2015
0.001743%	0.001712%
86	69
121	114
71.07%	60.53%
85.19%	87.61%

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Hudson Municipal Electric Utility

Schedule of Utility Contributions

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

Other Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 13	15	11	11
Contributions in relation to the statutorily required contribution	<u>(13)</u>	<u>(15)</u>	<u>(11)</u>	<u>(11)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Utility's covered payroll	\$ 142	162	126	123
Contributions as a percentage of covered payroll	9.44%	9.44%	8.93%	8.93%

See accompanying independent auditor's report.

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2016	2015	2014	2013	2012	2011
11	11	10	9	8	6
(11)	(11)	(10)	(9)	(8)	(6)
-	-	-	-	-	-
121	121	114	109	103	93
8.93%	8.93%	8.93%	8.67%	8.07%	6.95%

Hudson Municipal Electric Utility

Notes to Other Information – Pension Liability

Year ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- 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.

## **Supplementary Information**

**Hudson Municipal Electric Utility**

## Hudson Municipal Electric Utility

Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balance

## Enterprise Fund Accounts

As of and for the year ended June 30, 2020

	Electric Operating	Meter Deposit	System Upgrades	Total
Operating receipts:				
Intergovernmental	\$ 30,000	-	-	30,000
Charges for service	1,744,543	-	93,459	1,838,002
Miscellaneous	4,528	11,861	-	16,389
Total operating receipts	1,779,071	11,861	93,459	1,884,391
Operating disbursements:				
Business type activities	1,567,598	9,217	-	1,576,815
Excess of operating receipts over operating disbursements	211,473	2,644	93,459	307,576
Non-operating receipts (disbursements):				
Interest on investments	11,021	-	-	11,021
Change in cash balances	222,494	2,644	93,459	318,597
Cash balances beginning of year	849,350	10,251	270,212	1,129,813
Cash balances end of year	\$ 1,071,844	12,895	363,671	1,448,410
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Customer deposits	\$ -	12,895	-	12,895
Capital improvements	-	-	363,671	363,671
Total restricted cash basis fund balances	-	12,895	363,671	376,566
Unrestricted	1,071,844	-	-	1,071,844
Total cash basis fund balances	\$ 1,071,844	12,895	363,671	1,448,410

See accompanying independent auditor's report.





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**STATE OF IOWA**

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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 a Financial Statement Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees of the Hudson Municipal Electric Utility:

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 statement of the Hudson Municipal Electric Utility as of and for the year ended June 30, 2020, and the related Notes to Financial Statement, and have issued our report thereon dated January 4, 2021. Our report expressed an unmodified opinion on the financial statement which was 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 statement, we considered the Hudson Municipal Electric Utility's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Hudson Municipal Electric Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hudson Municipal Electric Utility'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 a 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 Hudson Municipal Electric Utility's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies 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 (F) to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hudson Municipal Electric Utility's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance or other matters which is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

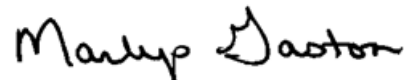
### The Hudson Municipal Electric Utility's Responses to the Findings

The Hudson Municipal Electric Utility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Hudson Municipal Electric Utility's responses were not subjected to the auditing procedures applied in the audit of the financial statement 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 Utility'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 Utility'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 Hudson Municipal Electric Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Marlys K. Gaston, CPA  
Deputy Auditor of State

January 4, 2021

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2020

**Finding Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCY:**

(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 Utility's financial statement.

Condition – Generally, one or two individuals have control over each of the following areas for the Utility:

- (1) Accounting system – performing all general accounting functions, including journal entries and controlling all data input and output.
- (2) Cash – handling cash, reconciling bank accounts and initiating and recording cash receipt and disbursement transactions.
- (3) Investments – investing and recording.
- (4) Bank reconciliations – preparing bank account reconciliations, handling cash receipt and disbursement functions and handling and recording cash. There is no independent review of the bank reconciliations.
- (5) Receipts – opening mail, collecting, depositing, posting and reconciling. In addition, no initial mail listing is prepared and reviewed by an independent person.
- (6) Disbursements and payroll – purchasing, preparing checks, recording, reconciling, distributing.
- (7) Journal entries – preparing and recording. In addition, there is no independent review of journal entries.
- (8) Incoming mail is not opened by an employee who is not authorized to make entries to accounting records.

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

Effect – Inadequate segregation of duties could adversely affect the Utility'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.

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2020

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its operating procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including officials. Independent reviews of reconciliations, compensated absences records and utility rates entered into the computer system should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – Due to the size of our Utility office, segregation of duties is difficult. We will follow the recommendations and continue to look for additional ways to segregate duties. In May of 2019 we took two Board members off of the bank signature cards and have them acting as auditors for the utility to do independent reviews of reconciliations, compensated absences records, and utility rates entered into the system. We will instruct the auditors to document their review by the initials and the date of the review.

