



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 31, 2018

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

The City's receipts totaled \$9,032,466 for the year ended June 30, 2018, a 13.5% increase over the prior year. The receipts included \$3,029,712 of property tax, \$473,595 of tax increment financing, \$2,251,414 of charges for service, \$980,738 of operating grants, contributions and restricted interest, \$307,909 of capital grants, contributions and restricted interest, \$440,560 of local option sales tax, \$16,060 of unrestricted interest on investments, \$1,395,000 from note proceeds and \$137,478 of other general receipts.

Disbursements for the year ended June 30, 2018 totaled \$7,200,235, a 4.4% decrease from the prior year, and included \$1,348,399 for public safety, \$1,053,619 for public works and \$983,382 for debt service. Also, disbursements for business type activities totaled \$750,313.

The significant increase in receipts is due primarily to the issuance of debt for capital projects.

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/audit-reports/>.

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CITY OF HARLAN

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

JUNE 30, 2018

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City of Harlan

Officials

(Before January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Kathleen Kohorst	Mayor	Jan 2018
Jay Christensen	Council Member	Jan 2018
Michael Kolbe	Council Member	Jan 2018
Sharon Kroger	Council Member	Jan 2018
Greg Bladt	Council Member	Jan 2020
Dave Miller	Council Member	Jan 2020
David H. Pedersen	Council Member	Jan 2020
Gene Gettys	City Administrator	Indefinite
Jane Smith	City Clerk/Treasurer	Indefinite
Todd Argotsinger	Attorney	Indefinite

(After January 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Kolbe	Mayor	Jan 2020
Greg Bladt	Council Member	Jan 2020
Dave Miller	Council Member	Jan 2020
David H. Pedersen	Council Member	(Resigned July 2018)
Troy Schaben (Appointed Aug 2018)	Council Member	Jan 2020
Jay Christensen	Council Member	Jan 2022
Sharon Kroger	Council Member	Jan 2022
Jeanna Rudolph	Council Member	Jan 2022
Gene Gettys	City Administrator	Indefinite
Jane Smith	City Clerk/Treasurer	Indefinite
Todd Argotsinger	Attorney	Indefinite

City of Harlan



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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, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2018, 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 unmodified and adverse audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business Type Activities	Unmodified
Discretely Presented Component Unit	Adverse
Major Governmental Funds:	
General	Unmodified
Special Revenue:	
Road Use Tax	Unmodified
Employee Benefits	Unmodified
Debt Service	Unmodified
Capital Projects	Unmodified
Major Enterprise Funds:	
Sewer	Unmodified
Aggregate Remaining Fund Information	Unmodified

Basis for Adverse Opinion on the Discretely Presented Component Unit, Harlan Municipal Utilities

Management has not included the Discretely Presented Component Unit, Harlan Municipal Utilities, in the City's financial statements because the Harlan Municipal Utilities reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. Accounting principles applicable to the cash basis of accounting require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity which include the financial data for its component units. The City has not issued such reporting financial statements. The receipts, disbursements and cash balance of the Harlan Municipal Utilities, as reported in its audited financial statements for the year ended June 30, 2018, are \$16,184,404, \$18,335,003 and \$10,146,410, respectively.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Discretely Presented Component Unit, Harlan Municipal Utilities Fund" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the City of Harlan as of June 30, 2018, or the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the General Fund, the major Special Revenue Funds, including the Road Use Tax and Employee Benefits Funds, the Debt Service Fund, the Capital Projects Fund, the major Enterprise Fund, Sewer, and the aggregate remaining fund information of the City of Harlan as of June 30, 2018, and the respective changes in 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.

Emphasis of a Matter

As discussed in Note 5 to the financial statements, the City of Harlan adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. 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 Harlan's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2017 (which are not presented herein) and expressed unmodified opinions on the governmental activities, the business type activities, the General Fund, the major Special Revenue Funds, including the Road Use Tax and Employee Benefits Funds, the Debt Service Fund, the Capital Projects Fund, the major Enterprise Fund, Sewer, and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements and an adverse opinion on the discretely presented component unit. The financial statements for the eight years ended June 30, 2016 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements. The financial statements for the five years ended June 30, 2016 were prepared in accordance with U.S. generally accepted accounting principles. The financial statements for the three years ended June 30, 2011 were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 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, Management's Discussion and Analysis, 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 9 through 14 and 36 through 42, 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 October 31, 2018 on our consideration of the City of Harlan'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 Harlan's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

October 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Harlan provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2018. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 15.1%, or approximately \$1,044,000, from fiscal year 2017 to fiscal year 2018. Property tax decreased approximately \$51,000 and bond proceeds increased \$1,395,000.
- Disbursements of the City's governmental activities decreased 5.9%, or approximately \$407,000, in fiscal year 2018 from fiscal year 2017. Culture and recreation, community and economic development and capital projects disbursements decreased approximately \$44,000, \$71,000 and \$468,000, respectively. Public works disbursements increased approximately \$76,000.
- The City's total cash basis net position increased 43%, or approximately \$1,833,000, from June 30, 2017 to June 30, 2018. Of this amount, the cash basis net position of the governmental activities increased approximately \$2,174,000 and the cash basis net position of the business type activities decreased approximately \$341,000.

USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

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. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Fund and the Internal Service Funds. The Enterprise Fund is used to report business type activities. The City maintains an Enterprise Fund to provide separate information for the Sewer Fund, considered to be a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

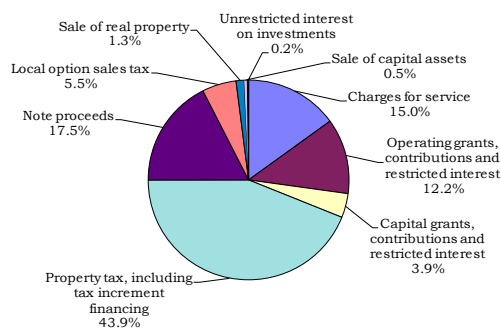
Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

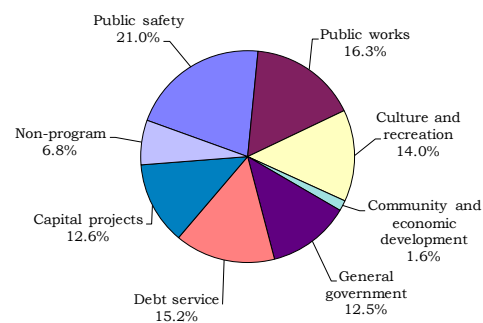
Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from approximately \$2.273 million to approximately \$4.447 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service	\$ 1,195	1,102
Operating grants, contributions and restricted interest	968	1,148
Capital grants, contributions and restricted interest	308	564
General receipts:		
Property tax, including tax increment financing	3,503	3,554
Local option sales tax	441	503
Unrestricted interest on investments	16	13
Note proceeds	1,395	-
Sale of real property	101	-
Sale of capital assets	36	35
Total receipts	7,963	6,919
Disbursements:		
Public safety	1,348	1,305
Public works	1,054	978
Culture and recreation	900	944
Community and economic development	105	176
General government	809	832
Debt service	983	920
Capital projects	812	1,280
Non-program	439	422
Total disbursements	6,450	6,857
Change in cash basis net position before transfers	1,513	62
Transfers, net	661	315
Change in cash basis net position	2,174	377
Cash basis net position beginning of year	2,273	1,896
Cash basis net position end of year	\$ 4,447	2,273

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 15.1%, or approximately \$1,044,000, over the prior year. The total cost of all programs and services decreased approximately \$407,000, or 5.9%, with no new programs added this year. The significant increase in receipts was primarily the result of proceeds received from the issuance of general obligation capital notes.

The Cost of all governmental activities this year was approximately \$6.450 million compared to approximately \$6.857 million last year. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$3.979 million because some of the cost was paid by those directly benefiting from the programs (approximately \$1.195 million) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1.276 million). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for services, decreased in fiscal year 2018 from approximately \$2.814 million to \$2.471 million, principally due to receiving grant proceeds in the prior fiscal year with no similar projects in the current fiscal year.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2018	2017
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 1,057	1,024
Operating grants, contributions and restricted interest	13	13
Total receipts	<u>1,070</u>	<u>1,037</u>
Disbursements:		
Sewer	<u>750</u>	<u>675</u>
Change in cash basis net position before transfers	320	362
Transfers, net	<u>(661)</u>	<u>(315)</u>
Change in cash basis net position	(341)	47
Cash basis net position beginning of year	<u>2,036</u>	<u>1,989</u>
Cash basis net position end of year	<u>\$ 1,695</u>	<u>2,036</u>

Total business type activities receipts for the fiscal year were approximately \$1.070 million compared to approximately \$1.037 million last year. This increase was due primarily to an increase in sewer rates. The cash balance decreased approximately \$341,000 from the prior year due to the completion of work for the sewer plant improvement project. Total disbursements for the fiscal year increased 11.1% to approximately \$750,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Harlan completed the year, its governmental funds reported a combined fund balance of \$4,131,208, an increase of more than \$2,069,000 above last year's total of \$2,062,207. The following are the major reasons for the changes in fund balance of the major funds from the prior year.

- The General Fund cash balance increased \$696,822 over the prior year to \$1,493,913. The increase resulted from increases in several receipt areas, including a \$155,000 transfer from the Special Revenue, Urban Renewal Fund, \$100,000 transferred from the Special Revenue, Local Option Sales Tax Fund, and \$93,000 in additional insurance settlements and refunds.

- The Special Revenue, Road Use Tax Fund cash balance increased \$61,234 to \$461,382. This increase was attributable to increased state receipts. The City intends to use this money to upgrade the condition of all City roads.
- The Special Revenue, Employee Benefits Fund cash balance increased \$264 to \$334,804.
- The Debt Service Fund cash balance decreased \$121,786 to \$99,003. This was due to an increase in bond principal and interest payments made in fiscal year 2018.
- The Capital Projects Fund cash balance increased \$993,460 to \$1,082,612. This increase is attributable to the issuance of general obligation capital notes for various capital projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance decreased \$340,841 to \$1,694,973, due primarily to the City completing upgrades and improvements to the sanitary sewer system in fiscal year 2018.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 29, 2018 and resulted in an increase in operating disbursements of \$684,102, primarily for various capital projects.

The City’s receipts were \$189,706 less than the amended budget, and total disbursements were \$793,025 less than the amended budget.

The City exceeded the amounts budgeted in the debt service function for the year ended June 30, 2018.

