



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0006

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

February 11, 2021

Contact: Marlys Gaston
515/281-5834

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$7,720,884 for the year ended June 30, 2020, a 5.0% increase over the prior year. Disbursements for the year ended June 30, 2020 totaled \$8,470,813, a 7.8% increase over the prior year. The increase in receipts is due primarily to an increase in grants for capital projects. The increase in disbursements is due to an increase in public works equipment purchased.

AUDIT FINDINGS:

Sand reported three findings related to the receipt and disbursement of taxpayer funds and two findings related to the Harlan Firefighters Association, Inc. and the Harlan Community Library Foundation, component units of the City. They are found on pages 56 through 61 of this report. The findings address issues such as a lack of segregation of duties, the lack of reconciliations of utility billings, collections and delinquent accounts and a lack of procedures to ensure the Firefighter's Association and the Library Foundation prepare monthly bank reconciliations and to ensure those bank reconciliations are independently reviewed. Sand provided the City and the component units with recommendations to address each of the findings.

All five of the findings discussed above pertaining to the City and the component units are repeated from the prior year. The City Council and management of the component units have a fiduciary responsibility to provide oversight of the City's and the component unit's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

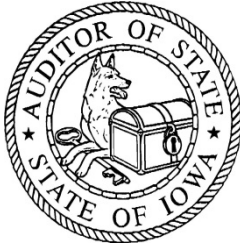
A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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

JUNE 30, 2020

City of Harlan



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

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

January 15, 2021

Officials of the City of Harlan
Harlan, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Harlan for the year ended June 30, 2020. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

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

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and cursive.

Rob Sand
Auditor of State

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City of Harlan

Officials

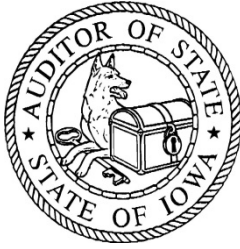
(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Kolbe	Mayor	Jan 2020
Troy Schaben (Appointed Aug 2018)	Council Member	Nov 2019
Greg Bladt	Council Member	Jan 2020
Dave Miller	Council Member	Jan 2020
Jay Christensen	Council Member	Jan 2022
Sharon Kroger	Council Member	Jan 2022
Jeanna Rudolph	Council Member	Jan 2022
Gene Getty	City Administrator	Indefinite
Jane Smith	City Clerk/Treasurer	Indefinite
Todd Argotsinger	Attorney	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Kolbe	Mayor	Jan 2022
Jay Christensen	Council Member	Jan 2022
Sharon Kroger	Council Member	Jan 2022
Jeanna Rudolph	Council Member	Jan 2022
Greg Bladt	Council Member	Jan 2024
Richard Petersen	Council Member	Jan 2024
Troy Schaben	Council Member	Jan 2024
Gene Getty	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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2020, 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.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for one of the City's legally separate component units 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 all component units 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 all component units. The City has not issued such reporting entity financial statements. The amounts for which this departure affects the receipts, disbursements and cash balance of the aggregate discretely presented component units, is \$15,233,987, \$15,522,792 and \$8,976,217, respectively.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the City of Harlan as of June 30, 2020, or the changes in its cash basis 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, each major fund and the aggregate remaining fund information of the City of Harlan as of June 30, 2020, 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.

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 three years ended June 30, 2019 (which are not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the Harlan Municipal Utilities. The financial statements for the six 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 four years ended June 30, 2016 were prepared in accordance with U.S. generally accepted accounting principles. The financial statements for the two 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. Because of the significance of the matter described in the “Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units” paragraph on the preceding page, it is inappropriate to, and we do not, express an opinion on the supplementary information.

The other information, the Budgetary Comparison Information, the Schedule of the City’s Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 34 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 January 15, 2021 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.


Marlys K. Gaston, CPA
Deputy Auditor of State

January 15, 2021

City of Harlan

Basic Financial Statements

City of Harlan

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2020

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 1,400,817	103,892	97,149	-
Public works	1,677,440	349,339	689,837	-
Culture and recreation	965,139	77,350	119,001	-
Community and economic development	142,742	8,827	273	-
General government	788,488	10,561	714	-
Debt service	1,026,530	-	-	-
Capital projects	978,272	-	-	354,503
Non-program	465,564	437,802	-	-
Total governmental activities	7,444,992	987,771	906,974	354,503
Business type activities:				
Sewer	1,025,821	1,213,970	-	-
Total Primary Government	\$ 8,470,813	2,201,741	906,974	354,503
Component Unit:				
Harlan Community Library Foundation	\$ 27,475	-	15,936	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Cable franchise fee				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
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:				
Streets				
Debt service				
Capital projects				
Health plan trustee				
Library				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Harlan Community Library Foundation
(1,199,776)	-	(1,199,776)	
(638,264)	-	(638,264)	
(768,788)	-	(768,788)	
(133,642)	-	(133,642)	
(777,213)	-	(777,213)	
(1,026,530)	-	(1,026,530)	
(623,769)	-	(623,769)	
(27,762)	-	(27,762)	
(5,195,744)	-	(5,195,744)	
-	188,149	188,149	
(5,195,744)	188,149	(5,007,595)	
			(11,539)
2,340,079	-	2,340,079	-
475,279	-	475,279	-
396,688	-	396,688	-
541,300	-	541,300	-
37,897	-	37,897	-
76,156	-	76,156	-
78,230	-	78,230	-
4,551	-	4,551	-
293,217	14,269	307,486	-
696,340	(696,340)	-	-
4,939,737	(682,071)	4,257,666	-
(256,007)	(493,922)	(749,929)	(11,539)
4,748,429	1,250,777	5,999,206	505,213
\$ 4,492,422	756,855	5,249,277	493,674
\$ 169,351	-	169,351	-
411,921	377,040	788,961	-
638,478	43,689	682,167	-
268,260	23,667	291,927	-
-	-	-	493,674
811,213	-	811,213	-
2,193,199	312,459	2,505,658	-
\$ 4,492,422	756,855	5,249,277	493,674