Conclusion – Response accepted.

(B) Bank Reconciliations

Criteria – An effective internal control system provides for internal controls related to ensuring proper accounting for all funds by reconciling bank and book balances and review by an independent person.

Condition – Investment account balances were not reconciled to the accounting system throughout the fiscal year.

Cause – Procedures have not been designed and implemented to ensure all investment account balances are reconciled to the accounting system.

Effect – Failure to reconcile the accounting system with investment activity monthly may result in the potential for undetected errors.

Recommendation – The Utility should include the certificates of deposit balances in the bank reconciliations, including the quarterly certificate of deposit interest payments.

Response – The Utility removed two Board Trustees from the bank signature cards in May 2019 and are requiring them to review, sign, and date bank reconciliations after they have been reviewed. Investment balances will be included in bank reconciliations and interest payments will be recorded quarterly to the Utility accounting system.

Conclusion – Response accepted.

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2020

(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 – Monthly utility reconciliations were not reviewed by an independent person.

Cause – Procedures have not been designed and implemented to ensure utility reconciliations have been reviewed by an independent person.

Effect – Lack of independent review could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Recommendation – The Utility Trustees or a designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The Utility removed two Board Trustees from the bank signature cards in May 2019 and are requiring them to review, sign, and date utility reconciliations after they have been reviewed.

Conclusion – Response accepted.

(D) Computer System

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

Condition – The Utility does not have written policies approved by the Board for requiring password changes and the Utility's software does not require the user to change log-ins/passwords periodically.

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

Effect – Lack of written policies for computer-based systems and implementation of those policies could result in a loss of data or compromised data, resulting in unreliable financial information.

Recommendation – The Utility should develop written policies for Trustee approval that address the above items to improve the Utility's control over its computer system.

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2020

Response – The Utility office had their IT contractor add password protection functions to Utility computers requiring them to be changed every 90 days. The Board will consider revising the employee Computer Use Policy to include additional password protections.

Conclusion – Response accepted.

(E) 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 an integral part of ensuring the reliability and accuracy of the Utility’s financial statements.

Condition – During fiscal year 2020, \$19,165 of interest income was not recorded in the accounting system. This resulted in the Utility’s income statement and balance sheets to be understated. Adjustments were subsequently made to properly report these amounts in the Utility’s financial statements.

Cause – Utility policies have not been established to require independent review of interest income posted to the accounting records to ensure the Utility’s financial statements are accurate and reliable.

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

Recommendation – The Utility should implement procedures to ensure interest income is properly recorded in the Utility’s financial statements.

Response – The Utility will continue to look for ways to improve the procedures. The Utility will start recording quarterly interest received on the certificates of deposit to the accounting records and these postings will be reviewed by an independent individual.

Conclusion – Response accepted.

(F) Compensated Absences

Criteria – An effective internal control system provides for internal controls related to the processing and approval of payroll for employees in accordance with adopted policies of the Utility. Approved policies regarding compensated absence records can help ensure proper payment of payroll expenses.

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2020

Condition – Although the Utility has an established policy for paid vacation time, the Utility has not enforced the vacation time allowed by the policy resulting in excessive carryover of balances. As a result, one employee exceeded his maximum vacation balance by 140 hours. Also, compensated absence balances are not reviewed by an independent person.

Cause – Established vacation accrual policies have not been enforced.

Effect – The lack of enforcing the policy regarding compensated absences could result in inaccurate payouts.

Recommendation – The Utility should review policies regarding vacation accruals and payout of compensated absences upon resignation and ensure established procedures are enforced. In addition, the Board should review compensated absence balances to determine their accuracy.

Response – The Board will review the policies regarding vacation accruals and the payout of compensated absences upon resignation and establish procedures to ensure the policies are enforced.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2020

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – The budget certified by the City of Hudson includes an amount for the Hudson Municipal Electric Utility. Disbursements during the years ended June 30, 2020 did not exceed the amount budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- (4) Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Hudson Municipal Electric Utility officials and employees is carried by the City of Hudson in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – Board Minutes were recorded and published in accordance with Chapter 388.4(4) of the Code of Iowa
- (7) Deposits and Investments – Except as noted, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utility’s investment policy were noted.

A resolution naming official depositories was adopted by the Utility. However, the maximum deposit amount was not included on the depository resolution as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The Utility should adopt a new depository resolution which establishes a maximum deposit amount as required by Chapter 12C.2 of the Code of Iowa.

Response – The Utility will adopt a new depository resolution as required by Chapter 12C.2 of the Code of Iowa.

Conclusion – Response accepted.

- (8) Restricted Donor Activity – No transactions were noted between the Utility, Utility officials, Utility employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.



Hudson Municipal Electric Utility

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy  
Ryan J. Pithan, CPA, Manager  
Jon G. Hanson, Staff Auditor  
Mariama Jammeh, Assistant Auditor