



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

Contact: Ernest Ruben
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FOR RELEASE

February 16, 2023

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 \$4,975,046 for the eight months ended February 28, 2022, a 150.4% increase over the prior year. Disbursements for the eight months ended February 28, 2022, totaled \$4,985,557, a 159.7% increase over the prior year. The increase in receipts and disbursements is due primarily to the sale of the utility to Mid-American and the refunds provided to the customers from the proceeds of the sale. The Utility was sold to Mid-American Energy on January 21, 2022 who now provides utility service.

AUDIT FINDINGS:

Sand reported five findings related to the receipt and disbursement of taxpayer funds and statutory compliance. They are found on pages 28 through 31 of this report. The findings address issues such as a lack of segregation of duties, lack of independent review of bank and utility reconciliations and disbursements exceeding budgeted amounts. Sand provided the Utility with recommendations to address each of the findings.

Four of the five 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 [Audit Reports – Auditor of State](#).

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HUDSON MUNICIPAL ELECTRIC UTILITY

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

EIGHT MONTHS ENDED FEBRUARY 28, 2022

Hudson Municipal Electric Utility



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Rob Sand
Auditor of State

January 3, 2023

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 eight months ended February 28, 2022. 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
Gareth Downey	Trustee	Jan 2023
Reed Braden	Trustee	Jan 2024
Dan Brobst	Trustee	Jan 2025
Sue Theisen	Office Manager	Indefinite
Jerry Zipse	Billing Clerk	Indefinite
Dennis Suckow	Utility Tech	Indefinite

Hudson Municipal Electric Utility



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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statement of the business type activities of the Hudson Municipal Electric Utility, Hudson, Iowa, as of and for the eight months ended February 28, 2022, and the related Notes to Financial Statement, which collectively comprise the City's basic financial statement as listed in the table of contents.

In our opinion, the financial statement referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities of the Hudson Municipal Electric Utility as of February 28, 2022, and the respective changes in cash basis financial position for the eight months then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statement section of our report. We are required to be independent of the Hudson Municipal Electric Utility, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 5 to the financial statements, the Hudson Municipal Electric Utility was sold to Mid-American Energy on January 21, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hudson Municipal Electric Utility's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Hudson Municipal Electric Utility's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hudson Municipal Electric Utility's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the Hudson Municipal Electric Utility's basic 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.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises 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 16 through 22 but does not include the basic financial statement and our auditor's report thereon. Our opinions on the basic financial statement do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statement, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 3, 2023, 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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

January 3, 2023

Basic Financial Statement

Hudson Municipal Electric Utility
Statement of Cash Receipts, Disbursements and
Changes in Cash Balance
As of and for the eight months ended February 28, 2022

	February 28, 2022
Operating receipts:	
Charges for service	\$ 1,137,571
Miscellaneous	8,333
Total operating receipts	1,145,904
Operating disbursements:	
Business type activities	1,611,440
Excess of operating receipts over operating disbursements	(465,536)
Non-operating receipts (disbursements):	
Interest on investments	5,317
Sale of capital assets	13,825
Proceeds from sale of Utility	3,810,000
Refund to customers	(3,374,117)
Net non-operating receipts (disbursements)	455,025
Change in cash balance	(10,511)
Cash balance beginning of year	1,515,477
Cash balance end of year	\$ 1,504,966
Cash Basis Fund Balance	
Unrestricted	\$ 1,504,966
Total cash basis fund balance	\$ 1,504,966

See notes to financial statement.

Hudson Municipal Electric Utility

Notes to Financial Statement

February 28, 2022

(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. Unrestricted Cash Basis Fund Balance

Unrestricted fund balance is often subject to constraints imposed by management which can be removed or modified.

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 February 28, 2022 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.

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 2022, 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 eight months ended February 28, 2022 were \$9,420.

Net Pension Liability (Asset), Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – February 28, 2022, the Utility reported a liability of \$2,668 for its proportionate share of the overall plan net pension asset. The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the overall plan net pension asset was determined by an actuarial valuation as of that date. The Utility’s proportion of the overall plan net pension asset was based on the Utility’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2021, the Utility’s proportion was (0.000773%), which was an decrease of 0.002560% from its proportion measured as of June 30, 2020.