City of Harlan

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

As of and for the year ended June 30, 2020

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 1,740,454	-	581,516
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Other city tax	50,412	-	5,594
Licenses and permits	101,882	-	-
Use of money and property	69,426	-	-
Intergovernmental	371,645	656,317	16,546
Charges for service	222,033	-	-
Miscellaneous	370,207	-	-
Total receipts	2,926,059	656,317	603,656
Disbursements:			
Operating:			
Public safety	1,424,487	-	-
Public works	707,586	973,007	-
Culture and recreation	875,463	-	-
Community and economic development	111,171	-	-
General government	788,911	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	3,907,618	973,007	-
Excess (deficiency) of receipts over (under) disbursements	(981,559)	(316,690)	603,656
Other financing sources (uses):			
Sale of capital assets	-	-	-
Transfers in	1,117,959	-	-
Transfers out	-	-	(596,109)
Total other financing sources (uses)	1,117,959	-	(596,109)
Change in cash balances	136,400	(316,690)	7,547
Cash balances beginning of year	1,501,949	505,383	421,832
Cash balances end of year	\$ 1,638,349	188,693	429,379
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	169,351	-
Debt service	-	-	-
Capital projects	-	-	-
Health plan trustee	106,374	19,342	-
Other purposes	-	-	429,379
Unassigned	1,531,975	-	-
Total cash basis fund balances	\$ 1,638,349	188,693	429,379

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
471,068	-	-	2,793,038
-	-	396,688	396,688
-	-	541,300	541,300
4,211	-	-	60,217
-	-	-	101,882
-	-	386	69,812
12,456	280,212	25,786	1,362,962
-	-	-	222,033
-	74,291	36,413	480,911
487,735	354,503	1,000,573	6,028,843
-	-	17,007	1,441,494
-	-	-	1,680,593
-	-	137,702	1,013,165
-	-	31,571	142,742
-	-	-	788,911
1,026,530	-	-	1,026,530
-	978,272	-	978,272
1,026,530	978,272	186,280	7,071,707
(538,795)	(623,769)	814,293	(1,042,864)
-	26,000	-	26,000
543,103	472,217	104,390	2,237,669
-	(104,150)	(841,070)	(1,541,329)
543,103	394,067	(736,680)	722,340
4,308	(229,702)	77,613	(320,524)
300,758	868,180	411,076	4,009,178
305,066	638,478	488,689	3,688,654
-	-	-	169,351
305,066	-	106,855	411,921
-	638,478	-	638,478
-	-	-	125,716
-	-	381,834	811,213
-	-	-	1,531,975
305,066	638,478	488,689	3,688,654

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, 2020

Total governmental funds cash balances (page 13) \$ 3,688,654***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.

803,768**Cash basis net position of governmental activities (page 11)** \$ 4,492,422**Change in cash balances (page 13)** \$ (320,524)***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.

64,517**Change in cash basis net position of governmental activities (page 11)** \$ (256,007)

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, 2020

	Enterprise	Internal Service
	Sewer	Total
Operating receipts:		
Charges for service	\$ 1,126,602	572,508
Miscellaneous	87,368	-
Total operating receipts	<u>1,213,970</u>	<u>572,508</u>
Operating disbursements:		
Governmental activities:		
Public safety	-	13,317
Public works	-	13,638
Culture and recreation	-	3,256
General government	-	4,994
Non-program	-	465,564
Business type activities	<u>1,026,385</u>	<u>6,659</u>
Total operating disbursements	<u>1,026,385</u>	<u>507,428</u>
Excess of operating receipts over operating disbursements	187,585	65,080
Non-operating receipts:		
Miscellaneous	<u>14,269</u>	-
Excess of receipts over disbursements	201,854	65,080
Transfers out	<u>(696,340)</u>	-
Change in cash balances	(494,486)	65,080
Cash balances beginning of year	<u>1,250,307</u>	<u>739,721</u>
Cash balances end of year	<u>\$ 755,821</u>	<u>804,801</u>
Cash Basis Fund Balances		
Restricted for debt service	\$ 377,040	-
Restricted for capital projects	43,689	-
Restricted for health plan trustee	23,667	142,544
Unrestricted	<u>311,425</u>	<u>662,257</u>
Total cash basis fund balances	<u>\$ 755,821</u>	<u>804,801</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, 2020

Total enterprise funds cash balances (page 15) \$ 755,821

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.

1,034

Cash basis net position of business type activities (page 11) \$ 756,855

Change in cash balances (page 15) \$ (494,486)

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.