DEBT ADMINISTRATION

At June 30, 2018, the City had \$8,155,000 of bonds and notes outstanding, compared to \$7,555,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2018	2017
General obligation bonds	\$ 4,345	4,780
General obligation notes	3,810	2,775
Total	<u>\$ 8,155</u>	<u>7,555</u>

Debt increased as a result of issuing general obligation capital loan notes for various capital projects.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$8,155,000 is significantly below its constitutional debt limit of approximately \$14 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Harlan's elected and appointed officials and citizens considered many factors when setting the fiscal year 2019 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 2.0% versus 2.4% a year ago. This compares with the State's unemployment rate of 2.5% and the national rate of 3.9%.

These indicators were taken into account when adopting the budget for fiscal year 2019. The City has added no major new programs or initiatives to the fiscal year 2019 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jane Smith, City Clerk, 711 Durant Street, Harlan, Iowa 51537-0650.

Basic Financial Statements

City of Harlan

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2018

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,348,399	61,250	99,407	-
Public works	1,053,619	343,378	685,735	-
Culture and recreation	900,149	141,141	148,011	-
Community and economic development	104,798	250	15,000	-
General government	808,604	215,134	1,229	-
Debt service	983,382	-	-	-
Capital projects	811,527	-	18,690	307,909
Non-program	439,444	433,403	-	-
Total governmental activities	6,449,922	1,194,556	968,072	307,909
Business type activities:				
Sewer	750,313	1,056,858	12,666	-
Total	\$ 7,200,235	2,251,414	980,738	307,909
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds				
Sale of capital assets				
Transfers				
Total general receipts and transfers				
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:				
Nonexpendable:				
Permanent funds				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Capital projects				
Other purposes				
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
(1,187,742)	-	(1,187,742)
(24,506)	-	(24,506)
(610,997)	-	(610,997)
(89,548)	-	(89,548)
(592,241)	-	(592,241)
(983,382)	-	(983,382)
(484,928)	-	(484,928)
(6,041)	-	(6,041)
<u>(3,979,385)</u>	<u>-</u>	<u>(3,979,385)</u>
-	319,211	319,211
<u>(3,979,385)</u>	<u>319,211</u>	<u>(3,660,174)</u>
2,654,984	-	2,654,984
473,595	-	473,595
374,728	-	374,728
440,560	-	440,560
16,060	-	16,060
1,395,000	-	1,395,000
137,478	-	137,478
660,897	(660,897)	-
<u>6,153,302</u>	<u>(660,897)</u>	<u>5,492,405</u>
2,173,917	(341,686)	1,832,231
<u>2,272,673</u>	<u>2,036,214</u>	<u>4,308,887</u>
<u>\$ 4,446,590</u>	<u>1,694,528</u>	<u>6,141,118</u>
\$ 39,397	-	39,397
461,382	-	461,382
257,775	-	257,775
99,003	510,163	609,166
1,082,612	663,684	1,746,296
737,520	-	737,520
<u>1,768,901</u>	<u>520,681</u>	<u>2,289,582</u>
<u>\$ 4,446,590</u>	<u>1,694,528</u>	<u>6,141,118</u>

City of Harlan

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

As of and for the year ended June 30, 2018

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 1,613,919	-	621,064
Tax increment financing	-	-	-
Other city tax	223,761	-	-
Licenses and permits	95,873	-	-
Use of money and property	72,611	-	-
Intergovernmental	319,175	651,475	-
Charges for service	249,507	-	-
Miscellaneous	476,819	-	-
Total receipts	<u>3,051,665</u>	<u>651,475</u>	<u>621,064</u>
Disbursements:			
Operating:			
Public safety	1,407,272	-	-
Public works	464,120	590,241	-
Culture and recreation	906,434	-	-
Community and economic development	104,558	-	-
General government	809,432	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>3,691,816</u>	<u>590,241</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(640,151)</u>	<u>61,234</u>	<u>621,064</u>
Other financing sources (uses):			
Note proceeds	-	-	-
Sale of capital assets	36,428	-	-
Forfeiture of property	-	-	-
Transfers in	1,302,045	-	-
Transfers out	(1,500)	-	(620,800)
Total other financing sources (uses)	<u>1,336,973</u>	<u>-</u>	<u>(620,800)</u>
Change in cash balances	696,822	61,234	264
Cash balances beginning of year	<u>797,091</u>	<u>400,148</u>	<u>334,540</u>
Cash balances end of year	<u>\$ 1,493,913</u>	<u>461,382</u>	<u>334,804</u>
Cash Basis Fund Balances			
Nonspendable	\$ -	-	-
Restricted for:			
Streets	-	461,382	-
Urban renewal purposes	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Other purposes	40,394	-	334,804
Unassigned	<u>1,453,519</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 1,493,913</u>	<u>461,382</u>	<u>334,804</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
473,593	-	-	2,708,576
-	-	374,728	374,728
-	-	440,560	664,321
-	-	-	95,873
-	-	-	72,611
-	323,222	24,965	1,318,837
-	-	-	249,507
-	3,377	32,248	512,444
473,593	326,599	872,501	5,996,897
-	-	6,498	1,413,770
-	-	-	1,054,361
-	-	37,721	944,155
-	-	240	104,798
-	-	-	809,432
983,382	-	-	983,382
-	811,527	-	811,527
983,382	811,527	44,459	6,121,425
(509,789)	(484,928)	828,042	(124,528)
59,750	1,023,250	312,000	1,395,000
-	101,050	-	137,478
-	-	160	160
328,253	355,095	1,350	1,986,743
-	(1,007)	(702,539)	(1,325,846)
388,003	1,478,388	(389,029)	2,193,535
(121,786)	993,460	439,013	2,069,007
220,789	89,152	220,481	2,062,201
99,003	1,082,612	659,494	4,131,208
-	-	39,397	39,397
-	-	-	461,382
-	-	257,775	257,775
99,003	-	-	99,003
-	1,082,612	-	1,082,612
-	-	362,322	737,520
-	-	-	1,453,519
99,003	1,082,612	659,494	4,131,208

