



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

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NEWS RELEASE

FOR RELEASE

June 12, 2018

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

The City's receipts totaled \$7,955,740 for the year ended June 30, 2017. The receipts included \$2,993,667 of property tax, \$560,322 of tax increment financing, \$2,126,100 of charges for service, \$1,160,991 of operating grants, contributions and restricted interest, \$564,386 of capital grants, contributions and restricted interest, \$502,618 of local option sales tax, \$12,629 of unrestricted interest on investments and \$35,027 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$7,531,860, and included \$1,305,309 for public safety, \$1,279,856 for capital projects and \$978,197 for public works. Also, disbursements for business type activities totaled \$674,642.

The significant decrease in receipts and disbursements is due primarily to the conversion from the accrual basis of accounting to the cash basis of accounting.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1720-0790-B00F>.

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

JUNE 30, 2017

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City of Harlan

Officials

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

City of Harlan



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Summary of Opinions

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

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

Management has not included the Discretely Presented Component Unit, Harlan Municipal Utilities, in the City's financial statements because the Harlan Municipal Utilities reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. Accounting principles applicable to the cash basis of accounting require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity which include the financial data for its component units. The City has not issued such reporting financial statements. The receipts, disbursements and cash balance of the Harlan Municipal Utilities, as reported in its audited financial statements for the year ended June 30, 2017, are \$14,901,483, \$13,405,193 and \$12,270,014, respectively.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Discretely Presented Component Unit, Harlan Municipal Utilities Fund" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the City of Harlan as of June 30, 2017, or the changes in financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the General Fund, the major Special Revenue Funds, including the Road Use Tax and Employee Benefits Funds, the Debt Service Fund, the Capital Projects Fund, the major Enterprise Fund, Sewer, and the aggregate remaining fund information of the City of Harlan as of June 30, 2017, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Emphasis of a Matter

As discussed in Note 11 to the financial statements, the City elected to change from the accrual basis of accounting to the cash basis of accounting for the fiscal year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harlan's basic financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the nine years ended June 30, 2016 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements. The financial statements for the five years ended June 30, 2016 were prepared in accordance with U.S. generally accepted accounting principles. The financial statements for the four years ended June 30, 2011 were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 9 through 14 and 36 through 42, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 18, 2018 on our consideration of the City of Harlan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Harlan's internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State

May 18, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Harlan provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were approximately \$6,919,000 in fiscal year 2017. Property tax receipts were approximately \$3,554,000.
- Disbursements of the City's governmental activities were approximately \$6,587,000 in fiscal year 2017. Public safety, capital projects and public works disbursements were approximately \$1,305,000, \$1,280,000 and \$978,000, respectively.
- The City's total cash basis net position increased approximately \$424,000 in fiscal year 2017. Of this amount, the cash basis net position of the governmental activities increased approximately \$377,000 and the cash basis net position of the business type activities increased approximately \$47,000.
- During fiscal year 2017, the City elected to report on the cash basis of accounting. As a result, the beginning net position for governmental activities and business type activities and the beginning fund balances for all funds were restated to report the beginning cash balances.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

BASIS OF ACCOUNTING

As noted in the financial highlights above, the City elected to report on the cash basis of accounting for fiscal year 2017. The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

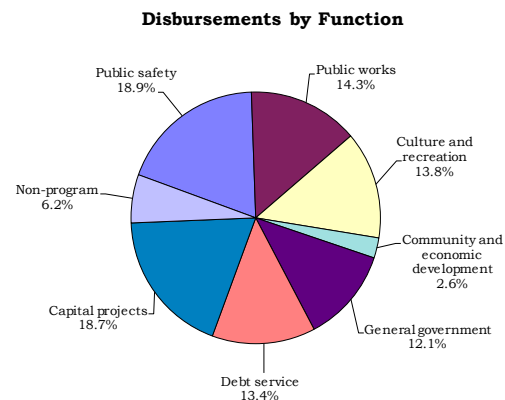
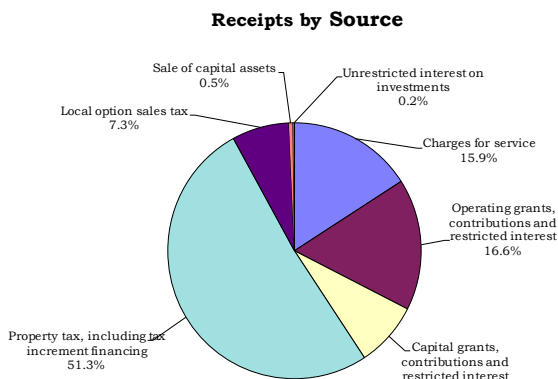
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted in the financial highlights above, the City elected to report on the cash basis of accounting for fiscal year 2017. As a result, comparative financial information was not readily available. Net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the cash basis net position of governmental activities.

Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		Year ended June 30,
		2017
Receipts:		
Program receipts:		
Charges for service	\$	1,102
Operating grants, contributions and restricted interest		1,148
Capital grants, contributions and restricted interest		564
General receipts:		
Property tax, including tax increment financing		3,554
Local option sales tax		503
Sale of capital assets		35
Unrestricted interest on investments		13
Total receipts		6,919
Disbursements:		
Public safety		1,305
Public works		978
Culture and recreation		944
Community and economic development		176
General government		832
Debt service		920
Capital projects		1,280
Non-program		422
Total disbursements		6,857
Change in cash basis net position before transfers		62
Transfers, net		315
Change in cash basis net position		377
Cash basis net position beginning of year		1,896
Cash basis net position end of year	\$	2,273



The City's total receipts for governmental activities were approximately \$6,919,000 in fiscal year 2017. The total cost of all programs and services was approximately \$6,857,000. However, as shown in the Statement of Activities and Net Position on pages 16-17, the amount taxpayers ultimately financed for these activities was approximately \$4.042 million because some of the cost was paid by those directly benefited from the programs (approximately \$1.102 million) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (approximately \$1.713 million). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts.

Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, were approximately \$2.814 million in fiscal year 2017.

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

Total business type activities receipts for the fiscal year were approximately \$1.037 million. The cash balance increased approximately \$47,000 from the prior year. Total disbursements for the fiscal year were approximately \$675,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Harlan completed the year, its governmental funds reported a combined fund balance of \$2,062,201. The following summarizes the fund balances of the major funds for the year ended June 30, 2017.

- The General Fund cash balance is \$797,091, which will be used to help offset future property tax increases.
- The Special Revenue, Road Use Tax Fund cash balance is \$400,148. The City intends to use this money to upgrade the condition of all City roads.
- The Special Revenue, Employee Benefits Fund cash balance is \$334,540. The City intends to use this money to help offset the cost of providing employment benefits to its employees.

- The Debt Service Fund cash balance is \$220,789, which will be used to make future bond principal and interest payments.
- The Capital Projects Fund cash balance is \$89,152. The City intends to use this money for the completion of existing capital projects.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance is \$2,035,814. The City intends to use this money for the ongoing operations of the sanitary sewer system and to complete and make upgrades and improvements to the sanitary sewer system, as necessary.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 16, 2017 and resulted in an increase in operating disbursements of \$370,000, primarily for capital project disbursements.

The City’s receipts were \$837,736 more than the amended budget, and total disbursements were \$461,111 more than the amended budget.

The City exceeded the amounts budgeted in the culture and recreation, community and economic development, debt service and capital project functions for the year ended June 30, 2017.

DEBT ADMINISTRATION

At June 30, 2017, the City had \$7,555,000 of bonds and notes outstanding, compared to \$8,290,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2017	2016
General obligation bonds	\$ 4,780	5,220
General obligation notes	2,775	3,070
Total	<u>\$ 7,555</u>	<u>8,290</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt of \$7,555,000 is significantly below its constitutional debt limit of approximately \$13 million. Additional information about the City’s long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Harlan’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2018 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 2.4% versus 2.9% a year ago. This compares with the State’s unemployment rate of 3.0% and the national rate of 4.1%.