564

Change in cash basis net position of business type activities (page 11) \$ (493,922)

See notes to financial statements.

City of Harlan

Notes to Financial Statements

June 30, 2020

(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.

Except as noted, these financial statements present the City of Harlan (the primary government) and its component units. 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. The component units, discussed below, are included in the City's reporting entity because of the significance of the operational or financial relationship with the City.

Discretely Presented Component Unit

The Harlan Community Library Foundation, Inc. (Foundation) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Harlan Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Foundation are substantially for the direct benefit of the City of Harlan Library.

Excluded Component Unit

The Harlan Municipal Utilities was established under Chapter 388 of the Code of Iowa to operate the City's municipal utilities. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Municipal Utilities meets the definition of a component unit which should be discretely presented. Financial statements for the Municipal Utilities were prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles but are not included in the City's financial statements since the City prepares its financial statements on the cash basis. Complete financial statements can be obtained from the Harlan Municipal Utilities, 2412 Southwest Avenue, Harlan, Iowa 51537-0071.

Blended Component Units

The Harlan Firefighters Association, Inc. (Association) is legally separate from the City, but are so intertwined with the City it is, in substance, part of the City. According to the Articles of Incorporation, the Association was organized for the purpose of fundraising, obtaining grants and financially supporting the fire department. The financial transactions are reported as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: 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:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding 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, including the Municipal Utility.

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. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2018 assessed property valuations; is for the tax accrual period July 1, 2019 through June 30, 2020 and reflects tax asking contained in the budget certified to the City Council in March 2019.

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2020, disbursements exceeded the amount budgeted in the community and economic development, capital projects and business type activities functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2020 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 has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Component Unit

At June 30, 2020, the Harlan Community Library Foundation had the following investments:

Investment	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 410,730	440,677	N/A
U.S. Equities	68,296	63,101	N/A
Municipal Bonds	5,000	5,019	N/A
Total	\$ 484,026	508,797	

The component unit uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The recurring fair value of the Harlan Community Library Foundation mutual funds, municipal bonds and U.S. equities were determined using quoted market prices. (Level 1 inputs)

(3) Bonds and Notes Payable

A summary of changes in bonds and capital notes payable for the year ended June 30, 2020 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 3,895,000	-	450,000	3,445,000	465,000
General obligation capital notes	3,395,000	-	400,000	2,995,000	370,000
Governmental activities total	\$ 7,290,000	-	850,000	6,440,000	835,000

General Obligation Bonds

A summary of the City's June 30, 2020 general obligation bonds payable is as follows:

Year Ending June 30,	Street Repair, Fire and Police Equipment and Park Improvements Series 2011			WWTP Facility Repair Series 2012		
	Issued Jun 1, 2011			Issued Jun 27, 2012		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	3.25%	\$ 70,000	16,435	2.00%	\$ 165,000	27,578
2022	3.25	70,000	14,160	2.00	170,000	24,278
2023	3.50	75,000	11,885	2.00	175,000	20,878
2024	3.50	80,000	9,260	2.10	180,000	17,377
2025	3.80	85,000	6,460	2.25	185,000	13,597
2026-2030	3.80	85,000	3,230	2.40-2.50	385,000	14,310
Total		\$ 465,000	61,430		\$ 1,260,000	118,018

Year Ending June 30,	Bond Refunding Series 2013			Total		
	Issued May 1, 2013					
	Interest Rates	Principal	Interest	Principal	Interest	Total
2021	1.50%	\$ 230,000	34,125	\$ 465,000	78,138	543,138
2022	1.75	235,000	30,675	475,000	69,113	544,113
2023	1.90	235,000	26,562	485,000	59,325	544,325
2024	2.00	245,000	22,098	505,000	48,735	553,735
2025	2.10	250,000	17,198	520,000	37,255	557,255
2026-2030	2.20-2.35	525,000	18,175	995,000	35,715	1,030,715
Total		\$ 1,720,000	148,833	\$ 3,445,000	328,281	3,773,281

On June 1, 2011, the City issued \$990,000 of general obligation bonds with interest rates ranging from 2.50% to 3.80% per annum. The bonds were issued for the cost of equipment for the Police and Fire Departments, improvement and equipment for parks already owned, law enforcement and emergency services communication equipment and systems and street improvements. During the year ended June 30, 2020, the City paid \$65,000 of principal and \$18,385 of interest on the bonds.

On June 27, 2012, the City issued \$2,455,000 of general obligation bonds with interest rates ranging from 2.00% to 2.50% per annum. The bonds were issued for the acquisition, construction, reconstruction, extension, improvement and equipping of the wastewater treatment plant. During the year ended June 30, 2020, the City paid \$160,000 of principal and \$30,777 of interest on the bonds.

On May 1, 2013, the City issued \$2,815,000 of general obligation refunding bonds with interest rates ranging from .75% to 2.35% per annum. The bonds were used for a crossover refunding of the 2007 general obligation bonds with a crossover date of May 2015. During the year ended June 30, 2020, the City paid \$225,000 of principal and \$37,050 of interest on the bonds.