For the eight months ended February 28, 2022, the Utility’s pension expense (reduction), deferred outflows of resources and deferred inflows of resources totaled (\$9,275), \$17,558 and \$112,480, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total Pension Liability (asset) in the June 30, 2021 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, 2021 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 2021 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:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	4.43%
International equity	17.5	6.01
Global smart beta equity	6.0	5.10
Core plus fixed income	26.0	0.29
Public credit	4.0	2.08
Cash	1.0	(0.25)
Private equity	13.0	9.51
Private real assets	7.5	4.63
Private credit	3.0	2.87
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 (Asset) to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net Pension Liability (asset) for fiscal year 2022 calculated using the discount rate of 7.00%, as well as what the Utility's proportionate share of the net Pension Liability (asset) would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Utility's proportionate share of the net pension liability (asset)	\$ 94,423	2,668	(74,229)

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.

(4) 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.

(5) Sale of Utility

The Hudson Municipal Electric Utility was sold to Mid American Energy on January 21, 2022. The last meter readings were obtained on January 20th and used for the final utility bill on January 31, 2022. After the sale, the board determined the current HMEU staff should be retained until February 28, 2022, and then after that date the City of Hudson would take control over the financial records. Additionally, the Board decided to stay intact for four months after the sale date. Furthermore, HMEU determined that it would use the proceeds from the sale to Mid American to issue rebates to customers. HMEU hired a consultant to set the rate at which the rebates were issued and determined the rate payers would receive 67% of what they paid to HMEU from January 1, 2019 to December 31, 2021. On January 18, 2022, the HMEU board approved a payment of \$300,000 to the City of Hudson to be held in reserve for a contingency fund for future liabilities, for a period of 36 months, after which the balance of the reserves will be released to the City of Hudson subject to Iowa Code 384.

Other Information

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

Eight Months Ended February 28, 2022

	Actual	Original/Final Budgeted Amounts	Final to Net Variance
Receipts:			
Use of money and property	\$ 5,317	-	5,317
Charges for service	1,137,571	1,925,500	(787,929)
Miscellaneous	22,158	16,165	5,993
Total receipts	1,165,046	1,941,665	(776,619)
Disbursements:			
Business type activities	4,985,557	1,941,665	(3,043,892)
Deficiency of receipts under disbursements	(3,820,511)	-	(3,820,511)
Other financing sources	3,810,000	-	3,810,000
Change in cash balance	(10,511)	-	(10,511)
Cash balance beginning of year	1,515,477	1,475,410	40,067
Cash balance end of year	\$ 1,504,966	1,475,410	29,556

See accompanying independent auditor's report.

Hudson Municipal Electric Utility

Notes to Other Information – Budgetary Reporting

February 28, 2022

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 eight months ended February 28, 2022, disbursements exceeded the amount budgeted.

Hudson Municipal Electric Utility

Schedule of the Utility's Proportionate Share of the Net Pension Liability (Asset)

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

Other Information

	2022	2021	2020	2019
Utility's proportion of the net pension liability	(0.000773%) **	0.001787%	0.001775%	0.001676%
Utility's proportionate share of the net pension liability	\$ 3	126	103	106
Utility's covered payroll	\$ 154	142	162	126
Utility's proportionate share of the net pension liability as a percentage of its covered payroll	1.95%	88.73%	63.58%	84.13%
IPERS' net position as a percentage of the total pension liability	100.81%	82.90%	85.45%	83.62%

* 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.

** Overall plan net pension asset.

See accompanying independent auditor's report.

2018	2017	2016	2015
0.001642%	0.001691%	0.001743%	0.001712%
109	106	86	69
123	121	121	114
88.62%	87.60%	71.07%	60.53%
82.21%	81.82%	85.19%	87.61%

Hudson Municipal Electric Utility

Schedule of Utility Contributions

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

Other Information

	2022	2021	2020	2019
Statutorily required contribution	\$ 9	15	13	15
Contributions in relation to the statutorily required contribution	(9)	(15)	(13)	(15)
Contribution deficiency (excess)	\$ -	-	-	-
Utility's covered payroll	\$ 100	154	142	162
Contributions as a percentage of covered payroll	9.44%	9.44%	9.44%	9.44%

See accompanying independent auditor's report.

2018	2017	2016	2015	2014	2013
11	11	11	11	10	9
(11)	(11)	(11)	(11)	(10)	(9)
-	-	-	-	-	-
126	123	121	121	114	109
8.93%	8.93%	8.93%	8.93%	8.93%	8.67%

Hudson Municipal Electric Utility

Notes to Other Information – Pension Liability (Asset)

Eight Months Ended February 28, 2022

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 eight months ended February 28, 2022