These indicators were taken into account when adopting the budget for fiscal year 2018. Amounts available for appropriation in the operating budget are approximately \$21.0 million, a decrease of 4.5% from the final fiscal year 2017 budget. The decrease is primarily related to a decrease in the budgeted disbursements for business type activities, which includes the Harlan Municipal Utilities. The City has added no major new programs or initiatives to the fiscal year 2018 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Harlan

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,305,309	60,228	78,269	-
Public works	978,197	334,997	671,410	-
Culture and recreation	944,250	157,695	153,017	-
Community and economic development	176,088	-	-	-
General government	831,530	124,285	2,002	-
Debt service	920,033	-	-	-
Capital projects	1,279,856	-	243,452	564,386
Non-program	421,955	425,107	-	-
Total governmental activities	6,857,218	1,102,312	1,148,150	564,386
Business type activities:				
Sewer	674,642	1,023,788	12,841	-
Total	\$ 7,531,860	2,126,100	1,160,991	564,386
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Sale of capital assets				
Unrestricted interest on investments				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year, as restated				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Permanent funds				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Governmental Activities	Business Type Activities	Total
(1,166,812)	-	(1,166,812)
28,210	-	28,210
(633,538)	-	(633,538)
(176,088)	-	(176,088)
(705,243)	-	(705,243)
(920,033)	-	(920,033)
(472,018)	-	(472,018)
3,152	-	3,152
(4,042,370)	-	(4,042,370)
-	361,987	361,987
(4,042,370)	361,987	(3,680,383)
2,489,089	-	2,489,089
504,578	-	504,578
560,322	-	560,322
502,618	-	502,618
35,027	-	35,027
12,629	-	12,629
314,515	(314,515)	-
4,418,778	(314,515)	4,104,263
376,408	47,472	423,880
1,896,265	1,988,742	3,885,007
\$ 2,272,673	2,036,214	4,308,887
\$ 50,581	-	50,581
400,148	-	400,148
95,586	-	95,586
220,789	429,568	650,357
89,152	587,694	676,846
452,858	-	452,858
963,559	1,018,952	1,982,511
\$ 2,272,673	2,036,214	4,308,887

City of Harlan

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

As of and for the year ended June 30, 2017

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 1,557,887	-	563,268
Tax increment financing	-	-	-
Other city tax	178,880	-	-
Licenses and permits	125,790	-	-
Use of money and property	79,135	-	-
Intergovernmental	298,237	633,878	-
Charges for service	267,866	-	-
Miscellaneous	324,049	-	-
Total receipts	2,831,844	633,878	563,268
Disbursements:			
Operating:			
Public safety	1,290,240	-	-
Public works	450,843	510,601	-
Culture and recreation	905,787	-	-
Community and economic development	141,348	-	-
General government	832,081	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	3,620,299	510,601	-
Excess (deficiency) of receipts over (under) disbursements	(788,455)	123,277	563,268
Other financing sources (uses):			
Forfeiture of property	-	-	-
Sale of capital assets	20,277	-	-
Transfers in	1,270,784	-	-
Transfers out	-	-	(543,112)
Total other financing sources (uses)	1,291,061	-	(543,112)
Change in cash balances	502,606	123,277	20,156
Cash balances beginning of year, as restated	294,485	276,871	314,384
Cash balances end of year	\$ 797,091	400,148	334,540
Cash Basis Fund Balances			
Nonspendable			
Restricted for:	\$		
Streets	-	400,148	-
Urban renewal purposes	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Other purposes	44,004	-	334,540
Unassigned	753,087	-	-
Total cash basis fund balances	\$ 797,091	400,148	334,540

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
504,578	-	-	2,625,733
-	-	560,322	560,322
-	-	502,618	681,498
-	-	-	125,790
-	-	-	79,135
-	633,172	5,000	1,570,287
-	-	-	267,866
-	174,666	38,255	536,970
504,578	807,838	1,106,195	6,447,601
-	-	-	1,290,240
-	-	-	961,444
-	-	40,465	946,252
-	-	34,741	176,089
-	-	-	832,081
920,033	-	-	920,033
-	1,279,855	-	1,279,855
920,033	1,279,855	75,206	6,405,994
(415,455)	(472,017)	1,030,989	41,607
-	-	11,378	11,378
-	14,750	-	35,027
428,565	20,922	60,637	1,780,908
-	-	(923,281)	(1,466,393)
428,565	35,672	(851,266)	360,920
13,110	(436,345)	179,723	402,527
207,679	525,497	40,758	1,659,674
220,789	89,152	220,481	2,062,201
-	-	50,581	50,581
-	-	-	400,148
-	-	95,586	95,586
220,789	-	-	220,789
-	89,152	-	89,152
-	-	74,314	452,858
-	-	-	753,087
220,789	89,152	220,481	2,062,201

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, 2017

Total governmental funds cash balances (page 19) \$ 2,062,201***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.