City of Harlan

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position -
Governmental Funds

As of and for the year ended June 30, 2018

Total governmental funds cash balances (page 19) \$ 4,131,208***Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Funds are used by management to charge the costs of equipment replacement and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Funds is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

315,382**Cash basis net position of governmental activities (page 17)** \$ 4,446,590**Change in cash balances (page 19)** \$ 2,069,007***Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Funds are used by management to charge the costs of equipment replacement and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Funds is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

104,910**Change in cash basis net position of governmental activities (page 17)** \$ 2,173,917

See notes to financial statements.

City of Harlan

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

As of and for the year ended June 30, 2018

	<u>Enterprise</u>	<u>Internal Service</u>
	<u>Sewer</u>	<u>Total</u>
Operating receipts:		
Charges for service	\$ 978,111	1,003,811
Operating disbursements:		
Governmental activities:		
Public safety	-	153,953
Public works	-	91,262
Culture and recreation	-	68,554
General government	-	85,074
Non-program	-	439,444
Business type activities	<u>749,468</u>	<u>61,459</u>
Total operating disbursements	<u>749,468</u>	<u>899,746</u>
Excess of operating receipts over operating disbursements	228,643	104,065
Non-operating receipts:		
Miscellaneous	<u>91,413</u>	-
Excess of receipts over disbursements	320,056	104,065
Transfers out	<u>(660,897)</u>	-
Change in cash balances	(340,841)	104,065
Cash balances beginning of year	<u>2,035,814</u>	<u>210,872</u>
Cash balances end of year	<u>\$ 1,694,973</u>	<u>314,937</u>
Cash Basis Fund Balances		
Restricted for debt service	\$ 510,163	-
Restricted for capital projects	663,684	-
Unrestricted	<u>521,126</u>	<u>314,937</u>
Total cash basis fund balances	<u>\$ 1,694,973</u>	<u>314,937</u>

See notes to financial statements.

City of Harlan

City of Harlan

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Cash Basis Statement of Activities and Net Position –
Proprietary Funds

As of and for the year ended June 30, 2018

Total enterprise funds cash balances (page 21) \$ 1,694,973

Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Funds are used by management to charge the costs of equipment replacement and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Funds is included in business type activities in the Cash Basis Statement of Activities and Net Position.

(445)

Cash basis net position of business type activities (page 17) \$ 1,694,528

Change in cash balances (page 21) \$ (340,841)

Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Funds are used by management to charge the costs of equipment replacement and partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Funds is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(845)

Change in cash basis net position of business type activities (page 17) \$ (341,686)

See notes to financial statements.

City of Harlan

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies

The City of Harlan is a political subdivision of the State of Iowa located in Shelby 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, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, except as noted, the City of Harlan 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.

Excluded Component Unit

These financial statements present the City of Harlan (the primary government). The financial statements do not include financial data for the Harlan Municipal Utilities, a legally separate entity which should be reported as a discretely presented component unit.

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: Shelby County Assessor's Conference Board, Shelby County Emergency Management Commission, Shelby County Landfill Commission and Shelby County Joint 911 Service Board.

B. Basis of Presentation

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

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

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Funds.

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 categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The 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 Employee Benefits Fund is used to account for the employee benefit property tax levy for the payment of employment benefits.

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

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

The City reports the following major proprietary funds:

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

The City also reports the following proprietary funds:

The Internal Service, Equipment Revolving Fund, is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

The Internal Service, Group Insurance Fund, is utilized to account for the financing of health insurance and other employment benefits provided to the employees of the City.

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:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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 classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2018, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2018 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and general obligation capital loan notes are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 450,000	93,823	415,000	95,163	865,000	188,986
2020	450,000	86,213	400,000	86,818	850,000	173,031
2021	465,000	78,138	370,000	79,245	835,000	157,383
2022	475,000	69,113	340,000	72,265	815,000	141,378
2023	485,000	59,325	345,000	64,325	830,000	123,650
2024-2028	2,020,000	121,705	1,590,000	191,635	3,610,000	313,340
2029-2030	-	-	350,000	16,095	350,000	16,095
Total	\$ 4,345,000	508,317	3,810,000	605,546	8,155,000	1,113,863

General Obligation Capital Loan Notes

The City issued \$1,395,000 of general obligation capital loan notes in May 2018 for the purpose of defraying a portion of the costs of various construction projects at the wastewater treatment plant, airport, and various projects within the urban renewal district.

(4) Pension Plan

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

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

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

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

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

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

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

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

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

In fiscal year 2018, 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%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City's contributions to IPERS for the year ended June 30, 2018 totaled \$162,945.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the City reported a liability of \$1,133,067 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the City's proportion was 0.01701%, which was a decrease of 0.001389% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$203,186, \$497,678 and \$329,034, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial study dated March 24, 2017.

