



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

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**NEWS RELEASE**

Contact: Ernest Ruben  
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FOR RELEASE

March 16, 2022

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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 \$1,987,171 for the year ended June 30, 2021, a 4.8% increase over the prior year. Disbursements for the year ended June 30, 2021 totaled \$1,920,104, a 21.8% increase over the prior year. The significant increase in disbursements is due primarily to an increase in work done on system upgrades in fiscal year 2021.

**AUDIT FINDINGS:**

Sand reported four findings related to the receipt and disbursement of taxpayer funds. They are found on pages 26 through 29 of this report. The findings address issues such as a lack of segregation of duties, and lack of independent review of bank and utility reconciliations. Sand provided the Utility with recommendations to address each of the findings.

All the 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**  
**BASIC FINANCIAL STATEMENT**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**  
  
**JUNE 30, 2021**

**Hudson Municipal Electric Utility**



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March 1, 2022

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, 2021. 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>
Wanda Birdsong	Chairperson	Jan 2026
Dan Takle	Vice Chairperson	Jan 2025
Dan Brobst	Trustee	Jan 2022
Gareth Downey	Trustee	Jan 2023
Reed Braden	Trustee	Jan 2024
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, 2021, 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, 2021 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.

Emphasis of Matter

As discussed in Note 7, the Board of Trustees elected to dispose of the City Utility by sale. The financial statements do not include any adjustments that might result from the outcome of the sale. 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, 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 14 through 20, 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 March 1, 2022 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  
Chief Deputy Auditor of State

March 1, 2022



**Basic Financial Statement**

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

As of and for the year ended June 30, 2021

	2021	2020
Operating receipts:		
Intergovernmental	\$ -	30,000
Charges for service	1,961,126	1,838,002
Miscellaneous	15,277	16,389
Total operating receipts	1,976,403	1,884,391
Operating disbursements:		
Business type activities	1,790,737	1,576,815
Excess of operating receipts over operating disbursements	185,666	307,576
Non-operating receipts (disbursements):		
Interest on investments	10,768	11,021
Capital outlay	(129,367)	-
Net non-operating receipts (disbursements)	(118,599)	11,021
Change in cash balance	67,067	318,597
Cash balance beginning of year	1,448,410	1,129,813
Cash balance end of year	\$ 1,515,477	1,448,410
<b>Cash Basis Fund Balance</b>		
Restricted for:		
Customer deposits	\$ 11,059	12,895
Capital improvements	329,169	363,671
Total restricted cash basis fund balance	340,228	376,566
Unrestricted	1,175,249	1,071,844
Total cash basis fund balance	\$ 1,515,477	1,448,410

See notes to financial statement.

Hudson Municipal Electric Utility

Notes to Financial Statement

June 30, 2021

**(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, 2021 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 2021, 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, 2021 and 2020 were \$14,580 and \$13,386, respectively.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – June 30, 2021, the Utility reported a liability of \$125,512 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 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, 2020, the Utility’s proportion was 0.001787%, which was an increase of 0.000012% over its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Utility’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$19,256, \$23,957, and \$13,295, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2020 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, 2020 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 2020 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 geometric 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%	4.43%
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
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 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 2021 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	\$ 209,280	125,512	55,273

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, 2021 is as follows:

Type of Benefit	Amount
Vacation	\$ 18,000
Sick leave	2,000
Compensatory time	11,000
Total	<u>\$ 31,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2021.

#### **(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, HMEU has not seen a loss of sales due to the COVID-19 pandemic. 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.

#### **(7) Subsequent Event**

Electric service is currently provided to Hudson residents by two providers, Hudson Municipal Electric Utility (HMEU) and MidAmerican Energy Company (MidAmerican). The Board of Trustees of HMEU has considered alternatives and determined that a sale of HMEU to MidAmerican would likely reduce rates paid by current HMEU customers and eliminate differences in the cost of electricity within the community. At the December 15, 2020 meeting, the HMEU Board of Trustees approved for a timeline to be prepared to complete tasks needed to comply with Chapter 388.2A of the Code of Iowa, "Procedures for disposal of city utility by sale". HMEU contracted with Ahlers & Cooney, P.C. to assist in the sale of the utility. A special election was held on September 14, 2021 to sell the utility to MidAmerican Energy, the vote subsequently passed and MidAmerican Energy gained possession of HMEU on January 1, 2022.

## **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, 2021

	Actual	Original/Final Budgeted Amounts	Final to Net Variance
Receipts:			
Use of money and property	\$ 10,768	-	10,768
Charges for service	1,961,127	2,005,051	(43,924)
Miscellaneous	15,277	6,000	9,277
Total receipts	1,987,172	2,011,051	(23,879)
Disbursements:			
Business type activities	1,920,105	2,011,051	90,946
Change in cash balance	67,067	-	67,067
Cash balance beginning of year	1,448,410	1,205,704	242,706
Cash balance end of year	\$ 1,515,477	1,205,704	309,773

See accompanying independent auditor's report.