210,472**Cash basis net position of governmental activities (page 17)** \$ 2,272,673**Change in cash balances (page 19)** \$ 402,527***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.

(26,119)**Change in cash basis net position of governmental activities (page 17)** \$ 376,408

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, 2017

	<u>Enterprise</u>	<u>Internal Service</u>
	<u>Sewer</u>	<u>Total</u>
Operating receipts:		
Charges for service	<u>\$ 950,241</u>	<u>945,942</u>
Operating disbursements:		
Governmental activities:		
Public safety	-	205,790
Public works	-	159,120
Culture and recreation	-	57,621
General government	-	73,833
Non-program	-	421,955
Business type activities	<u>675,042</u>	<u>53,342</u>
Total operating disbursements	<u>675,042</u>	<u>971,661</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	275,199	(25,719)
Non-operating receipts:		
Miscellaneous	<u>86,388</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	361,587	(25,719)
Transfers out	<u>(314,515)</u>	<u>-</u>
Change in cash balances	47,072	(25,719)
Cash balances beginning of year, as restated	<u>1,988,742</u>	<u>236,591</u>
Cash balances end of year	<u>\$ 2,035,814</u>	<u>210,872</u>
Cash Basis Fund Balances		
Restricted for debt service	\$ 429,568	-
Restricted for capital projects	587,694	-
Unrestricted	<u>1,018,552</u>	<u>210,872</u>
Total cash basis fund balances	<u>\$ 2,035,814</u>	<u>210,872</u>

See notes to financial statements.

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, 2017

Total enterprise funds cash balances (page 21) \$ 2,035,814

***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.

400

Cash basis net position of business type activities (page 17) \$ 2,036,214

Change in cash balances (page 21) \$ 47,072

***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.

400

Change in cash basis net position of business type activities (page 17) \$ 47,472

See notes to financial statements.

City of Harlan

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

For financial reporting purposes, except as noted, the City of Harlan has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Unit

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, debt service and capital projects functions.

(2) Cash and Pooled Investments

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

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

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

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Bonds		General Obligation Capital Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 435,000	100,590	360,000	69,568	795,000	170,158
2019	450,000	93,823	370,000	62,368	820,000	156,191
2020	450,000	86,213	185,000	54,968	635,000	141,181
2021	465,000	78,138	180,000	51,695	645,000	129,833
2022	475,000	69,112	180,000	48,515	655,000	117,627
2023-2027	2,505,000	181,030	920,000	175,976	3,425,000	357,006
2028-2030	-	-	580,000	35,245	580,000	35,245
Total	\$ 4,780,000	608,906	2,775,000	498,335	7,555,000	1,107,241

(4) Pension Plan

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

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

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

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

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

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

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

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

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

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

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City’s contributions to IPERS for the year ended June 30, 2017 totaled \$162,983.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$1,157,346 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City’s proportion was 0.01839%, which was an increase of 0.002389% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$178,446, \$463,616 and \$224,553, respectively.

There were no non-employer contributing entities to IPERS.

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

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

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

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

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

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100%	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 2,137,272	1,157,346	330,616

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

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 28 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$360 for single coverage and \$900 for family coverage. For the year ended June 30, 2017, the City contributed \$241,540 and plan members eligible for benefits contributed \$33,970 to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, floating holiday and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave, floating holiday and compensatory time payable to employees at June 30, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 56,000
Sick leave	158,000
Floating holiday	8,000
Compensatory time	58,000
Total	<u>\$ 280,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

(7) Interfund Transfers

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

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 543,112
	Local Option Sales Tax	450,000
	Urban Renewal	<u>277,672</u>
		<u>1,270,784</u>
Debt Service	Special Revenue:	
	Sewer Capital	314,515
	Urban Renewal	<u>114,050</u>
		<u>428,565</u>
Special Revenue:	Special Revenue:	
Downtown Upper Story Façade	Urban Renewal	<u>60,637</u>
Special Revenue:	Special Revenue:	
Capital Projects	Urban Renewal	<u>20,922</u>
Total		<u>\$ 1,780,908</u>

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

(8) Related Party Transactions

The City had business transactions between the City and City officials totaling \$15,540 during the year ended June 30, 2017.