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 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	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100%</u>	

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 2,157,095	1,133,067	272,994

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) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 30 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$359 for single coverage and \$897 for family coverage. For the year ended June 30, 2018, the City contributed \$267,763 and plan members eligible for benefits contributed \$22,816 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, floating holiday and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave, floating holiday and compensatory time payable to employees at June 30, 2018, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 60,000
Sick leave	164,000
Floating holiday	7,000
Compensatory time	44,000
Total	<u>\$ 275,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2018.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 620,800
	Local Option Sales Tax	490,000
	Urban Renewal	190,238
	Capital Projects	<u>1,007</u>
		<u>1,302,045</u>
Debt Service	Enterprise:	
	Sewer	<u>328,253</u>
Capital Projects	Enterprise:	
	Sewer	332,644
	Special Revenue:	
	Urban Renewal	20,951
	General Fund	<u>1,500</u>
		<u>355,095</u>
Special Revenue	Special Revenue:	
Downtown Upper Story Façade	Urban Renewal	<u>1,350</u>
Total		<u>\$ 1,986,743</u>

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

(8) 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.

(9) Tax Abatements

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

City Tax Abatements

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

For the year ended June 30, 2018, the City abated \$6,724 of property tax under the urban renewal and economic development agreements.

City of Harlan

Other Information

City of Harlan
 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, 2018

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,708,576	-	-
Tax increment financing	374,728	-	-
Other city tax	664,321	-	-
Licenses and permits	95,873	-	-
Use of money and property	72,611	-	-
Intergovernmental	1,318,837	-	-
Charges for service	249,507	1,981,922	1,003,811
Miscellaneous	512,444	91,413	-
Total receipts	5,996,897	2,073,335	1,003,811
Disbursements:			
Public safety	1,413,770	153,953	153,953
Public works	1,054,361	91,262	91,262
Culture and recreation	944,155	68,554	68,554
Community and economic development	104,798	-	-
General government	809,432	85,074	85,074
Debt service	983,382	-	-
Capital projects	811,527	-	-
Business type activities	-	810,927	61,459
Non-program	-	439,444	439,444
Total disbursements	6,121,425	1,649,214	899,746
Excess (deficiency) of receipts over (under) disbursements	(124,528)	424,121	104,065
Other financing sources (uses), net	2,193,535	(660,897)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,069,007	(236,776)	104,065
Balances beginning of year	2,062,201	2,246,686	210,872
Balances end of year	\$ 4,131,208	2,009,910	314,937

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,708,576	2,769,965	2,969,266	(260,690)
374,728	379,239	379,239	(4,511)
664,321	672,069	607,069	57,252
95,873	18,775	18,775	77,098
72,611	47,290	62,270	10,341
1,318,837	1,435,586	1,456,576	(137,739)
1,227,618	1,085,010	1,418,636	(191,018)
603,857	160,096	344,296	259,561
7,066,421	6,568,030	7,256,127	(189,706)
1,413,770	1,464,027	1,464,027	50,257
1,054,361	1,129,083	1,129,083	74,722
944,155	970,457	970,457	26,302
104,798	163,500	165,500	60,702
809,432	820,509	820,509	11,077
983,382	967,659	967,659	(15,723)
811,527	533,736	824,498	12,971
749,468	930,845	1,322,185	572,717
-	-	-	-
6,870,893	6,979,816	7,663,918	793,025
195,528	(411,786)	(407,791)	603,319
1,532,638	-	-	1,532,638
1,728,166	(411,786)	(407,791)	2,135,957
4,098,015	1,910,423	1,711,721	2,386,294
5,826,181	1,498,637	1,303,930	4,522,251

City of Harlan

Notes to Other Information – Budgetary Reporting

June 30, 2018

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Because the discretely presented component unit is not presented with these financial statements, the amounts budgeted for receipts and disbursements of Harlan Municipal Utilities have been excluded from the budgetary comparison.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$684,102. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2018, disbursements exceeded the amounts budgeted in the debt service function.

City of Harlan

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

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

Other Information

	2018	2017	2016	2015
City's proportion of the net pension liability	0.017001%	0.018390%	0.016001%	0.0147603%
City's proportionate share of the net pension liability	\$ 1,133	1,157	790	585
City's covered payroll	\$ 1,771	1,750	1,670	1,713
City's proportionate share of the net pension liability as a percentage of its covered payroll	63.98%	66.11%	47.31%	34.15%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

City of Harlan

Schedule of City Contributions

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

Other Information

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 163	163	167	155
Contributions in relation to the statutorily required contribution	<u>(163)</u>	<u>(163)</u>	<u>(167)</u>	<u>(155)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 1,771	1,771	1,750	1,670
Contributions as a percentage of covered payroll	9.20%	9.20%	9.54%	9.28%

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
159	148	138	127	110	104
(159)	(148)	(138)	(127)	(110)	(104)
-	-	-	-	-	-
1,713	1,610	1,555	1,540	1,500	1,445
9.28%	9.19%	8.87%	8.24%	7.33%	7.20%

City of Harlan

Notes to Other Information – Pension Liability

Year ended June 30, 2018

Changes of benefit terms:

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

Changes of assumptions:

The 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.
- 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, 2015. 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 Harlan