General Obligation Capital Notes

A summary of the City's June 30, 2020 general obligation capital notes payable is as follows:

Year Ending June 30,	Road Construction and Repair Series 2014			WWTP Improvement and Sewer Line Repair Series 2015		
	Issued Oct 9, 2014			Issued Oct 14, 2015		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2021	1.85%	\$ 80,000	22,220	1.70%	\$ 100,000	29,475
2022	2.30	80,000	20,740	2.50	100,000	27,775
2023	2.30	80,000	18,900	2.50	100,000	25,275
2024	2.65	70,000	17,060	2.50	100,000	22,775
2025	2.65	70,000	15,205	2.75	105,000	20,275
2026-2030	3.00-3.35	425,000	36,420	2.75-3.50	550,000	55,312
Total		<u>\$ 805,000</u>	<u>130,545</u>		<u>\$ 1,055,000</u>	<u>180,887</u>

Year Ending June 30,	WWTP Repair and Airport Improvement Series 2018					
	Issued May 30, 2018			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2021	2.00%	\$ 190,000	27,550	\$ 370,000	79,245	449,245
2022	2.25	160,000	23,750	340,000	72,265	412,265
2023	2.35	165,000	20,150	345,000	64,325	409,325
2024	2.50	170,000	16,273	340,000	56,108	396,108
2025	2.55	170,000	12,022	345,000	47,502	392,502
2026-2030	2.65-3.00	280,000	12,388	1,255,000	104,120	1,359,120
Total		<u>\$ 1,135,000</u>	<u>112,133</u>	<u>\$ 2,995,000</u>	<u>423,565</u>	<u>3,418,565</u>

On October 9, 2014, the City issued \$1,835,000 of general obligation capital notes with interest rates ranging from 1.85% to 3.35% per annum. The notes were used for road construction and repair, improvements to the City Airport and emergency services communication equipment for the Police and Fire Departments. During the year ended June 30, 2020, the City paid \$85,000 of principal and \$23,793 of interest on the notes.

On October 14, 2015, the City issued \$1,555,000 of general obligation capital notes with interest rates ranging from 2.00% to 3.50% per annum. The notes were used for wastewater treatment plant improvement and sewer line repairs. During the year ended June 30, 2020, the City paid \$100,000 of principal and \$31,175 of interest on the notes.

On May 30, 2018, the City issued \$1,395,000 of general obligation capital notes with interest rates ranging from 1.90% to 3.00% per annum. The notes were used for wastewater treatment plant repair, improvements at the City Airport and improvements at the City parks. During the year ended June 30, 2020, the City paid \$215,000 of principal and \$31,850 of interest on the notes.

(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 and may retire any time after reaching age 50 with 22 or more years of covered employment.

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 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.61% of covered payroll and the City contributed 9.91% of covered payroll, for a total rate of 16.52%.

The City’s contributions to IPERS for the year ended June 30, 2020 totaled \$170,184.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2020, the City reported a liability of \$891,766 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 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, 2019, the City’s proportion was 0.015400%, which was a decrease of 0.001122% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$235,147, \$209,780 and \$262,665, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2019 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, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100.0%</u>	

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 1,953,994	891,766	1,242

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. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2020, the City contributed \$450,607 and plan members eligible for benefits contributed \$45,406 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by the City of Harlan and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement. At June 30, 2020, there are 27 active and no inactive or retired members in 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, 2020, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 77,000
Sick leave	159,000
Floating holiday	4,000
Compensatory time	47,000
Total	<u>\$ 287,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2020.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2020 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 596,109
	Local Option Sales Tax	460,000
	Urban Renewal	<u>61,850</u>
		<u>1,117,959</u>
Special Revenue:	Special Revenue:	
Downtown Upper Story Façade	Urban Renewal	<u>240</u>
JJ Jensen	Capital Projects	<u>104,150</u>
Debt Service	Enterprise:	
	Sewer	378,340
	Special Revenue:	
	Urban Renewal	<u>164,763</u>
		<u>543,103</u>
Capital Projects	Enterprise:	
	Sewer	318,000
	Special Revenue:	
	Urban Renewal	<u>154,217</u>
		<u>472,217</u>
Total		<u>\$ 2,237,669</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) Employee Health Insurance Plan

The City, including Harlan Municipal Utilities, self-funds a portion of health insurance deductibles for its employees. The plan is funded by both employee and City contributions and is administered by Employee Benefit Systems (EBS) under an agreement which is subject to automatic renewal. The City self-funds up to \$2,500 per individual or \$5,000 per family, with employees contributing the first \$400 to \$800, respectively. Administrative service fees and premiums are paid monthly from the City's operating funds to a separate account administered by EBS. During the year ended June 30, 2020, the City paid \$880,583 into the account. At June 30, 2020, the account balance was \$291,927. The activity for this account is recorded in the City's General, the Special Revenue, Road Use Tax, the Enterprise, Sewer and the Internal Service, Group Insurance Funds.

(10) Tax Abatements

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

City Tax Abatements

The City provides tax abatements for urban revitalization projects under Chapter 404 of the Code of Iowa. For these types of projects, the City will abate up to \$391,094 of assessed value of a property for the revitalized portion of taxes upon prior approval of the City Council. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2020, \$6,691 of property tax was diverted from the City under the urban revitalization projects.