(9) 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.

(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 revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

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

For the year ended June 30, 2017, the City abated \$6,513 of property tax under the urban renewal and economic development projects.

(11) Restatement of Prior Year Balances

Effective July 1, 2016, the City elected to change its method of accounting from the accrual basis of accounting to the cash basis of accounting. As a result, the beginning net position for governmental activities and business type activities and the beginning fund balances for all funds were restated to report the beginning cash balances. The restated beginning balances for governmental activities and the governmental funds are as follows:

	Special Revenue							Permanent Funds
	Governmental Activities	General Fund	Road Use Tax	Employee Benefits	Local Option Sales Tax	Debt Service Fund	Capital Projects Funds	
Balances June 30, 2016, as previously reported	\$ 11,417,304	641,684	355,584	91,516	70,204	212,766	390,366	36,809
Adjustments to convert from accrual to cash:								
Receivables and prepaid expenditures	(754,816)	(121,184)	(47,519)	(7,132)	(61,119)	(5,087)	(351,411)	-
Inventories	(39,547)	(1,933)	(37,614)	-	-	-	-	-
Land and construction in progress	(2,299,466)	-	-	-	-	-	-	-
Capital assets, net of accumulated depreciation	(12,856,327)	-	-	-	-	-	-	-
Payables	429,499	64,173	4,419	-	-	-	357,037	200
General obligation bonds and notes payable	4,967,968	-	-	-	-	-	-	-
Other long term liabilities	951,694	-	-	-	-	-	-	-
Net deferred outflows/inflows	(77,240)	-	-	-	-	-	-	-
Reversal of reclassification of negative cash balances	-	-	-	-	-	-	16,047	-
Miscellaneous adjustments, reclassifications and error corrections	157,196	(288,255)	2,001	230,000	-	-	113,458	1,712
Balances July 1, 2016, as restated	\$ 1,896,265	294,485	276,871	314,384	9,085	207,679	525,497	38,721

The restated beginning balances for business type activities and the propriety funds are as follows:

	Business Type Activities	Internal Service Funds	
	Fund	Equipment Revolving Fund	Insurance Trust Fund
Balances June 30, 2016, as previously reported	4,507,461	1,183,983	20,458
Adjustments to convert from accrual to cash:			
Receivables and prepaid expenditures	(106,556)	-	-
Inventories	(34,000)	-	-
Land and construction in progress	(1,687,411)	-	-
Capital assets, net of accumulated depreciation	(4,233,152)	(1,006,393)	-
Payables	198,637	14,394	24,475
General obligation bonds and notes payable	3,398,104	-	-
Other long term liabilities	131,582	-	-
Net deferred outflows/inflows	(13,545)	-	-
Miscellaneous adjustments, reclassifications and error corrections	(172,378)	(276)	(50)
Balances July 1, 2016, as restated	1,988,742	191,708	44,883

(12) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about the City's tax abatements.

(13) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

City of Harlan

Other Information

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

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,625,733	-	-
Tax increment financing	560,322	-	-
Other city tax	681,498	-	-
Licenses and permits	125,790	-	-
Use of money and property	79,135	-	-
Intergovernmental	1,570,287	-	-
Charges for service	267,866	1,896,183	945,942
Special assessments	-	-	-
Miscellaneous	536,970	86,388	-
Total receipts	6,447,601	1,982,571	945,942
Disbursements:			
Public safety	1,290,240	205,790	205,790
Public works	961,444	159,120	159,120
Culture and recreation	946,252	57,621	57,621
Community and economic development	176,089	-	-
General government	832,081	73,833	73,833
Debt service	920,033	-	-
Capital projects	1,279,855	-	-
Business type activities	-	728,384	53,342
Non-program	-	421,955	421,955
Total disbursements	6,405,994	1,646,703	971,661
Excess (deficiency) of receipts over (under) disbursements	41,607	335,868	(25,719)
Other financing sources (uses), net	360,920	(314,515)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	402,527	21,353	(25,719)
Balances beginning of year, as restated	1,659,674	2,225,333	236,591
Balances end of year	\$ 2,062,201	2,246,686	210,872