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2018

	Special Revenue			
	Local Option Sales Tax	Urban Renewal	Downtown Upper Story Façade	JJ Jensen
Receipts:				
Tax increment financing	\$ -	374,728	-	-
Other city tax	440,560	-	-	-
Intergovernmental	-	-	-	24,965
Miscellaneous	-	-	-	-
Total receipts	440,560	374,728	-	24,965
Disbursements:				
Operating:				
Public safety	-	-	-	-
Culture and recreation	-	-	-	627
Community and economic development	-	-	240	-
Total disbursements	-	-	240	627
Excess (deficiency) of receipts over (under) disbursements	440,560	374,728	(240)	24,338
Other financing sources (uses):				
Note proceeds	-	-	50,000	262,000
Forfeiture of property	-	-	-	-
Transfers in	-	-	1,350	-
Transfers out	(490,000)	(212,539)	-	-
Total other financing source (uses)	(490,000)	(212,539)	51,350	262,000
Change in cash balances	(49,440)	162,189	51,110	286,338
Cash balances beginning of year	61,703	95,586	10,303	2,308
Cash balances end of year	\$ 12,263	257,775	61,413	288,646
Cash Basis Fund Balances				
Nonspendable	\$ -	-	-	-
Restricted for urban renewal purposes	-	257,775	-	-
Restricted for other purposes	12,263	-	61,413	288,646
Total cash basis fund balances	\$ 12,263	257,775	61,413	288,646

See accompanying independent auditor's report.

Permanent						
C. Hansen Schildberg Trusts	Library Trust	Beebe Trust	Police Trust	Loree Allen Poynter Trusts		Total
-	-	-	-	-	-	374,728
-	-	-	-	-	-	440,560
-	-	-	-	-	-	24,965
-	32,248	-	-	-	-	32,248
-	32,248	-	-	-	-	872,501
-	-	-	6,498	-	-	6,498
-	37,094	-	-	-	-	37,721
-	-	-	-	-	-	240
-	37,094	-	6,498	-	-	44,459
-	(4,846)	-	(6,498)	-	-	828,042
-	-	-	-	-	-	312,000
-	-	-	160	-	-	160
-	-	-	-	-	-	1,350
-	-	-	-	-	-	(702,539)
-	-	-	160	-	-	(389,029)
-	(4,846)	-	(6,338)	-	-	439,013
271	20,862	10,515	16,850	2,083		220,481
271	16,016	10,515	10,512	2,083		659,494
271	16,016	10,515	10,512	2,083		39,397
-	-	-	-	-	-	257,775
-	-	-	-	-	-	362,322
271	16,016	10,515	10,512	2,083		659,494

City of Harlan

City of Harlan

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Internal Service Funds

Year ended June 30, 2018

	Internal Service		
	Equipment Revolving	Group Insurance	Total
Operating receipts:			
Charges for service	\$ 116,566	887,245	1,003,811
Operating disbursements:			
Governmental activities:			
Public safety	79	153,874	153,953
Public works	2	91,260	91,262
Culture and recreation	52	68,502	68,554
General government	2	85,072	85,074
Non-program	-	439,444	439,444
Business type activities	-	61,459	61,459
Total operating disbursements	135	899,611	899,746
Change in cash balances	116,431	(12,366)	104,065
Cash balances beginning of year	159,742	51,130	210,872
Cash balances end of year	\$ 276,173	38,764	314,937
Cash Basis Fund Balances			
Unrestricted	\$ 276,173	38,764	314,937

See accompanying independent auditor's report.

City of Harlan
 Schedule of Indebtedness
 Year ended June 30, 2018

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Series 2011	Jun 1, 2011	2.50-3.80%	\$ 990,000
WWTP, Series 2012	Jun 27, 2012	2.00-2.50	2,455,000
Refunding, Series 2013	May 1, 2013	0.75-2.35	2,815,000
Total			
General obligation capital notes:			
Series 2014	Oct 9, 2014	1.85-3.35%	\$ 1,835,000
WWTP, Series 2015	Oct 14, 2015	2.00-3.50	1,555,000
Series 2018	May 30, 2018	1.90-3.00	1,395,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
665,000	-	65,000	600,000	22,110
1,735,000	-	155,000	1,580,000	37,077
2,380,000	-	215,000	2,165,000	41,402
<u>\$ 4,780,000</u>	<u>-</u>	<u>435,000</u>	<u>4,345,000</u>	<u>100,589</u>
1,420,000	-	260,000	1,160,000	34,393
1,355,000	-	100,000	1,255,000	35,175
-	1,395,000	-	1,395,000	-
<u>\$ 2,775,000</u>	<u>1,395,000</u>	<u>360,000</u>	<u>3,810,000</u>	<u>69,568</u>

City of Harlan

City of Harlan
Bond and Note Maturities
June 30, 2018

General Obligation Bonds								
Year Ending June 30,	Series 2011 Issued Jun 1, 2011		Series 2012 Issued Jun 27, 2012		Series 2013 Issued May 1, 2013		Total	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2019	3.00%	\$ 70,000	2.00%	\$ 160,000	1.05%	\$ 220,000	450,000	
2020	3.00	65,000	2.00	160,000	1.30	225,000	450,000	
2021	3.25	70,000	2.00	165,000	1.50	230,000	465,000	
2022	3.25	70,000	2.00	170,000	1.75	235,000	475,000	
2023	3.50	75,000	2.00	175,000	1.90	235,000	485,000	
2024	3.50	80,000	2.10	180,000	2.00	245,000	505,000	
2025	3.80	85,000	2.25	185,000	2.10	250,000	520,000	
2026	3.80	85,000	2.40	190,000	2.20	260,000	535,000	
2027		-	2.50	195,000	2.35	265,000	460,000	
Total		<u>\$ 600,000</u>		<u>\$ 1,580,000</u>		<u>\$ 2,165,000</u>	<u>4,345,000</u>	