(11) Interfund Advances

The City has interfund advances from various funds for projects within the City's Urban Renewal Area Plan. In accordance with Chapter 403 of the Code of Iowa, the interfund advances are approved by the City Council to be repaid with tax increment financing (TIF) receipts and are subsequently certified to the County Auditor as TIF debt. The activity for these interfund advances as of June 30, 2020 is as follows:

	Advancing Fund			Total Advances
	General	Special Revenue, Downtown Upper Story Façade	Capital Projects	to the TIF Fund
Beginning balance	\$ 151,568	240	165,527	317,335
New advances	104,841	-	18,395	123,236
Payments	61,850	240	154,217	216,307
Ending balance	\$ 194,559	-	29,705	224,264

The advances are repaid (transferred from the TIF Fund to the fund making the advance) as TIF receipts become available.

(12) COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the City of Harlan, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the City of Harlan. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the City of Harlan's operations and finances.

(13) Subsequent Event

In September, the City issued \$3,850,000 in general obligation capital loan notes, series 2020 for the refunding of \$2,860,000 of general obligation bonds and general obligation capital notes and for the purchase of equipment and street repairs.

(14) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities. This statement will be implemented for the fiscal year ending June 30, 2021. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

City of Harlan

Other Information

City of Harlan
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances –
 Budget and Actual – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2020

	Governmental Funds Actual	Proprietary Funds Actual		Less Funds not Required to be Budgeted
		(Excluding Harlan Municipal Utilities)	Unaudited Harlan Municipal Utilities Actual	
Receipts:				
Property tax	\$ 2,793,038	-	-	-
Tax increment financing	396,688	-	-	-
Other city tax	60,217	-	-	-
Licenses and permits	101,882	-	-	-
Use of money and property	69,812	-	140,206	-
Intergovernmental	1,362,962	-	-	-
Charges for service	222,033	1,699,110	13,061,309	572,508
Miscellaneous	480,911	101,637	2,032,472	-
Total receipts	5,487,543	1,800,747	15,233,987	572,508
Disbursements:				
Public safety	1,441,494	13,317	-	13,317
Public works	1,680,593	13,638	-	13,638
Culture and recreation	1,013,165	3,256	-	3,256
Community and economic development	142,742	-	-	-
General government	788,911	4,994	-	4,994
Debt service	1,026,530	-	-	-
Capital projects	978,272	-	-	-
Business type activities	-	1,033,044	15,522,792	6,659
Non-program	-	465,564	-	465,564
Total disbursements	7,071,707	1,533,813	15,522,792	507,428
Excess (deficiency) of receipts over (under) disbursements	(1,584,164)	266,934	(288,805)	65,080
Other financing sources (uses), net	722,340	(696,340)	-	-
Change in balances	(861,824)	(429,406)	(288,805)	65,080
Balances beginning of year	4,009,178	1,990,028	9,265,022	739,721
Balances end of year	\$ 3,147,354	1,560,622	8,976,217	804,801

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,793,038	2,823,565	2,823,565	(30,527)
396,688	400,887	400,887	(4,199)
60,217	611,375	534,975	(474,758)
101,882	20,400	102,050	(168)
210,018	75,540	75,540	134,478
1,362,962	1,040,360	1,322,472	40,490
14,409,944	16,395,038	15,222,670	(812,726)
2,615,020	377,297	614,189	2,000,831
21,949,769	21,744,462	21,096,348	853,421
1,441,494	1,447,863	1,493,057	51,563
1,680,593	1,640,799	1,739,450	58,857
1,013,165	1,101,254	1,075,254	62,089
142,742	114,500	118,000	(24,742)
788,911	797,399	846,135	57,224
1,026,530	1,026,032	1,026,532	2
978,272	183,150	341,757	(636,515)
16,549,177	12,098,525	14,158,350	(2,390,827)
-	-	-	-
23,620,884	18,409,522	20,798,535	(2,822,349)
(1,671,115)	3,334,940	297,813	(1,968,928)
26,000	13,000	36,000	(10,000)
(1,645,115)	3,347,940	333,813	(1,978,928)
14,524,507	35,397,230	35,397,230	(20,872,723)
12,879,392	38,745,170	35,731,043	(22,851,651)

City of Harlan

City of Harlan

Notes to Other Information – Budgetary Reporting

June 30, 2020

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 blended component unit, the Harlan Community Library Foundation and 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 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 \$2,389,013. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2020, disbursements exceeded the amounts budgeted in the community and economic development, capital projects and business type activities functions.

City of Harlan

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

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

Other Information

	2020	2019	2018	2017
City's proportion of the net pension liability	0.015400%	0.016522%	0.017001%	0.018390%
City's proportionate share of the net pension liability	\$ 892	1,046	1,133	1,157
City's covered payroll	\$ 1,779	1,771	1,771	1,750
City's proportionate share of the net pension liability as a percentage of its covered payroll	50.14%	59.06%	63.98%	66.11%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%

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

See accompanying independent auditor's report.

2016	2015
0.016001%	0.0147603%
790	585
1,670	1,713
47.31%	34.15%
85.19%	87.61%

City of Harlan

Schedule of City Contributions

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

Other Information

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ 170	172	163	163
Contributions in relation to the statutorily required contribution	<u>(170)</u>	<u>(172)</u>	<u>(163)</u>	<u>(163)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 1,773	1,779	1,771	1,771
Contributions as a percentage of covered payroll	9.59%	9.67%	9.20%	9.20%

See accompanying independent auditor's report.

