



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

NEWS RELEASE

FOR RELEASE

June 30, 2020

Contact: Marlys Gaston
515/281-5834

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$3,644,088 for the year ended June 30, 2019, a 2.9% increase over the prior year. Disbursements for the year ended June 30, 2019 totaled \$3,525,065, a 7.7% decrease from the prior year. The decrease in disbursements is due primarily to the decrease in costs in the sewer fund associated with an aeration project at the sewer plant in the prior year.

AUDIT FINDINGS:

Sand reported eleven findings related to the receipt and disbursement of taxpayer funds and one finding each pertaining to the Hudson Volunteer Firefighters, Inc. (Firefighters), a blended component unit and the Hudson Library Foundation, a discretely presented component unit. They are found on pages 46 through 54 of this report. The findings address issues such as a lack of segregation of duties, the misposting of material receipt amounts in the financial statements, unallowable use of Tax Increment Financing receipts and incorrect TIF debt reported on the Annual Urban Renewal Report. Sand provided the City, the Firefighters and the Library Foundation with recommendations to address each of these findings.

Eleven of the findings pertaining to the City discussed above are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City'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/>.

###

CITY OF HUDSON

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

JUNE 30, 2019

City of Hudson



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

June 23, 2020

Officials of the City of Hudson
Hudson, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Hudson, Iowa, for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

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

Sincerely,

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

Rob Sand
Auditor of State

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-7
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Cash Basis Statement of Activities and Net Position	A	10-11
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12-13
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	14
Component Unit Financial Statement:		
Combining Cash Basis Statement of Activities and Net Position	D	15
Notes to Financial Statements		16-26
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Funds		28-29
Notes to Other Information – Budgetary Reporting		30
Schedule of the City’s Proportionate Share of the Net Pension Liability		31
Schedule of City Contributions		32-33
Notes to Other Information – Pension Liability		34
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	37
Schedule of Indebtedness	2	38-39
Bond Maturities	3	41
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	42-43
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 <u>Government Auditing Standards</u>		44-45
Schedule of Findings		46-55
Staff		56

City of Hudson

Officials

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

City of Hudson



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

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 aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2019, 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 aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hudson as of June 30, 2019, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

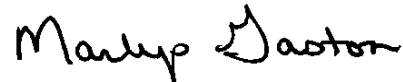
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hudson's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 2018 (which is not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the seven 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, 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 28 through 34, 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 23, 2020 on our consideration of the City of Hudson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Hudson's internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

June 23, 2020

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, 2019

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 590,350	117,075	88,948	-
Public works	337,823	54	295,435	15,093
Health and social services	2,075	-	-	-
Culture and recreation	479,043	39,891	61,721	-
Community and economic development	123,379	4,235	52,421	-
General government	450,376	1,457	48,506	-
Debt service	774,607	-	-	-
Capital projects	7,719	-	-	16,320
Total governmental activities	2,765,372	162,712	547,031	31,413
Business type activities:				
Water	326,699	384,623	9,750	-
Sewer	242,451	327,313	-	-
Storm water	31,076	39,023	-	-
Nonmajor	159,467	155,238	-	-
Total business type activities	759,693	906,197	9,750	-
Total Primary Government	\$ 3,525,065	1,068,909	556,781	31,413
Component Unit:				
Hudson Municipal Electric Utility	\$ 1,670,348	1,904,108	-	-
Hudson Public Library Foundation	8,878	-	13,327	-
Total Component Units	\$ 1,679,226	1,904,108	13,327	-
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				
Sale of capital assets				
Miscellaneous				
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:				
Debt service				
Capital improvements				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Primary Government

Governmental Activities	Business Type Activities	Total	Component Units
----------------------------	-----------------------------	-------	--------------------

(384,327)	-	(384,327)	
(27,241)	-	(27,241)	
(2,075)	-	(2,075)	
(377,431)	-	(377,431)	
(66,723)	-	(66,723)	
(400,413)	-	(400,413)	
(774,607)	-	(774,607)	
8,601	-	8,601	
(2,024,216)	-	(2,024,216)	
-	67,674	67,674	
-	84,862	84,862	
-	7,947	7,947	
-	(4,229)	(4,229)	
-	156,254	156,254	
(2,024,216)	156,254	(1,867,962)	