Hudson Municipal Electric Utility

Notes to Other Information – Budgetary Reporting

June 30, 2021

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, 2021, 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 Seven Years\*  
(In Thousands)

Other Information

	2021	2020	2019	2018
Utility's proportion of the net pension liability	0.001787%	0.001775%	0.001676%	0.001642%
Utility's proportionate share of the net pension liability	\$ 126	103	106	109
Utility's covered payroll	\$ 142	162	126	123
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	88.73%	63.58%	84.13%	88.62%
IPERS' net position as a percentage of the total pension liability	82.90%	85.45%	83.62%	82.21%

\* 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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2017	2016	2015
0.001691%	0.001743%	0.001712%
106	86	69
121	121	114
87.60%	71.07%	60.53%
81.82%	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

	2021	2020	2019	2018
Statutorily required contribution	\$ 15	13	15	11
Contributions in relation to the statutorily required contribution	(15)	(13)	(15)	(11)
Contribution deficiency (excess)	\$ -	-	-	-
Utility's covered payroll	\$ 154	142	162	126
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%	8.93%

See accompanying independent auditor's report.

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2017	2016	2015	2014	2013	2012
11	11	11	10	9	8
(11)	(11)	(11)	(10)	(9)	(8)
-	-	-	-	-	-
123	121	121	114	109	103
8.93%	8.93%	8.93%	8.93%	8.67%	8.07%

Hudson Municipal Electric Utility

Notes to Other Information – Pension Liability

Year ended June 30, 2021

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, 2021

	Electric Operating	Meter Deposit	System Upgrades	Total
Operating receipts:				
Charges for service	\$ 1,866,261	-	94,865	1,961,126
Miscellaneous	5,765	9,512	-	15,277
Total operating receipts	1,872,026	9,512	94,865	1,976,403
Operating disbursements:				
Business type activities	1,779,389	11,348	-	1,790,737
Excess of operating receipts over operating disbursements	92,637	(1,836)	94,865	185,666
Non-operating receipts (disbursements):				
Interest on investments	10,768	-	-	10,768
Capital outlay	-	-	(129,367)	(129,367)
Net non-operating receipts (disbursements)	10,768	-	(129,367)	(118,599)
Change in cash balances	103,405	(1,836)	(34,502)	67,067
Cash balances beginning of year	1,071,844	12,895	363,671	1,448,410
Cash balances end of year	\$ 1,175,249	11,059	329,169	1,515,477
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Customer deposits	\$ -	11,059	-	11,059
Capital improvements	-	-	329,169	329,169
Total restricted cash basis fund balances	-	11,059	329,169	340,228
Unrestricted	1,175,249	-	-	1,175,249
Total cash basis fund balances	\$ 1,175,249	11,059	329,169	1,515,477

See accompanying independent auditor's report.



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

Rob Sand  
Auditor of State

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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, 2021, and the related Notes to Financial Statement, and have issued our report thereon dated March 1, 2022. 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 as a basis for designing 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.

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 Utility's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. We consider the deficiencies described in the accompany Schedule of Findings as items (A) through (C) to be material weaknesses.

## 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 financial statements. 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, 2021 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.

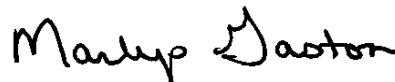
## The Hudson Municipal Electric Utility's Responses to the Findings

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  
Chief Deputy Auditor of State

March 1, 2022

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2021

**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.
- (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) 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.

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, to provide additional controls through review of financial transactions, reconciliations and financial reports. Independent reviews of reconciliations, transactions and financial reports, including 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.

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2021

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.

Conclusion – Response acknowledged. The Utility should utilize currently available personnel, including officials, to provide independent reviews.

(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 – Bank reconciliations were prepared on a monthly basis, however, there was no evidence of review by an independent person.

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

Effect – Lack of an independent review of bank reconciliations can result in unrecorded transactions, undetected errors and the opportunity for misappropriation.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be reviewed by an independent person. The review should be documented by signature or initials of the reviewer and the date of the review.

Response – The Utility will follow the recommendations of the State Auditor and institute a procedure that will have an independent Board member review the bank reconciliation.

Conclusion – Response accepted.

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

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances. If these reconciliations are not performed by someone independent of billing, collecting or reporting, it is important the reconciliations be reviewed by an independent person.

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.

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2021

Response – The Utility will follow the recommendations of the State Auditor and institute a procedure that will have an independent Board member audit the receivables and delinquencies.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Hudson Municipal Electric Utility

Schedule of Findings

Year ended June 30, 2021

**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, 2021 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) 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.
- (6) 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.
- (7) Board Minutes – Board Minutes were recorded and published in accordance with Chapter 388.4(4) of the Code of Iowa
- (8) 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.



Hudson Municipal Electric Utility

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Chief Deputy  
Ryan J. Pithan, CPA, Manager  
Tristan J. Swiggum, Staff Auditor  
Laurel P. Hoogensen, Assistant Auditor