2016	2015	2014	2013	2012	2011
167	155	159	148	138	127
(167)	(155)	(159)	(148)	(138)	(127)
-	-	-	-	-	-
1,750	1,670	1,713	1,610	1,555	1,540
9.54%	9.28%	9.28%	9.19%	8.87%	8.24%

City of Harlan

Notes to Other Information – Pension Liability

Year ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

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

Supplementary Information

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, 2020

	Special Revenue				
	Local Option Sales Tax	Urban Renewal	Downtown Upper Story Façade	JJ Jensen	Harlan Firefighters Association
Receipts:					
Tax increment financing	\$ -	396,688	-	-	-
Local option sales tax	541,300	-	-	-	-
Use of money and property	-	-	-	-	386
Intergovernmental	-	-	-	1,800	-
Miscellaneous	-	-	-	273	12,552
Total receipts	541,300	396,688	-	2,073	12,938
Disbursements:					
Operating:					
Public safety	-	-	-	-	14,153
Culture and recreation	-	-	-	96,083	-
Community and economic development	-	-	31,571	-	-
Total disbursements	-	-	31,571	96,083	14,153
Excess (deficiency) of receipts over (under) disbursements	541,300	396,688	(31,571)	(94,010)	(1,215)
Other financing sources (uses):					
Transfers in	-	-	240	104,150	-
Transfers out	(460,000)	(381,070)	-	-	-
Total other financing source (uses)	(460,000)	(381,070)	240	104,150	-
Change in cash balances	81,300	15,618	(31,331)	10,140	(1,215)
Cash balances beginning of year	83,655	91,237	83,364	45,844	63,148
Cash balances end of year	\$ 164,955	106,855	52,033	55,984	61,933
Cash Basis Fund Balances					
Restricted for debt service	\$ -	106,855	-	-	-
Restricted for other purposes	164,955	-	52,033	55,984	61,933
Total cash basis fund balances	\$ 164,955	106,855	52,033	55,984	61,933

See accompanying independent auditor's report.

Special Revenue					
C. Hansen Schildberg Fund	Library Fund	Beebe Fund	Police Fund	Loree Allen Poynter Fund	Total
-	-	-	-	-	396,688
-	-	-	-	-	541,300
-	-	-	-	-	386
-	23,986	-	-	-	25,786
-	23,588	-	-	-	36,413
-	47,574	-	-	-	1,000,573
271	-	-	500	2,083	17,007
-	41,619	-	-	-	137,702
-	-	-	-	-	31,571
271	41,619	-	500	2,083	186,280
(271)	5,955	-	(500)	(2,083)	814,293
-	-	-	-	-	104,390
-	-	-	-	-	(841,070)
-	-	-	-	-	(736,680)
(271)	5,955	-	(500)	(2,083)	77,613
271	21,147	10,515	9,812	2,083	411,076
-	27,102	10,515	9,312	-	488,689
-	-	-	-	-	106,855
-	27,102	10,515	9,312	-	381,834
-	27,102	10,515	9,312	-	488,689

City of Harlan

City of Harlan

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

Year ended June 30, 2020

	Internal Service		
	Equipment Revolving	Group Insurance	Total
Operating receipts:			
Charges for service	\$ 89,300	483,208	572,508
Operating disbursements:			
Governmental activities:			
Public safety	-	13,317	13,317
Public works	-	13,638	13,638
Culture and recreation	-	3,256	3,256
General government	-	4,994	4,994
Non-program	-	465,564	465,564
Business type activities	-	6,659	6,659
Total operating disbursements	-	507,428	507,428
Change in cash balances	89,300	(24,220)	65,080
Cash balances beginning of year	425,323	314,398	739,721
Cash balances end of year	\$ 514,623	290,178	804,801
Cash Basis Fund Balances			
Restricted for health plan trustee	\$ -	142,544	142,544
Unrestricted	514,623	147,634	662,257
Total cash basis fund balances	\$ 514,623	290,178	804,801

See accompanying independent auditor's report.

City of Harlan
Schedule of Indebtedness
Year ended June 30, 2020

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Street Repair, Fire and Police Equipment and Park Improvements, Series 2011	Jun 1, 2011	2.50-3.80%	\$ 990,000
WWTP Facility Repair, 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:			
Road Construction and Repair, Series 2014	Oct 9, 2014	1.85-3.35%	\$ 1,835,000
WWTP Improvement and Sewer Line Repair, Series 2015	Oct 14, 2015	2.00-3.50	1,555,000
WWTP Repair and Airport Improvement, 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
530,000	-	65,000	465,000	18,385
1,420,000	-	160,000	1,260,000	30,777
1,945,000	-	225,000	1,720,000	37,050
<u>\$ 3,895,000</u>	-	450,000	3,445,000	86,212
890,000	-	85,000	805,000	23,793
1,155,000	-	100,000	1,055,000	31,175
1,350,000	-	215,000	1,135,000	31,850
<u>\$ 3,395,000</u>	-	400,000	2,995,000	86,818