233,760

4,449

238,209

965,872	-	965,872	-
246,603	-	246,603	-
416,583	-	416,583	-
299,790	-	299,790	-
19,522	-	19,522	-
18,091	3,448	21,539	12,164
5,100	-	5,100	-
11,976	-	11,976	-
(27,248)	27,248	-	-
1,956,289	30,696	1,986,985	12,164
(67,927)	186,950	119,023	250,373
1,969,174	418,652	2,387,826	1,175,168
\$ 1,901,247	605,602	2,506,849	1,425,541

\$ 353,504	-	353,504	-
-	-	-	270,212
167,545	23,585	191,130	305,979
1,380,198	582,017	1,962,215	849,350
\$ 1,901,247	605,602	2,506,849	1,425,541

City of Hudson

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

As of and for the year ended June 30, 2019

	General	Special	
		Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 837,763	-	-
Tax increment financing	-	-	416,583
Other city tax	23,327	299,790	-
Licenses and permits	74,830	-	-
Use of money and property	27,605	3,257	2,508
Intergovernmental	81,292	-	-
Charges for service	74,219	-	-
Miscellaneous	133,712	-	-
Total receipts	1,252,748	303,047	419,091
Disbursements:			
Operating:			
Public safety	511,179	-	-
Public works	326,264	-	-
Health and social services	2,075	-	-
Culture and recreation	441,916	9,174	-
Community and economic development	72,724	-	48,396
General government	439,723	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	1,793,881	9,174	48,396
Excess (deficiency) of receipts over (under) disbursements	(541,133)	293,873	370,695
Other financing sources (uses):			
Sale of capital assets	5,100	-	-
Transfers in	523,030	-	-
Transfers out	(184,451)	(287,426)	(231,335)
Total other financing sources (uses)	343,679	(287,426)	(231,335)
Change in cash balances	(197,454)	6,447	139,360
Cash balances (deficits) beginning of year	1,760,495	123,834	194,910
Cash balances (deficits) end of year	\$ 1,563,041	130,281	334,270
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	-	334,270
Other purposes	-	130,281	-
Unassigned	1,563,041	-	-
Total cash basis fund balances (deficit)	\$ 1,563,041	130,281	334,270

See notes to financial statements.

<u>Revenue</u>				
Road Use Tax	Debt Service	Capital Projects	Nonmajor	Total
-	246,603	-	104,782	1,189,148
-	-	-	-	416,583
-	-	-	-	323,117
-	-	-	-	74,830
-	-	-	4	33,374
294,802	3,755	64,826	4,029	448,704
-	-	-	-	74,219
-	-	-	25,906	159,618
294,802	250,358	64,826	134,721	2,719,593
-	-	-	79,171	590,350
-	-	-	11,559	337,823
-	-	-	-	2,075
-	-	-	27,953	479,043
-	-	-	2,259	123,379
-	-	-	10,653	450,376
-	774,607	-	-	774,607
-	-	7,719	-	7,719
-	774,607	7,719	131,595	2,765,372
294,802	(524,249)	57,107	3,126	(45,779)
-	-	-	-	5,100
-	417,414	58,914	-	999,358
(294,802)	-	-	(28,592)	(1,026,606)
(294,802)	417,414	58,914	(28,592)	(22,148)
-	(106,835)	116,021	(25,466)	(67,927)
-	126,069	(298,847)	62,713	1,969,174
-	19,234	(182,826)	37,247	1,901,247
-	19,234	-	-	353,504
-	-	-	37,264	167,545
-	-	(182,826)	(17)	1,380,198
-	19,234	(182,826)	37,247	1,901,247

