



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

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NEWS RELEASE

FOR RELEASE

June 22, 2018

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

The City's receipts totaled \$112,838 for the year ended June 30, 2017. The receipts included \$16,165 of property tax, \$70,425 of charges for service, \$11,120 of operating grants, contributions and restricted interest, \$5,000 of capital grants, contributions and restricted interest, \$8,911 of local option sales tax, \$648 of unrestricted interest on investments and \$569 of commercial/industrial tax replacement.

Disbursements for the year ended June 30, 2017 totaled \$100,529, and included \$28,108 for public works, \$4,305 for community and economic development and \$10,776 for general government. Also, disbursements for business type activities totaled \$54,420.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1722-0503-B00F>.

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CITY OF HARPER
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2017

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City of Harper

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bernard Greiner	Mayor	Jan 2018
Connie Baker	Council Member	Jan 2018
Kay Beinhart	Council Member	Jan 2018
Heather Snedigar	Council Member	Jan 2018
Randy Altenhofen	Council Member	Jan 2020
Barb Gretter	Council Member	Jan 2020
Niki Osweiler	City Clerk/Treasurer	Indefinite

City of Harper



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Harper, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distributions by fund of the total fund balances at July 1, 2016.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2016, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Harper as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harper's basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 22 through 28, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2018 on our consideration of the City of Harper's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Harper's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

June 14, 2018

City of Harper

Basic Financial Statements

City of Harper

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,029	8,810	390	-
Public works	28,108	-	10,058	-
Culture and recreation	891	-	-	-
Community and economic development	4,305	175	-	-
General government	10,776	-	672	-
Total governmental activities	46,109	8,985	11,120	-
Business type activities:				
Water	24,435	31,042	-	5,000
Sewer	29,985	30,398	-	-
Total business type activities	54,420	61,440	-	5,000
Total	\$ 100,529	70,425	11,120	5,000
General Receipts:				
Property and other city tax levied for:				
General purposes				
Local option sales tax				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Unrestricted				
Total cash basis net position				
See notes to financial statements.				

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
7,171	-	7,171
(18,050)	-	(18,050)
(891)	-	(891)
(4,130)	-	(4,130)
(10,104)	-	(10,104)
(26,004)	-	(26,004)
-	6,607	6,607
-	5,413	5,413
-	12,020	12,020
(26,004)	12,020	(13,984)
16,165	-	16,165
8,911	-	8,911
569	-	569
648	-	648
26,293	-	26,293
289	12,020	12,309
113,912	60,014	173,926
\$ 114,201	72,034	186,235
\$ 6,630	-	6,630
107,571	72,034	179,605
\$ 114,201	72,034	186,235

Exhibit B

City of Harper

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

As of and for the year ended June 30, 2017

	General	Special Revenue Road Use Tax	Total
Receipts:			
Property tax	\$ 16,165	-	16,165
Other city tax	8,911	-	8,911
Licenses and permits	175	-	175
Use of money and property	648	-	648
Intergovernmental	959	10,058	11,017
Charges for service	8,810	-	8,810
Miscellaneous	672	-	672
Total receipts	<u>36,340</u>	<u>10,058</u>	<u>46,398</u>
Disbursements:			
Operating:			
Public safety	2,029	-	2,029
Public works	9,273	18,835	28,108
Culture and recreation	891	-	891
Community and economic development	4,305	-	4,305
General government	10,776	-	10,776
Total disbursements	<u>27,274</u>	<u>18,835</u>	<u>46,109</u>
Excess (deficiency) of receipts over (under) disbursements	<u>9,066</u>	<u>(8,777)</u>	<u>289</u>
Other financing sources (uses):			
Transfers in	-	10,000	10,000
Transfers out	(10,000)	-	(10,000)
Total other financing sources (uses)	<u>(10,000)</u>	<u>10,000</u>	<u>-</u>
Change in cash balances	(934)	1,223	289
Cash balances beginning of year	<u>108,505</u>	<u>5,407</u>	<u>113,912</u>
Cash balances end of year	<u>\$ 107,571</u>	<u>6,630</u>	<u>114,201</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	6,630	6,630
Unassigned	<u>107,571</u>	<u>-</u>	<u>107,571</u>
Total cash basis fund balances	<u>\$ 107,571</u>	<u>6,630</u>	<u>114,201</u>

See notes to financial statements.