General Obligation Capital Notes								
Year Ending June 30,	Series 2014 Issued Oct 9, 2014		Series 2015 Issued Oct 14, 2015		Series 2018 Issued May 30, 2018		Total	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2019	2.00%	\$ 270,000	2.00%	\$ 100,000	1.90%	\$ 45,000	415,000	
2020	1.85	85,000	1.70	100,000	2.00	215,000	400,000	
2021	1.85	80,000	1.70	100,000	2.00	190,000	370,000	
2022	2.30	80,000	2.50	100,000	2.25	160,000	340,000	
2023	2.30	80,000	2.50	100,000	2.35	165,000	345,000	
2024	2.65	70,000	2.50	100,000	2.50	170,000	340,000	
2025	2.65	70,000	2.75	105,000	2.55	170,000	345,000	
2026	3.00	70,000	2.75	105,000	2.65	175,000	350,000	
2027	3.00	115,000	3.00	105,000	2.80	50,000	270,000	
2028	3.15	120,000	3.00	110,000	3.00	55,000	285,000	
2029	3.35	120,000	3.50	115,000		-	235,000	
2030		-	3.50	115,000		-	115,000	
Total		<u>\$ 1,160,000</u>		<u>\$ 1,255,000</u>		<u>\$ 1,395,000</u>	<u>3,810,000</u>	

See accompanying independent auditor's report.

City of Harlan

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	Cash Basis		Modified		
	2018	2017	2016	2015	2014
Receipts:					
Property tax	\$ 2,708,576	2,625,733	3,321,898	3,692,769	3,602,340
Tax increment financing	374,728	560,322	-	-	-
Other city tax	664,321	681,498	-	-	-
Licenses and permits	95,873	125,790	93,942	117,764	83,400
Use of money and property	72,611	79,135	75,347	74,847	23,916
Intergovernmental	1,318,837	1,570,287	3,263,260	1,139,194	812,099
Charges for service	249,507	267,866	410,583	459,827	488,505
Special assessments	-	-	110	1,411	2,603
Miscellaneous	512,444	536,970	227,362	27,330	100,426
Note proceeds	1,395,000	-	-	-	-
Sale of capital assets	137,478	-	-	-	-
Payment in lieu of taxes	-	-	-	-	289,583
Fines and forfeits	160	-	19,072	14,177	22,091
Contributions	-	-	28,347	83,566	151,617
Refunds/reimbursements	-	-	-	-	246,964
Interest on investments	-	-	4,590	10,352	12,230
Total	\$ 7,529,535	6,447,601	7,444,511	5,621,237	5,835,774
Disbursements:					
Operating:					
Public safety	\$ 1,413,770	1,290,240	1,340,642	1,368,959	1,204,545
Public works	1,054,361	961,444	1,118,978	1,339,224	1,243,686
Culture and recreation	944,155	946,252	918,171	1,218,455	921,867
Community and economic development	104,798	176,089	181,826	352,533	616,639
General government	809,432	832,081	724,957	764,998	843,228
Debt service	983,382	920,033	611,630	320,809	605,313
Capital projects	811,527	1,279,855	2,452,677	867,437	616,635
Total	\$ 6,121,425	6,405,994	7,348,881	6,232,415	6,051,913

See accompanying independent auditor's report.

Accrual Basis		Cash Basis		
2013	2012	2011	2010	2009
3,501,013	3,339,143	2,025,923	1,786,162	1,722,090
-	-	700,948	611,180	517,593
-	-	494,847	433,037	448,915
79,534	94,155	83,935	76,814	70,919
72,819	82,502	85,093	74,134	78,176
860,312	753,507	945,377	1,264,385	2,004,457
464,063	538,919	410,184	449,920	534,851
1,639	3,389	5,271	3,880	7,122
74,685	64,608	112,396	196,973	424,176
-	-	982,947	-	528,410
-	-	-	-	-
301,452	254,609	-	-	-
18,999	24,703	-	-	-
37,786	58,094	-	-	-
8,934	-	-	-	-
7,834	5,305	-	-	-
5,429,070	5,218,934	5,846,921	4,896,485	6,336,709
1,162,720	1,072,507	1,298,212	949,364	983,002
1,132,058	1,207,133	1,083,467	1,106,564	1,132,733
823,835	961,330	911,837	800,439	833,871
415,685	301,580	554,117	235,494	211,368
771,706	576,125	514,232	483,744	465,307
773,963	505,163	872,198	649,844	1,124,564
121,235	640,345	265,712	993,567	2,947,130
5,201,202	5,264,183	5,499,775	5,219,016	7,697,975

**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**



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 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, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 31, 2018. Our report expressed unmodified opinions on the governmental activities, the business type activities, the General Fund, the major Special Revenue Funds, including the Road Use Tax and Employee Benefits Funds, the Debt Service Fund, the Capital Projects Fund, the major Enterprise Fund, Sewer, and the aggregate remaining fund information of the City of Harlan, Iowa as of June 30, 2018, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. We expressed an adverse opinion on the discretely presented component unit, Harlan Municipal Utilities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Harlan'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 Harlan's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Harlan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Harlan'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 which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harlan'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, 2018 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 Harlan's Responses to the Findings

The City of Harlan's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Harlan'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 Harlan 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

October 31, 2018

City of Harlan

Schedule of Findings

Year ended June 30, 2018

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

Condition – One individual in the City has control over the cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal.