City of Hudson

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

As of and for the year ended June 30, 2019

	Enterprise				Total
	Water	Sewer	Storm Water	Nonmajor Garbage	
Operating receipts:					
Charges for service	\$ 384,623	327,313	39,023	155,238	906,197
Miscellaneous	9,750	-	-	-	9,750
Total operating receipts	394,373	327,313	39,023	155,238	915,947
Operating disbursements:					
Business type activities	298,699	242,451	31,076	159,467	731,693
Excess (deficiency) of operating receipts over (under) operating disbursements	95,674	84,862	7,947	(4,229)	184,254
Non-operating receipts:					
Interest on investments	3,434	14	-	-	3,448
Capital outlay	(28,000)	-	-	-	(28,000)
Net non-operating receipts (disbursements)	(24,566)	14	-	-	(24,552)
Excess (deficiency) of receipts over (under) disbursements	71,108	84,876	7,947	(4,229)	159,702
Other financing sources (uses):					
Transfers in	-	34,131	-	-	34,131
Transfers out	-	-	(6,883)	-	(6,883)
Total other financing sources (uses)	-	34,131	(6,883)	-	27,248
Change in cash balances	71,108	119,007	1,064	(4,229)	186,950
Cash balances beginning (deficits) of year	317,463	(112,095)	178,573	34,711	418,652
Cash balances (deficits) end of year	\$ 388,571	6,912	179,637	30,482	605,602
Cash Basis Fund Balances					
Restricted for:					
Deposits	\$ 23,585	-	-	-	23,585
Unrestricted	364,986	6,912	179,637	30,482	582,017
Total cash basis fund balances (deficit)	\$ 388,571	6,912	179,637	30,482	605,602

See notes to financial statements.

City of Hudson

Combining Cash Basis Statement of Activities and Net Position
Discretely Presented Component Units

As of and for the year ended June 30, 2019

	Hudson		Total
	Hudson Municipal Electric Utility	Public Library Foundation	
Disbursements	\$ 1,670,348	8,878	1,679,226
Program receipts:			
Charges for service	1,904,108	-	1,904,108
Operating grants and contributions	-	13,327	13,327
Total program receipts	1,904,108	13,327	1,917,435
General receipts:			
Interest on investments	12,164	-	12,164
Change in cash basis net position	245,924	4,449	250,373
Cash basis net position beginning of year, as restated	883,889	291,279	1,175,168
Cash basis net position end of year	\$ 1,129,813	295,728	1,425,541
Cash Basis Net Position			
Restricted for:			
Deposits	10,251	-	10,251
Capital improvements	270,212	-	270,212
Other purposes	-	295,728	295,728
Unrestricted	849,350	-	849,350
Total cash basis net position	\$ 1,129,813	295,728	1,425,541

See notes to financial statements.

City of Hudson

Notes to Financial Statements

June 30, 2019

(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) and its 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 Units

The Hudson Municipal Electric Utility (HMEU) is legally separate from the City. 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

The Hudson Public Library Foundation is organized as a non-profit entity under Chapter 504A of the Code of Iowa. The purpose for which this corporation is organized is for a charitable purpose which is to be operated exclusively for the independent enhancement and improvement of the Public Library of the City of Hudson, Iowa. The Hudson Public Library Foundation is presented as a discretely presented component unit in these financial statements.

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

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Black Hawk County Assessor's Conference Board, Black Hawk County Emergency Management Commission, Black Hawk County Landfill Commission and Black Hawk County Joint 911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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.

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

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

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

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2019 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
2020	\$ 610,000	166,208	776,208
2021	610,000	152,913	762,913
2022	625,000	139,053	764,053
2023	645,000	122,818	767,818
2024	660,000	105,232	765,232
2025-2029	2,150,000	244,458	2,394,458
2030-2031	355,000	21,400	376,400
Total	\$ 5,655,000	952,082	6,607,082

(4) Pension Plan

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

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 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.81% of covered payroll and the City contributed 10.21% of covered payroll, for a total rate of 17.02%.