City of Harper

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

As of and for the year ended June 30, 2017

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 31,042	30,398	61,440
Operating disbursements:			
Business type activities	24,435	29,985	54,420
Excess of operating receipts over operating disbursements	6,607	413	7,020
Non-operating receipts:			
Intergovernmental	5,000	-	5,000
Excess of receipts over disbursements	11,607	413	12,020
Cash balances beginning of year	54,398	5,616	60,014
Cash balances end of year	<u>\$ 66,005</u>	<u>6,029</u>	<u>72,034</u>
Cash Basis Fund Balances			
Unrestricted	<u>\$ 66,005</u>	<u>6,029</u>	<u>72,034</u>

See notes to financial statements.

City of Harper

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Harper is a political subdivision of the State of Iowa located in Keokuk County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Harper has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

At June 30, 2017, the City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Loan Payable

Annual debt service requirements to maturity for City’s loan are as follows:

Year Ending June 30,	County Repaving Loan Principal
2018	\$ 1,675
2019	1,675
2020	1,661
Total	\$ 5,011

In 2005 the City entered into a \$25,111 no interest loan agreement with Keokuk County for roadwork done on the City’s behalf. The agreement requires the City to pay \$1,675 annually. During fiscal year 2017, the City paid \$1,675 in principal and the remaining balance of the loan June 30, 2017 is \$5,011.

(4) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

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

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

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$295.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$2,894 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.000046%, which was a decrease of 0.000002% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$343, \$840 and \$393, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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

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

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric 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>
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 4,682	2,894	1,385

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

(5) Interfund Transfers

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

Transfer to	Transfer from	Amount
Special Revenue: Road Use Tax	General	<u>\$ 10,000</u>

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

(6) Risk Management

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

Other Information

City of Harper
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 16,165	-	16,165
Other city tax	8,911	-	8,911
Licenses and permits	175	-	175
Use of money and property	648	-	648
Intergovernmental	11,017	5,000	16,017
Charges for service	8,810	61,440	70,250
Miscellaneous	672	-	672
Total receipts	46,398	66,440	112,838
Disbursements:			
Public safety	2,029	-	2,029
Public works	28,108	-	28,108
Culture and recreation	891	-	891
Community and economic development	4,305	-	4,305
General government	10,776	-	10,776
Business type activities	-	54,420	54,420
Total disbursements	46,109	54,420	100,529
Excess of receipts over disbursements	289	12,020	12,309
Balances beginning of year	113,912	60,014	173,926
Balances end of year	\$ 114,201	72,034	186,235

See accompanying independent auditor's report.

Budgeted Amounts	Final to Total Variance
Original/ Final	
15,569	596
8,431	480
50	125
540	108
9,959	6,058
61,911	8,339
-	672
<u>96,460</u>	<u>16,378</u>
2,274	245
29,680	1,572
275	(616)
-	(4,305)
4,668	(6,108)
<u>48,839</u>	<u>(5,581)</u>
<u>85,736</u>	<u>(14,793)</u>
10,724	1,585
<u>157,013</u>	<u>16,913</u>
<u>167,737</u>	<u>18,498</u>

City of Harper

Notes to Other Information – Budgetary Reporting

June 30, 2017

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no budget amendments during the year ended June 30, 2017.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and business type activities functions.

City of Harper

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

Iowa Public Employees' Retirement System
Last Fiscal Year*

Other Information

	<u>2017</u>
City's proportion of the net pension liability	0.000046%
City's proportionate share of the net pension liability	\$ 2,894
City's covered-employee payroll	\$ 3,300
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	87.70%
IPERS' net position as a percentage of the total pension liability	81.82%

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

See accompanying independent auditor's report.