City of Harlan

City of Harlan
Bond and Note Maturities
June 30, 2020

General Obligation Bonds							
Year Ending June 30,	Street Repair, Fire and Police Equipment and Park Improvements		WWTP Facility Repair		Bond Refunding		Total
	Series 2011		Series 2012		Series 2013		
	Issued Jun 1, 2011		Issued Jun 27, 2012		Issued May 1, 2013		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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>\$ 465,000</u>		<u>\$ 1,260,000</u>		<u>\$ 1,720,000</u>	<u>3,445,000</u>

General Obligation Capital Notes							
Year Ending June 30,	Road Construction and Repair		WWTP Improvement and Sewer Line Repair		WWTP Repair and Airport Improvement		Total
	Series 2014		Series 2015		Series 2018		
	Issued Oct 9, 2014		Issued Oct 14, 2015		Issued May 30, 2018		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
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>\$ 805,000</u>		<u>\$ 1,055,000</u>		<u>\$ 1,135,000</u>	<u>2,995,000</u>

See accompanying independent auditor's report.

City of Harlan

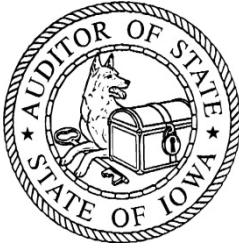
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Ten Years

	Cash Basis			
	2020	2019	2018	2017
Receipts:				
Property tax	\$ 2,793,038	2,801,830	2,708,576	2,625,733
Tax increment financing	396,688	373,379	374,728	560,322
Local option sales tax	541,300	506,392	440,560	502,618
Other city tax	60,217	57,155	223,761	178,880
Licenses and permits	101,882	101,424	95,873	125,790
Use of money and property	69,812	69,324	72,611	79,135
Intergovernmental	1,362,962	1,110,425	1,318,837	1,570,287
Charges for service	222,033	265,184	249,507	267,866
Special assessments	-	-	-	-
Miscellaneous	480,911	496,950	512,444	536,970
Note proceeds	-	-	1,395,000	-
Sale of capital assets	26,000	2,000	137,478	-
Payment in lieu of taxes	-	-	-	-
Fines and forfeits	-	-	160	-
Contributions	-	-	-	-
Refunds/reimbursements	-	-	-	-
Interest on investments	-	-	-	-
Total	\$ 6,054,843	5,784,063	7,529,535	6,447,601
Disbursements:				
Operating:				
Public safety	1,441,494	1,594,937	1,413,770	1,290,240
Public works	1,680,593	1,247,471	1,054,361	961,444
Culture and recreation	1,013,165	988,025	944,155	946,252
Community and economic development	142,742	109,951	104,798	176,089
General government	788,911	771,854	809,432	832,081
Debt service	1,026,530	1,064,531	983,382	920,033
Capital projects	978,272	1,087,076	811,527	1,279,855
Total	\$ 7,071,707	6,863,845	6,121,425	6,405,994

See accompanying independent auditor's report.

Modified		Accrual Basis		Cash Basis	
2016	2015	2014	2013	2012	2011
3,321,898	3,692,769	3,602,340	3,501,013	3,339,143	2,025,923
-	-	-	-	-	700,948
-	-	-	-	-	-
-	-	-	-	-	494,847
93,942	117,764	83,400	79,534	94,155	83,935
75,347	74,847	23,916	72,819	82,502	85,093
3,263,260	1,139,194	812,099	860,312	753,507	945,377
410,583	459,827	488,505	464,063	538,919	410,184
110	1,411	2,603	1,639	3,389	5,271
227,362	27,330	100,426	74,685	64,608	112,396
-	-	-	-	-	982,947
-	-	-	-	-	-
-	-	289,583	301,452	254,609	-
19,072	14,177	22,091	18,999	24,703	-
28,347	83,566	151,617	37,786	58,094	-
-	-	246,964	8,934	-	-
4,590	10,352	12,230	7,834	5,305	-
7,444,511	5,621,237	5,835,774	5,429,070	5,218,934	5,846,921
1,340,642	1,368,959	1,204,545	1,162,720	1,072,507	1,298,212
1,118,978	1,339,224	1,243,686	1,132,058	1,207,133	1,083,467
918,171	1,218,455	921,867	823,835	961,330	911,837
181,826	352,533	616,639	415,685	301,580	554,117
724,957	764,998	843,228	771,706	576,125	514,232
611,630	320,809	605,313	773,963	505,163	872,198
2,452,677	867,437	616,635	121,235	640,345	265,712
7,348,881	6,232,415	6,051,913	5,201,202	5,264,183	5,499,775



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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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2020, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 15, 2021. Our report expressed unmodified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa as of June 30, 2020, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the 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.

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

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

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

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, 2020 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.

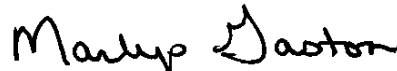
The City of Harlan's Responses to the Findings

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.


Marlys K. Gaston, CPA
Deputy Auditor of State

January 15, 2021

City of Harlan

Schedule of Findings

Year ended June 30, 2020

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 – Those collecting cash have 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 City has reviewed its internal control activities and are utilizing current available staff by dividing up duties. Those duties are segregated between the Finance Assistant, the Administrative Assistant, the Deputy City Clerk and the City Clerk. All four employees are able to accept and record cash or check payments from the public. The reason all four employees have the training to accept payments from the public is done in the event one or more of the four employees are out of the office at the same time due to illness or vacation. Routinely, the City Clerk opens payments received in the mail and records them on a Mail Cash and Check Daily Log and gives the cash, checks and daily log to the Finance Assistant. The Finance Assistant enters the cash and/or checks in the municipal software cash receipt journal. The Deputy City Clerk reviews and verifies the cash receipts by completing a daily register and running batch verification reports from the municipal software and then 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.