The City's contributions to IPERS for the year ended June 30, 2019 were \$72,307.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$387,465 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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, 2018, the City's proportion was 0.006123%, which was an increase of 0.000031% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$73,120, \$150,466 and \$98,397, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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

The actuarial assumptions used in the June 30, 2018 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 2018 valuation were based on the RP-2014 Employee and Health 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%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	<u>100.0%</u>	

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 794,088	387,465	46,574

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, 2019, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 38,000
Sick leave	18,000
Compensatory time	34,000
Total	<u>\$ 90,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2019.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 294,802
	Employee Benefits	28,592
	Local Option Sales Tax	<u>199,636</u>
		<u>523,030</u>
Debt Service	General	179,196
	Special Revenue:	
	Tax Increment Financing	231,335
	Enterprise:	
	Storm Water	<u>6,883</u>
		<u>417,414</u>
Capital Projects	General	5,255
	Special Revenue:	
	Local Option Sales Tax	<u>53,659</u>
		<u>58,914</u>
Enterprise:		
Sewer	Special Revenue:	
	Local Option Sales Tax	<u>34,131</u>
Total		<u>\$ 1,033,489</u>

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

(7) 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.

(8) Deficit Balance

The Capital Projects and Special Revenue, Employee Benefits Funds have deficit balances of \$182,825 and \$17, respectively at June 30, 2019. The deficit balances were a result of project costs and benefit costs incurred prior to the availability of funds. These deficits will be eliminated upon receipt of state grants, allowable transfers from other funds and property tax receipts.

(9) Development Agreements

The City has entered into a development agreement with Casey’s Marketing Company (Developer) for the construction of a retail facility with a minimum assessed value of \$1,000,000. The City agreed to pay the Developer an amount not to exceed \$235,000 subject to annual appropriation by the City Council. The agreement requires up to twenty-one semi-annual payments, provided the Developer is in compliance with the terms of the agreement. During the year ended June 30, 2019, the City rebated \$14,626 of incremental property tax to the Developer. At June 30, 2019, the remaining balance to be paid on the agreement was \$109,561.

The City has entered into a development agreement with Equity Trust Custodian (Developer) (Boever’s Phase I) for the construction of new storage buildings with a minimum assessed value of \$1,250,000. The City agreed to pay the developer an amount not to exceed \$75,000 subject to annual appropriation by the City Council. The agreement requires up to six semiannual payments, provided the developer is in compliance with the terms of the agreement. During the year ended June 30, 2019, the City rebated \$33,770 of the incremental property tax to the developer. At June 30, 2019, the remaining balance to be paid on the agreement was \$15,912.

(10) Tax Abatements

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

City Tax Abatements

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

For the year ended June 30, 2019, the City abated \$16,277 of property tax under the urban renewal and economic development projects.

(11) Contractual Commitments

On January 28, 2019, the City entered into a contract with Peterson Contractors, Inc. for \$783,151 for the completion of the Highway 63 Bike Trail underpass project for services to begin August 12, 2019.

(12) Restatement

Beginning net position for the aggregate discretely presented component unit was restated to correctly report the Hudson Public Library Foundation as a component unit in accordance with the requirements set forth by the Governmental Accounting Standards Board.

	<u>Discretely Presented Component Units</u>
Net Position, June 30, 2018, as previously reported	\$ 883,889
Correction to report the Foundation	<u>291,279</u>
Net Position, July 1, 2018, as restated	<u>\$ 1,175,168</u>

(13) Subsequent Events

In October 2019, the City issued \$2,990,000 of general obligation refunding bonds to refund the City's outstanding general corporate purpose and refunding bonds, series 2011 and to pay the costs of issuing the bonds.

In April 2020, the City awarded bids for the Private Drive PCC Paving Project and Thelma Street Reconstruction Project to Hudson Hardware, Plumbing and Heating for \$283,396 and \$280,284, respectively.

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economies, including that of the City of Hudson, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact to the City's operations and finances.