City of Harper

City of Harper
Schedule of City Contributions
Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 295	295
Contributions in relation to the statutorily required contribution	<u>(295)</u>	<u>(295)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
City's covered-employee payroll	\$ 3,300	3,300
Contributions as a percentage of covered-employee payroll	8.94%	8.94%

* City's contributions and covered-employee payroll information for the years ended 2008 to 2015 were not readily available.

See accompanying independent auditor's report.

City of Harper

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

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

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

Changes of assumptions:

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Supplementary Information

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

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>		<u>Amount Originally Issued</u>
County repaving loan	7/5/2005	-	\$	25,111

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year
6,686	-	1,675	5,011

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



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STATE OF IOWA**

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities and each major fund of the City of Harper, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 14, 2018. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance of July 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Harper's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harper's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Harper's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Harper's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items A to C to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items D and E to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


The City of Harper's Responses to the Findings

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

Purpose of this Report

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

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


MARY MOSIMAN, CPA
Auditor of State

June 14, 2018

City of Harper
Schedule of Findings
Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

Condition – Generally, one individual has control over each of the following areas for the City:

- (1) Cash and investments – handling, reconciling and recording. There is no independent review of bank reconciliations.
- (2) Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Payroll – recordkeeping, preparing and distributing.
- (5) Utilities – billing, collecting, depositing, and posting. There is no independent review of utility reconciliations.
- (6) Journal entries – preparing and journalizing.

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

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

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Independent reviews of financial transactions, reconciliations and reports should be documented by the signature or initials of the independent reviewer and the date of the review.

Response – We will have all Council Members and Mayor sign the monthly reports presented to them; instead of just the mayor.

Conclusion – Response accepted.

City of Harper

Schedule of Findings

Year ended June 30, 2017

(B) Bank Reconciliation

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

Condition – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year.

Cause – Procedures have not been implemented to ensure all accounts are reconciled and the amounts recorded in the books and bank accounts are complete and accurate to ensure proper accounting for all funds.

Effect – A lack of bank to book reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – To improve financial accountability and control, monthly bank reconciliations should be performed and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Response – The City of Harper has just purchased fund accounting/utility billing software and we are in the process of setting these up. I have for the time being set up a reconciliation spreadsheet and have had the City Council and the Mayor review it. We will have them sign this for future clarification. After new software is implemented, we will have the City Council members and the Mayor sign off on needed reports.

Conclusion – Response accepted.

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

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

Condition – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Cause – Policies have not been established and procedures have not been implemented to maintain delinquent account listings, reconcile utility billings, collections and delinquent accounts and to reconcile utility collections to deposits.

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

City of Harper

Schedule of Findings

Year ended June 30, 2017

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review.

Response – The City of Harper has just purchased fund accounting/utility billing software and we are in the process of setting these up. I have for the time being set up a reconciliation spreadsheet and have had the City Council and the Mayor review it. We will have them sign this for future clarification. After new software is implemented, we will have the City Council members and the Mayor sign off on needed reports.

Like previously state, implementation is under way to assist in keeping more accurate records for the utility billing. There was a spread sheet kept for properties that fell delinquent. We are also rewriting the City Code of Ordinances to clarify when billing is due.

Conclusion – Response accepted.

(D) Timesheets

Criteria – An effective internal control system provides for internal controls related to preparation of timesheets by all employees. Timesheets support all hours worked and provide an accurate record of hours worked. Supervisory review of timesheets can help ensure the accuracy of recorded hours worked.

Condition – Timesheets are not completed by the City Clerk.

Cause – Policies have not been established and procedures have not been implemented to require all employees, including salaried employees, to prepare timesheets or to require timesheets be reviewed and approved by supervisory personnel.

Effect – The lack of timesheets and a documented supervisory review process increases the probability staff errors in recording hours will go undetected.

Recommendation – Timesheets should be submitted prior to the processing of payroll each pay period. Timesheets should be signed by the employee and the supervisor prior to submission. Timesheets should support all hours worked.

Response – As far as I know, timesheets have never been done in Harper. We have two salaried and one hourly employee. The salaried contracted public works employee performs water testing which takes less than four hours once a month. The monthly meter reader spends less than 10 minutes a day reading meters. As the salaried City Clerk, I am trying to keep track, but has been unrealistic with calls, emails and work related things that come up.