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to
	Original	Final	Total Variance
2,625,733	2,623,873	2,623,873	1,860
560,322	567,488	567,488	(7,166)
681,498	633,246	633,246	48,252
125,790	18,725	18,725	107,065
79,135	69,065	69,065	10,070
1,570,287	1,138,989	1,149,389	420,898
1,218,107	1,334,350	1,334,350	(116,243)
-	500	500	(500)
623,358	88,960	249,858	373,500
7,484,230	6,475,196	6,646,494	837,736
1,290,240	1,379,288	1,379,288	89,048
961,444	1,073,902	1,073,902	112,458
946,252	936,645	936,645	(9,607)
176,089	143,000	163,000	(13,089)
832,081	849,121	849,121	17,040
920,033	919,934	919,934	(99)
1,279,855	28,000	378,000	(901,855)
675,042	920,035	920,035	244,993
-	-	-	-
7,081,036	6,249,925	6,619,925	(461,111)
403,194	225,271	26,569	376,625
46,405	-	-	46,405
449,599	225,271	26,569	423,030
3,648,416	1,685,152	1,685,152	1,963,264
4,098,015	1,910,423	1,711,721	2,386,294

City of Harlan

Notes to Other Information – Budgetary Reporting

June 30, 2017

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$370,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, debt service and capital projects functions.

City of Harlan

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

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

Other Information

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

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

See accompanying independent auditor's report.

City of Harlan

Schedule of City Contributions

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

Other Information

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 163	167	155	159
Contributions in relation to the statutorily required contribution	(163)	(167)	(155)	(159)
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 1,771	1,750	1,670	1,713
Contributions as a percentage of covered-employee payroll	9.20%	9.54%	9.28%	9.28%

See accompanying independent auditor's report.

2013	2012	2011	2010	2009	2008
148	138	127	110	104	97
(148)	(138)	(127)	(110)	(104)	(97)
-	-	-	-	-	-
1,610	1,555	1,540	1,500	1,445	1,409
9.19%	8.87%	8.24%	7.33%	7.20%	6.88%

City of Harlan

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

Supplementary Information

City of Harlan

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

As of and for the year ended June 30, 2017

	Revenue			
	Local Option Sales Tax	Urban Renewal	Downtown Upper Story Façade	JJ Jensen
Receipts:				
Property tax	\$ -	-	-	-
Tax increment financing	-	560,322	-	-
Other city tax	502,618	-	-	-
Intergovernmental	-	-	-	5,000
Miscellaneous	-	-	-	-
Total receipts	502,618	560,322	-	5,000
Disbursements:				
Operating:				
Culture and recreation	-	-	-	2,692
Community and economic development	-	454	34,287	-
Total disbursements	-	454	34,287	2,692
Excess (deficiency) of receipts over (under) disbursements	502,618	559,868	(34,287)	2,308
Other financing sources (uses):				
Forfeiture of property	-	-	-	-
Transfers in	-	-	60,637	-
Transfers out	(450,000)	(473,281)	-	-
Total other financing source (uses)	(450,000)	(473,281)	60,637	-
Change in cash balances	52,618	86,587	26,350	2,308
Cash balances beginning of year, as restated	9,085	8,999	(16,047)	-
Cash balances end of year	\$ 61,703	95,586	10,303	2,308
Cash Basis Fund Balances				
Nonspendable	\$ -	-	-	-
Restricted for urban renewal purposes	-	95,586	-	-
Restricted for other purposes	61,703	-	10,303	2,308
Total cash basis fund balances	\$ 61,703	95,586	10,303	2,308

See accompanying independent auditor's report.

Permanent						
C. Hansen Schildberg Trusts	Library Trust	Beebe Trust	Police Trust	Loree Allen Poynter Trusts		Total
-	-	-	-	-	-	-
-	-	-	-	-	-	560,322
-	-	-	-	-	-	502,618
-	-	-	-	-	-	5,000
-	38,255	-	-	-	-	38,255
-	38,255	-	-	-	-	1,106,195
-	37,773	-	-	-	-	40,465
-	-	-	-	-	-	34,741
-	37,773	-	-	-	-	75,206
-	482	-	-	-	-	1,030,989
-	-	-	11,378	-	-	11,378
-	-	-	-	-	-	60,637
-	-	-	-	-	-	(923,281)
-	-	-	11,378	-	-	(851,266)
-	482	-	11,378	-	-	179,723
271	20,380	10,515	5,472	2,083	-	40,758
271	20,862	10,515	16,850	2,083	-	220,481
271	20,862	10,515	16,850	2,083	-	50,581
-	-	-	-	-	-	95,586
-	-	-	-	-	-	74,314
271	20,862	10,515	16,850	2,083	-	220,481