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, 2019

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 1,189,148	-	-
Tax increment financing	416,583	-	-
Other city tax	323,117	-	-
Licenses and permits	74,830	-	-
Use of money and property	33,374	3,448	4
Intergovernmental	448,704	-	2,200
Charges for service	74,219	906,197	-
Miscellaneous	159,618	9,750	25,906
Total receipts	<u>2,719,593</u>	<u>919,395</u>	<u>28,110</u>
Disbursements:			
Public safety	590,350	-	25,438
Public works	337,823	-	-
Health and social services	2,075	-	-
Culture and recreation	479,043	-	-
Community and economic development	123,379	-	-
General government	450,376	-	-
Debt service	774,607	-	-
Capital projects	7,719	-	-
Business type activities	-	731,693	-
Total disbursements	<u>2,765,372</u>	<u>731,693</u>	<u>25,438</u>
Excess (deficiency) of receipts over (under) disbursements	(45,779)	187,702	2,672
Other financing sources, net	(22,148)	27,248	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(67,927)	214,950	2,672
Balances beginning of year	<u>1,969,174</u>	<u>418,652</u>	<u>34,592</u>
Balances end of year	<u>\$ 1,901,247</u>	<u>633,602</u>	<u>37,264</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
1,189,148	1,188,578	1,188,579	569
416,583	433,678	433,678	(17,095)
323,117	275,405	275,404	47,713
74,830	64,690	64,690	10,140
36,818	22,600	162,600	(125,782)
446,504	828,394	828,394	(381,890)
980,416	1,006,042	1,006,042	(25,626)
143,462	67,800	67,800	75,662
<u>3,610,878</u>	<u>3,887,187</u>	<u>4,027,187</u>	<u>(416,309)</u>
564,912	646,143	646,143	81,231
337,823	804,845	804,845	467,022
2,075	5,000	5,000	2,925
479,043	406,838	561,838	82,795
123,379	150,337	150,337	26,958
450,376	626,937	626,937	176,561
774,607	247,006	247,006	(527,601)
7,719	135,000	135,000	127,281
731,693	868,303	868,303	136,610
<u>3,471,627</u>	<u>3,890,409</u>	<u>4,045,409</u>	<u>573,782</u>
139,251	(3,222)	(18,222)	157,473
5,100	-	-	5,100
144,351	(3,222)	(18,222)	162,573
<u>2,353,234</u>	<u>2,691,329</u>	<u>2,691,329</u>	<u>(338,095)</u>
<u>2,497,585</u>	<u>2,688,107</u>	<u>2,673,107</u>	<u>(175,522)</u>

City of Hudson

Notes to Other Information – Budgetary Reporting

June 30, 2019

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 \$155,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2019, disbursements exceeded the amount budgeted in the debt service function.

City of Hudson

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

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

Other Information

	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.006123%	0.006092%	0.006263%	0.005688%	0.005254%
City's proportionate share of the net pension liability	\$ 387	406	394	301	245
City's covered payroll	\$ 684	642	638	661	627
City's proportionate share of the net pension liability as a percentage of its covered payroll	56.58%	63.24%	61.76%	45.54%	39.07%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

City of Hudson

Schedule of City Contributions

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

Other Information

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 72	63	62	59
Contributions in relation to the statutorily required contribution	<u>(72)</u>	<u>(63)</u>	<u>(62)</u>	<u>(59)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 744	684	642	638
Contributions as a percentage of covered payroll	9.68%	9.21%	9.66%	9.25%

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
59	56	54	54	46	44
(59)	(56)	(54)	(54)	(46)	(44)
-	-	-	-	-	-
661	627	623	669	662	662
8.93%	8.93%	8.67%	8.07%	6.95%	6.65%

City of Hudson

Notes to Other Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

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

Changes of assumptions:

The 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.