City of Harper

Schedule of Findings

Year ended June 30, 2017

Conclusion – Response acknowledged. Timesheets should be submitted prior to the processing of payroll to support all hours worked and the timesheets should be signed by the employee and their supervisor.

(E) Journal Entries

Criteria – An effective internal control system provides for internal controls related to ensuring supporting documentation is maintained for journal entries and requiring journal entries to be independently approved.

Condition – Supporting documentation was not maintained for journal entries. Additionally, journal entries are not approved.

Cause – Policies have not been established and procedures have not been implemented to maintain supporting documentation for journal entries and to require independent approval before journal entries are made.

Effect – This condition could result undetected errors and opportunity for misappropriation.

Recommendation – Supporting documentation should be maintained which substantiates all journal entries. Journal entries should be approved by an independent person and the approval should be documented by the signature or initials of the approver and the date of approval.

Response – We will maintain support for all journal entries and have the Mayor or a City Council member review and sign off on each journal entry.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Harper

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the culture and recreation, community and economic development, general government and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” This appears to be due to employee oversight.

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 – FY18 budget will be recommended to be watched closer and amended if needed.

Conclusion – Response accepted.

- (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 City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bernard Greiner, Mayor, Owner of Bernard Greiner Construction	Snow removal, per bid	\$ 110
Bernard Greiner, Mayor, Owner of Bernard Greiner Construction	Equipment rental and supplies	620
Joe Baker, husband of City Council Member Connie Baker	Supervise water meter installation	15

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the transaction with the Mayor for snow removal does not appear to represent a conflict of interest since it was entered into through competitive bidding. The transactions with the Mayor for equipment rental and supplies and the transaction with Joe Baker do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year in accordance with Chapter 362.5(3)(k) of the Code of Iowa.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Harper

Schedule of Findings

Year ended June 30, 2017

- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, "Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer's tenure in office, but may be reimbursed for actual expenses incurred."

During the fiscal year ending June 30, 2017, the Mayor was compensated \$300 and a City Council member was compensated \$60 for performing daily water tests. This compensation appears to violate Chapter 372.13(8) of the Code of Iowa which prohibits elected city officers from receiving compensation as a City employee while serving as a city officer.

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

Response – The City has no public works employees; they only have a contracted water operator to do the monthly testing and DNR monthly report. The City advertised for another contracted person to do the daily water test and reading but no applicants were received in a two month time. In order for the city to stay in compliance with the DNR, city officials took over the position until it could be filled. In August 2017, the City was able to hire a contracted resident (Ashley Sines) to perform the duties. This was approved through a motion at the August council meeting.

Conclusion – Response accepted.

- (9) Mayor/Council Member Compensation – City Ordinance Title II Chapter 4 sets City Council member compensation at \$10 for each meeting with a limit of \$120 for any one year. The ordinance also sets the Mayor's compensation at \$15 for each meeting with a limit of \$180 in any one year.

During the fiscal year ended June 30, 2017 one City Council member was paid \$130 and the Mayor was paid \$195 for attending City Council meetings. This resulted in an overpayment to the Council member of \$10 and an overpayment to the Mayor of \$15.

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

Response – The City Attorney recommended that Mayor Greiner and Council member Baker repay the \$15 and \$10 in overpayment made by the City Clerk in error. City Clerk Osweiler will repay the \$35 for these officials due to her error. Repayment will be deposited in the December 29, 2017 deposit.

City of Harper

Schedule of Findings

Year ended June 30, 2017

Conclusion – Response acknowledged. The repayment for the overpayments to the Mayor and Council member should have come from those two individuals in accordance with the City Attorney’s recommendation.

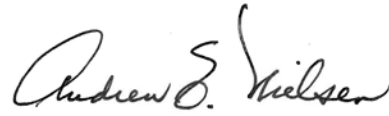
- (10) Petition for Audit – Except as noted, all items included in the Petition for audit have been resolved.

City of Harper

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Nicole L. Roethlisberger, Senior Auditor
Kristin R. Finke, Assistant Auditor
Jon G. Hanson, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State