City of Harlan

Schedule of Findings

Year ended June 30, 2020

(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.

Condition – Utility billings and collections were not reconciled throughout the year. Also, utility collections were not reconciled to deposits. The written agreement between the City and the Harlan Municipal Utilities (HMU) does not address 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 modify the written agreement to address the allocation methodology to be used for payments received.

Response – Per the agreement passed and approved by the City Council on December 17, 2019, the City works with HMU to receive monthly documentation of billed and collected sewer and landfill utility billings and records them on a fiscal year spreadsheet, by month. The City Clerk forwards the spreadsheets electronically to the City Administrator and Wastewater Treatment Plant Superintendent for their review. The City Clerk also provides monthly, the billing and collection information to the City Financial Manager, PFM for their analysis. City of Harlan and HMU have unsuccessfully attempted to reconcile past billings and collections to arrive at a deficit/surplus payment. Per the Code of Iowa Chapter 11.6, Subsection 4, a request for re-audit and transaction review was actioned by City Council on August 4, 2020.

Conclusion – Response accepted.

City of Harlan

Schedule of Findings

Year ended June 30, 2020

(C) Segregation of Duties for Harlan Firefighters Association, Inc. and Harlan Community Library Foundation

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 financial statements.

Condition – One individual for the Firefighters Association and Library Foundation has control over collecting, depositing, reconciling, preparing and signing and mailing checks for which no compensating controls exist.

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

Recommendation – The Firefighters Association and Library Foundation should review their control activities to obtain the maximum internal control possible under the circumstances. Currently available staff, including elected City officials, other City employees or other volunteers should be utilized to provide additional control through a review of financial transactions.

Harlan Firefighters Association Response – The Firefighters Association will work on segregation of duties in the future.

Harlan Community Library Foundation Response – The Harlan Community Library Foundation will meet to review the segregation of duties. Such factors as limited Foundation members will affect the ability to provide and complete segregation of duties.

Conclusion – Response accepted.

City of Harlan

Schedule of Findings

Year ended June 30, 2020

(D) General Ledger and Bank Reconciliations

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

Condition – For the Harlan Firefighters Association and Harlan Community Library Foundation bank reconciliations were not performed on a monthly basis and were not subsequently independently reviewed.

Cause – Procedures have not been designed and implemented to ensure all bank accounts are reconciled to the book balances monthly and the reconciliations are subsequently reviewed by an independent person.

Effect – The lack of bank to book reconciliations and a lack of independent review of the reconciliations can result in unrecorded transactions, undetected errors and opportunity for misappropriation.

Recommendation – For the Harlan Firefighters Association and Harlan Community Library Foundation monthly bank reconciliations should be performed and variances between book and bank balances investigated and resolved timely. In addition, the reconciliations should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Harlan Firefighters Association Response – The Firefighters Association will work on doing reconciliations in a timely manner, including review by an independent person.

Harlan Library Foundation Response – The Harlan Community Library Foundation Board will meet to discuss the process for reconciling bank accounts and a review of the bank statements by additional Board Members.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Harlan

Schedule of Findings

Year ended June 30, 2020

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the community and economic development, capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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 budget was amended, but per audit review, some of the disbursements should have been budgeted to different functions. The Downtown Upper Story/Façade project was budgeted by the City in the capital projects function; however, should have been budgeted in the community and economic development function, thus the community and economic development function budget was exceeded. The City will budget those projects under community and economic development function within the Special Revenue Fund in the future. The WWTP Control Building and SCADA projects were budgeted by the City in the business type activities/enterprise capital projects function and should have been budgeted in the capital projects function, thus the budget was exceeded in the capital projects function. The City will budget those projects under the capital projects function in the future. The HMU disbursement amounts reported to the City exceeded the budgeted amounts recorded, thus disbursements in the business type activities function exceeded the budget. The City will work with HMU to obtain more precise budget numbers in the future.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not met 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.

City of Harlan

Schedule of Findings

Year ended June 30, 2020

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Gene Getty, City Administrator, Wife is Office Manager of Leinen Construction	Construction, bid	\$ 96,497
Sharon Kroger, Council Member, Husband is Part-owner of Kroger & Sons Hauling, LLC	Garbage hauling, bid	4,561

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the transactions with Leinen Construction do not appear to represent a conflict of interest since the contract was entered into through competitive bidding.

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Kroger & Sons Hauling, LLC do not appear to represent a conflict of interest since total transactions were less than \$6,000 for the fiscal year.

- (5) Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- (6) 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.
- (7) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (8) 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.
- (9) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1, 2019.

City of Harlan

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Pamela J. Bormann, CPA, Manager
Nichole D. Tucker, Senior Auditor
Maria R. Collins, Staff Auditor
Allison C. Carlon, Assistant Auditor
Ridge G. Nennig, Assistant Auditor
Sarah B. Roemer, Assistant Auditor