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, 2019

	Special Revenue		
	Employee Benefits	Hudson Volunteer	Total
		Firefighters, Inc.	
Receipts:			
Property tax	\$ 104,782	-	104,782
Use of money and property	-	4	4
Intergovernmental	1,829	2,200	4,029
Miscellaneous	-	25,906	25,906
Total receipts	<u>106,611</u>	<u>28,110</u>	<u>134,721</u>
Disbursements:			
Operating:			
Public safety	53,733	25,438	79,171
Public works	11,559	-	11,559
Culture and recreation	27,953	-	27,953
Community and economic development	2,259	-	2,259
General government	10,653	-	10,653
Total disbursements	<u>106,157</u>	<u>25,438</u>	<u>131,595</u>
Excess of receipts over disbursements	454	2,672	3,126
Other financing uses:			
Transfers out	<u>(28,592)</u>	-	<u>(28,592)</u>
Change in cash balances	(28,138)	2,672	(25,466)
Cash balances beginning of year	<u>28,121</u>	<u>34,592</u>	<u>62,713</u>
Cash balances (deficits) end of year	<u>\$ (17)</u>	<u>37,264</u>	<u>37,247</u>
Cash Basis Fund Balances (Deficits)			
Restricted for:			
Other purposes	\$ -	37,264	37,264
Unassigned	<u>(17)</u>	<u>-</u>	<u>(17)</u>
Total cash basis fund balances (deficits)	<u>\$ (17)</u>	<u>37,264</u>	<u>37,247</u>

See accompanying independent auditor's report.

City of Hudson
 Schedule of Indebtedness
 Year ended June 30, 2019

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
3,305,000	-	280,000	3,025,000	104,194
585,000	-	70,000	515,000	15,100
2,360,000	-	245,000	2,115,000	58,813
<u>\$ 6,250,000</u>	-	595,000	5,655,000	178,107

City of Hudson

City of Hudson

Bond Maturities

June 30, 2019

Year Ending June 30,	General Obligation Bonds							Total
	Issued Aug 22, 2011		Issued Jun 24, 2013		Issued Dec 30, 2015			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
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>\$ 3,025,000</u>		<u>\$ 515,000</u>		<u>\$ 2,115,000</u>	<u>5,655,000</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

	2019	2018	2017	2016
Receipts:				
Property tax	\$ 1,189,148	1,193,235	1,146,513	1,148,128
Tax increment financing	416,583	287,894	254,985	136,952
Other city tax	323,117	273,331	309,279	277,588
Licenses and permits	74,830	65,384	75,844	58,796
Use of money and property	33,374	30,120	22,373	33,461
Intergovernmental	448,704	522,669	1,406,140	571,269
Charges for service	74,219	103,539	87,978	62,290
Miscellaneous	159,618	92,788	136,694	49,589
Total	\$ 2,719,593	2,568,960	3,439,806	2,338,073
Disbursements:				
Operating:				
Public safety	\$ 590,350	546,644	573,069	605,518
Public works	337,823	258,121	253,324	324,496
Health and social services	2,075	4,055	4,264	4,400
Culture and recreation	479,043	341,917	341,875	334,502
Community and economic development	123,379	146,764	95,839	83,146
General government	450,376	512,543	504,922	421,041
Debt service	774,607	780,667	557,444	441,130
Capital projects	7,719	230,651	2,235,796	1,355,171
Total	\$ 2,765,372	2,821,362	4,566,533	3,569,404

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
1,094,450	918,582	869,695	807,128	767,740	735,485
86,372	83,749	83,686	85,072	89,587	85,291
278,533	292,538	275,678	288,484	255,398	260,965
61,499	81,857	96,641	98,309	63,266	47,850
296,573	68,434	39,407	59,277	36,051	116,637
320,791	382,499	388,007	650,579	369,220	339,158
57,266	75,066	71,773	90,566	71,704	61,605
102,596	106,085	48,666	107,956	55,207	24,788
2,298,080	2,008,810	1,873,553	2,187,371	1,708,173	1,671,779
443,862	499,380	533,173	606,162	466,753	390,220
297,465	393,628	401,690	324,787	420,462	339,263
2,200	2,366	-	2,750	3,000	3,000
308,135	343,113	384,374	402,206	362,891	319,378
69,772	37,388	66,861	52,982	46,994	43,225
377,813	275,916	243,496	240,157	192,430	245,411
432,648	68,876	121,053	200,988	200,388	199,338
785,252	1,409,890	731,035	2,653,824	289,216	80,341
2,717,147	3,030,557	2,481,682	4,483,856	1,982,134	1,620,176



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

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hudson, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2020. 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 (F) 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, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

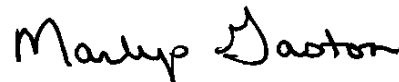
City of Hudson's Responses to the Findings

The City of Hudson's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Hudson's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of The City of Hudson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Marlys K. Gaston, CPA
Deputy Auditor of State

June 23, 2020

City of Hudson

Schedule of Findings

Year ended June 30, 2019

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

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

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

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

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

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

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

Conclusion – Response accepted.