	Electric Operating	Meter Deposit	System Upgrades	Total
Operating receipts:				
Charges for service	\$ 1,099,366	-	38,205	1,137,571
Miscellaneous	4,024	4,309	-	8,333
Total operating receipts	<u>1,103,390</u>	<u>4,309</u>	<u>38,205</u>	<u>1,145,904</u>
Operating disbursements:				
Business type activities	<u>1,596,052</u>	<u>15,368</u>	<u>20</u>	<u>1,611,440</u>
Excess of operating receipts over operating disbursements	<u>(492,662)</u>	<u>(11,059)</u>	<u>38,185</u>	<u>(465,536)</u>
Non-operating receipts (disbursements):				
Interest on investments	5,317	-	-	5,317
Sale of capital assets	13,825	-	-	13,825
Proceeds from sale of Utility	3,810,000	-	-	3,810,000
Refund to customers	<u>(3,374,117)</u>	<u>-</u>	<u>-</u>	<u>(3,374,117)</u>
Net non-operating receipts (disbursements)	<u>455,025</u>	<u>-</u>	<u>-</u>	<u>455,025</u>
Change in cash balances	(37,637)	(11,059)	38,185	(10,511)
Cash balances beginning of year	<u>1,175,249</u>	<u>11,059</u>	<u>329,169</u>	<u>1,515,477</u>
Cash balances end of year	<u>\$ 1,137,612</u>	<u>-</u>	<u>367,354</u>	<u>1,504,966</u>
Cash Basis Fund Balances				
Unrestricted	<u>1,137,612</u>	<u>-</u>	<u>367,354</u>	<u>1,504,966</u>
Total cash basis fund balances	<u>\$ 1,137,612</u>	<u>-</u>	<u>367,354</u>	<u>1,504,966</u>

See accompanying independent auditor's report.



**OFFICE OF 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 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 auditing standards generally accepted in the United States of America 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 eight months ended February 28, 2022, and the related Notes to Financial Statement, and have issued our report thereon dated January 3, 2023. Our report expressed unmodified opinions on the financial statement which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Report on 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 (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 that a material misstatement of the City'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 first paragraph of this section 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 were not identified. We identified certain deficiencies in internal control, described in of the accompanying Schedule of Findings as items 2022-001 through 2022-003 to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hudson Municipal Electric Utility's financial statement are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance 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 Utility's operations for the eight months ended February 28, 2022 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements 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.

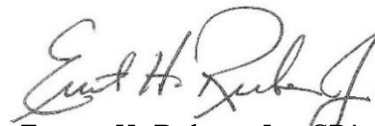
Hudson Municipal Electric Utility's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Hudson Municipal Electric Utility's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Hudson Municipal Electric Utility's responses were not subjected to the other auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on the responses.

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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

January 3, 2023

Hudson Municipal Electric Utility

Schedule of Findings

Eight Months Ended February 28, 2022

Finding Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

2022-001 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.

Hudson Municipal Electric Utility

Schedule of Findings

Eight Months Ended February 28, 2022

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

Response – Due to the size of our Utility office, segregation of duties is difficult. The Utility was sold in Fiscal Year 2022.

Conclusion – Response accepted.

2022-002 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 have been reviewed by an independent person.

Effect – Lack of 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 was sold during Fiscal Year 2022 and there will no longer be any bank reconciliations.

Conclusion – Response accepted.

2022-003 Reconciliation of Utility Billings, Collections and Delinquent Accounts

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

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

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

Hudson Municipal Electric Utility

Schedule of Findings

Eight Months Ended February 28, 2022

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

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

Response – The Utility was sold during Fiscal Year 2022 and there will no longer be any receivables or delinquencies.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Hudson Municipal Electric Utility

Schedule of Findings

Eight Months Ended February 28, 2022

Other Findings Related to Required Statutory Reporting:

2022-A Certified Budget – The budget certified by the City of Hudson includes an amount for the Hudson Municipal Electric Utility. Disbursements during the eight months ended February 28, 2022 exceeded the amount budgeted in the business type activities function.

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 – Expenditures exceeded budgeted amounts due to the Utility being sold and refunds of approximately \$3.3 million being refunded to customers. The sale of the Utility was not known at the time of the original budget.

Conclusion – Response accepted.

2022-B 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.

2022-C Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.

2022-D Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.

2022-E 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.

2022-F Board Minutes – Board Minutes were recorded and published in accordance with Chapter 388.4(4) of the Code of Iowa

2022-G 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 was sold, and all funds were transferred over to the City of Hudson to pay any final obligations of the Utility.

Conclusion – Response accepted.

2022-H Restricted Donor Activity – No transactions were noted between the Utility, Utility officials, Utility employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

Hudson Municipal Electric Utility

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Deputy
Ryan J. Pithan, CPA, Manager
Tristan J. Swiggum, Staff Auditor
Miranda L. Hoch-deGuzman, Assistant Auditor