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.

Response – The duties are segregated between our Finance Assistant, our Deputy City Clerk and/or our City Clerk. All three employees are able to accept and list cash or check payments from the public. The Finance Assistant posts the cash receipts to the cash receipt journal and the Deputy City Clerk or City Clerk reviews and verifies the cash receipts by completing a daily register and running batch verification reports and makes the bank deposits.

Conclusion – Response acknowledged. To further strengthen internal control, the Finance Assistant should not have collection responsibility if she continues to record cash collections.

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

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections 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.

City of Harlan

Schedule of Findings

Year ended June 30, 2018

Condition – Utility billings and collections were not reconciled throughout the year. Also, utility collections were not reconciled to deposits. There is no written agreement between the City and Harlan Municipal Utilities (HMU) addressing what, if any, compensation HMU is to receive for their services and the allocation method to be used for delinquent and partial payments.

Cause – HMU is responsible for the City's utility billings and collections for sewer and landfill services. Each month, HMU submits a form listing total billings to the City. After collections have been received by HMU, HMU issues a check to the City for total collections for that month. However, the City does not receive the necessary information from HMU to prepare a proper utility reconciliation. Also, policies have not been established and procedures have not been implemented to reconcile utility billings and collections 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.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City should work in conjunction with legal counsel and HMU to ensure the City receives the information necessary to provide assurance the collections remitted to the City by HMU are accurate. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquents. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of review. In addition, the City and HMU should develop a written agreement addressing what, if any, compensation HMU is to receive and the allocation methodology to be used for payments received.

Response – The City will be working with legal counsel and HMU to establish an agreement identifying procedures to follow to reconcile sewer and landfill utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City will also work with HMU to develop written procedures addressing the allocation method to be used when applying delinquent and/or partial payments received.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Harlan

Schedule of Findings

Year ended June 30, 2018

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The Debt Service function exceeded the budgeted amount because a note issuance fee invoiced in June 2018 was paid in June 2018, but should have been held and paid in July 2018 since the issuance fee wasn’t included in the amended budget. The City will be more diligent to not expend monies from functions that will exceed the budget/amended budget.

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:

Name, Title and Business Connection	Transaction Description	Amount
Phil Miller, Father of Vets/Activity Center, Superintendent, Owner of Phil M. Miller Construction	Construction	\$ 5,107
Randy Kroger, Husband of City Council Member, Part-owner of Kroger & Sons Hauling, LLC	Garbage hauling	3,748
Jay Christensen, City Council Member, Owner of Dr. Jay's Family Eye Care	Eye care services	3,819

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the husband of a City Council Member and the City Council Member may represent conflicts of interest since total transactions with each individual exceeded \$1,500 during the fiscal year and were not entered into through competitive bidding. The transactions with the father of the Vets/Activity Center Superintendent do not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

City of Harlan

Schedule of Findings

Year ended June 30, 2018

Recommendation – The City should consult legal counsel to determine the disposition of these matters.

Response – The City will consult with legal counsel and a competitive bidding process will be followed for garbage hauling services, as well as any possible conflict of interest transaction between the City and City Officials or employees. The City provides an allowance for safety glasses for employees. The employees are able to choose which vision center they want. To be reimbursed, the employee can either provide their paid receipt from the vision center or the vision center can invoice the City. The City is a small community with only three optometrists and Dr. Christensen happens to be one of the three.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Annual Urban Renewal Report – The Annual Urban Renewal Report was not properly approved and certified to the Iowa Department of Management on or before December 1; however, the City received an extension from the Iowa Department of Management to December 19, which was met.
- (9) Local Option Sales Tax (LOST) – The LOST ballot requires 50% of LOST collections be allocated for property tax replacement and 50% to be allocated for infrastructure/buildings, parks and streets. While the City's LOST receipts are credited to the Special Revenue, LOST Fund, the 50% to be allocated for infrastructure/buildings, parks and streets is transferred to the General Fund, and no documentation is maintained to support the specific disbursements for which the funds were used for or the unspent balances held for the specified purposes.

Recommendation – The City should either record qualifying disbursements directly in the Special Revenue, Local Option Sales Tax Fund or transfer funds to the General Fund on a reimbursement basis and maintain documentation specifying the disbursement for which LOST funds were used to ensure the provisions of the LOST ballot were met. The City should also determine the amount, if any, of unused LOST funds transferred to the General Fund.

Response – The City will transfer LOST funds to the General Fund on a reimbursement basis and maintain documentation specifying the disbursement for which the LOST funds were used. The City will also determine the amount of any unused LOST funds transferred into the General Fund.

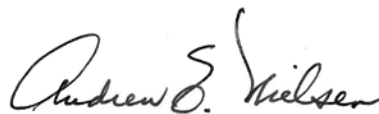
Conclusion – Response accepted.

City of Harlan

Staff

This audit was performed by:

Jennifer Campbell, CPA, Manager
Ryan T. Jelsma, Senior Auditor II
Michaela M. Goergen, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State