City of Harlan

City of Harlan

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

Year ended June 30, 2017

	Internal Service		Total
	Equipment Revolving	Group Insurance	
Operating receipts:			
Charges for service	\$ 103,447	842,495	945,942
Operating disbursements:			
Governmental activities:			
Public safety	68,187	137,603	205,790
Public works	73,679	85,441	159,120
Culture and recreation	(6,453)	64,074	57,621
General government	-	73,833	73,833
Non-program	-	421,955	421,955
Business type activities	-	53,342	53,342
Total operating disbursements	135,413	836,248	971,661
Change in cash balances	(31,966)	6,247	(25,719)
Cash balances beginning of year, as restated	191,708	44,883	236,591
Cash balances end of year	\$ 159,742	51,130	210,872
Cash Basis Fund Balances			
Unrestricted	\$ 159,742	51,130	210,872
Total cash basis fund balances	\$ 159,742	51,130	210,872

See accompanying independent auditor's report.

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

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
730,000	-	65,000	665,000	23,735
1,890,000	-	155,000	1,735,000	40,178
2,600,000	-	220,000	2,380,000	43,052
<u>\$ 5,220,000</u>	-	440,000	4,780,000	106,965
1,615,000	-	195,000	1,420,000	38,293
1,455,000	-	100,000	1,355,000	37,175
<u>\$ 3,070,000</u>	-	295,000	2,775,000	75,468

City of Harlan

City of Harlan
Bond and Note Maturities
June 30, 2017

General Obligation Bonds								
Year	Series 2011		Series 2012		Series 2013		Total	
	Issued Jun 1, 2011		Issued Jun 27, 2012		Issued May 1, 2013			
Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2018	2.50%	\$ 65,000	2.00%	\$ 155,000	0.95%	\$ 215,000	435,000	
2019	3.00	70,000	2.00	160,000	1.05	220,000	450,000	
2020	3.00	65,000	2.00	160,000	1.30	225,000	450,000	
2021	3.25	70,000	2.00	165,000	1.50	230,000	465,000	
2022	3.25	70,000	2.00	170,000	1.75	235,000	475,000	
2023	3.50	75,000	2.00	175,000	1.90	235,000	485,000	
2024	3.50	80,000	2.10	180,000	2.00	245,000	505,000	
2025	3.80	85,000	2.25	185,000	2.10	250,000	520,000	
2026	3.80	85,000	2.40	190,000	2.20	260,000	535,000	
2027		-	2.50	195,000	2.35	265,000	460,000	
Total		<u>\$ 665,000</u>		<u>\$ 1,735,000</u>		<u>\$ 2,380,000</u>	<u>4,780,000</u>	

General Obligation Capital Notes						
Year	Series 2014		Series 2015		Total	
	Issued Oct 9, 2014		Issued Oct 14, 2015			
Ending June 30,	Interest Rates	Amount	Interest Rates	Amount		
2018	2.00%	\$ 260,000	2.00%	\$ 100,000	360,000	
2019	2.00	270,000	2.00	100,000	370,000	
2020	1.85	85,000	1.70	100,000	185,000	
2021	1.85	80,000	1.70	100,000	180,000	
2022	2.30	80,000	2.50	100,000	180,000	
2023	2.30	80,000	2.50	100,000	180,000	
2024	2.65	70,000	2.50	100,000	170,000	
2025	2.65	70,000	2.75	105,000	175,000	
2026	3.00	70,000	2.75	105,000	175,000	
2027	3.00	115,000	3.00	105,000	220,000	
2028	3.15	120,000	3.00	110,000	230,000	
2029	3.35	120,000	3.50	115,000	235,000	
2030		-	3.50	115,000	115,000	
Total		<u>\$ 1,420,000</u>		<u>\$ 1,355,000</u>	<u>2,775,000</u>	

See accompanying independent auditor's report.