City of Hudson

Schedule of Findings

Year ended June 30, 2019

(B) Segregation of Duties – Component Units

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 each component unit's financial statements.

Condition – For the Hudson Volunteer Firefighters, Inc. (Firefighters) and the Hudson Library Foundation, the depositing and posting of cash receipts to the cash receipts journal are performed by the same person. Additionally, for the Library Foundation, disbursement preparation and check signing are performed by the same person and bank reconciliations are not periodically independently reviewed.

Cause – The Firefighters and Library Foundation have a limited number of Board members 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 Firefighters and Library Foundation's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – We realize segregation of duties is difficult with a limited number of Board members. However, operating procedures should be reviewed to obtain maximum internal control possible under the circumstances.

Responses –

Hudson Volunteer Firefighters, Inc. – In the future, the Hudson Volunteer Firefighters will evaluate the need to have two separate people do the cash deposits and the cash receipts journal posting.

Library Foundation – The Hudson Library Foundation will establish internal control procedures to ensure that a greater degree of oversight is integrated into their cash management procedures. While the Library Director will continue to receive the funds and the Hudson Library Foundation Treasurer will continue to deposit the funds, the Vice President of the Foundation will quarterly review and sign off on the monthly bank reconciliations as prepared by the Foundation Treasurer.

Conclusion – Library Foundation response accepted. To properly safeguard assets, the Hudson Volunteer Firefighters, Inc. should review control procedures to obtain the maximum internal control possible.

City of Hudson

Schedule of Findings

Year ended June 30, 2019

(C) 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 2019, certain material amounts of receipts were not posted correctly.

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

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

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

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

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

Conclusion – Response accepted.

(D) Interest Earned

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

Condition – At June 30, 2019, \$618 of interest earned and added to the CD value was not properly recorded in the City's financial statements.

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

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

City of Hudson

Schedule of Findings

Year ended June 30, 2019

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

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

Conclusion – Response accepted.

(E) Computer System

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

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

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

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

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

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

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over its computer system. A written disaster recovery plan, complete with all essential elements, should also be developed and periodically tested.

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

Conclusion – Response acknowledged. The City should also develop a written disaster recovery plan that includes all essential elements and should periodically test the plan.

City of Hudson

Schedule of Findings

Year ended June 30, 2019

(F) Credit Card Expenditures

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity’s governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper usage and supporting documentation for credit cards.

Condition – Of the five credit card payments tested, we identified payments for late fees of \$72.74 and sales tax of \$77.94.

Cause – Although a credit card policy exists, the policy does not address the timeliness of payments to prevent late fees or the exemption of sales tax.

Effect – The lack of a policy addressing the payment of late fees and sales tax could result in improper charges.

Recommendation – The City should establish policies and procedures to address the payment of late fees and sales tax. The City should ensure sales tax is not paid on purchases and consider changing due dates for certain credit cards to ensure payment can be made before the due date to ensure late fees are not incurred.

Response – Regarding the late fee and sales tax, the City will work with the library director and the library board to write a policy that allows the library director, or staff, to submit bills to the City that have due dates before their board meeting. The library board can then approve those payments at their next meeting.

Conclusion – Response acknowledged. The City should also address the payment of sales tax in their policy.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hudson

Schedule of Findings

Year ended June 30, 2019

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

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

Conclusion – Response accepted.

- (2) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. Certain disbursements were noted which we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Capella University	Tuition related to Master of Public Administration for the City Clerk in advance of classes taken	\$ 17,994

Recommendation – According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved scrutiny. The line to be drawn between a proper and improper purpose is very thin. In addition, the City’s Personnel Policy Manual 5.7.3 states reimbursement is dependent on the completion of the course by the employee. Tuition should be paid only after determination and documentation of the public benefit and after completion of the course.

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

Conclusion – Response accepted.

City of Hudson

Schedule of Findings

Year ended June 30, 2019

- (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:

Name, Title and Business Connection	Transaction Description	Amount
Jo Kramer, part-time Library employee, custodial contractor	Custodial service, per bid	\$ 5,125
Brenda Engel, City Council Member, Office Manager of Hudson Hardware Plumbing and Heating	Repair supplies	74,188
Kate Wyatt, City Council Member, Finance Manager of Bill Colwell Ford	Vehicle maintenance	5,771

The transactions for custodial service do not appear to represent a conflict of interest since they were entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

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

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

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

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (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.

City of Hudson

Schedule of Findings

Year ended June 30, 2019

- (8) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report (AFR) contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the City and all expenditures ...” We noted certain receipts and disbursements did not agree with the City’s records. Total receipts were overstated \$53,546 and total disbursements were overstated \$21,799. Transfers in and out did not agree with City records.

The ending balances reported did not agree with the City’s records. The governmental fund total ending balance was overstated by \$26,318 and the proprietary fund total ending balance was overstated by \$7,165.

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

Response – The City will comply.

Conclusion – Response accepted.

- (9) Financial Condition – The Capital Projects Fund and the Special Revenue, Employee Benefit’s Fund had a deficit balance of \$182,826 and \$17, respectively, at June 30, 2019.

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

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

Conclusion – Response accepted.

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

- Based on a review of the December 12, 2017 and December 12, 2018 TIF reconciliations provided to the City by the County Auditor:
 - The City did not decertify the 2006 refunded bonds which were previously certified as TIF debt outstanding.
 - The total amount of \$2,648,445 certified as the TIF portion of the 2011 general obligation bonds is overstated by \$194,110 based on support provided by the City.

City of Hudson

Schedule of Findings

Year ended June 30, 2019

- The City under-certified their developer agreement with Equity Trust Custodian (Developer) (Boever's Phase I) by \$12,426.
- The City has yet to certify the agreement with Casey's Marketing Company which is reported on Form 2 of the urban renewal area indebtedness certification.
- During the year ended June 30, 2019, the City transferred \$231,335 from the TIF fund to the Debt Service Fund for the payment of debt related to the 2011, 2013 and 2015 general obligation bonds. However, the 2013 general obligation bond has yet to be certified.
- During the year ended June 30, 2019, the City transferred \$140,290 from the TIF fund to various Capital Project funds to eliminate deficit balances in certain capital projects funds. These transfers do not represent TIF debt obligations and, accordingly, are not an allowable use of tax increment financing receipts. This was properly adjusted for reporting purposes.

Recommendation – The City should decertify the 2006 refunded bonds. The City should review TIF debt certifications to determine the amount over certified for principal and interest payments already reimbursed by the County, as well as the amounts under certified on developer agreements. The excess balance certified should be decertified to the County Auditor using Form 3 to correct the error and amounts under-certified on the developer agreements should be certified. Also, the City should certify the 2013 bonds if they are an allowable TIF obligation and ensure amounts transferred made from the TIF fund are only for allowable certified TIF obligations.

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

Conclusion – Response accepted.

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

However, the following exceptions were noted:

- The City's beginning cash balance, receipts and disbursements of the Special Revenue, Urban Renewal Tax Increment Fund reported on the 2018 Annual Urban Renewal Levy Authority Summary did not agree with the City's general ledger.
- The amount reported by the City as TIF debt outstanding for the 2011 general obligation bond was overstated by \$389,235.
- The amount reported by the City as TIF rebates outstanding was overstated by \$52,018.

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

City of Hudson

Schedule of Findings

Year ended June 30, 2019

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

Conclusion – Response accepted.

City of Hudson

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Suzanne R. Dahlstrom, CPA, Manager
Sarah J. Swisher, Senior Auditor II
Nathan A. DeWit, Assistant Auditor
Matthew K. Nnanna, Assistant Auditor