City of Harlan

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

For the Last Ten Years

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

See accompanying independent auditor's report.

Accrual Basis		Cash Basis			
2013	2012	2011	2010	2009	2008
3,501,013	3,339,143	2,025,923	1,786,162	1,722,090	1,616,821
-	-	700,948	611,180	517,593	493,868
-	-	494,847	433,037	448,915	444,541
79,534	94,155	83,935	76,814	70,919	74,021
72,819	82,502	85,093	74,134	78,176	161,454
860,312	753,507	945,377	1,264,385	2,004,457	1,176,419
464,063	538,919	410,184	449,920	534,851	440,585
1,639	3,389	5,271	3,880	7,122	5,404
74,685	64,608	112,396	196,973	424,176	168,180
-	-	982,947	-	528,410	3,778,211
-	-	2,666	26,901	9,932	110,939
301,452	254,609	-	-	-	-
18,999	24,703	-	-	-	-
37,786	58,094	-	-	-	-
8,934	-	-	-	-	-
7,834	5,305	-	-	-	-
<u>5,429,070</u>	<u>5,218,934</u>	<u>5,849,587</u>	<u>4,923,386</u>	<u>6,346,641</u>	<u>8,470,443</u>
1,162,720	1,072,507	1,298,212	949,364	983,002	1,043,969
1,132,058	1,207,133	1,083,467	1,106,564	1,132,733	1,119,022
823,835	961,330	911,837	800,439	833,871	811,031
415,685	301,580	554,117	235,494	211,368	359,763
771,706	576,125	514,232	483,744	465,307	466,907
773,963	505,163	872,198	649,844	1,124,564	633,710
121,235	640,345	265,712	993,567	2,947,130	2,274,980
<u>5,201,202</u>	<u>5,264,183</u>	<u>5,499,775</u>	<u>5,219,016</u>	<u>7,697,975</u>	<u>6,709,382</u>

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



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

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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 18, 2018. Our report expressed unmodified opinions on the governmental activities, the business type activities, the General Fund, the major Special Revenue Funds, including the Road Use Tax and Employee Benefits Funds, the Debt Service Fund, the Capital Projects Fund, the major Enterprise Fund, Sewer, and the aggregate remaining fund information of the City of Harlan, Iowa as of June 30, 2017, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. We expressed an adverse opinion on the discretely presented component unit, Harlan Municipal Utilities.

Internal Control Over Financial Reporting

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

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 deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

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


The City of Harlan's Responses to the Findings

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

Purpose of this Report

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

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


MARY MOSIMAN, CPA
Auditor of State

May 18, 2018

City of Harlan

Schedule of Findings

Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

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

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

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

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We’ve segregated these duties between our Finance Assistant and our Deputy City Clerk.

Conclusion – Response accepted.

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

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

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

City of Harlan

Schedule of Findings

Year ended June 30, 2017

Cause – Harlan Municipal Utilities (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 maintain delinquent account listings, reconcile utility billings, collections and delinquent account balances 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 – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City 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.

Response – We are working with our financial accounting software company and HMU to provide an aging report with service detail and accounts receivable by service report to use for reconciliation of utility accounts. We have also implemented a spreadsheet to track utilities billed and utilities paid for both our sewer and landfill utility accounts.

Conclusion – Response accepted.

(C) Accounting Policies and Procedures

Criteria – Accounting policies and procedures manuals provide the following benefits:

- (1) Aid in training additional replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, on a similar, situation arises.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Condition – The City does not have an accounting manual or established accounting procedures.

Cause – The City has not developed an accounting manual or established accounting procedures.

City of Harlan

Schedule of Findings

Year ended June 30, 2017

Effect – Lack of an accounting policies and procedures manual could result in the City's lack of ability to control operating effectively and efficiently in the event there is accounting staff turnover.

Recommendation – An accounting policies and procedures manual should be developed for the City.

Response – Our financial accounting software company has provided the City with online accounting manuals for each accounting module we use. Each employee in City Hall, who uses the financial accounting software, uses the provided manuals. The online manuals contain step by step checklists for each accounting procedure done. If an error or misappropriation occurs, the software prevents the user from going on to the next step until the error is resolved.

Conclusion – Response acknowledged. In addition, the City should ensure a written manual has been developed documenting the various City financial processes and the areas of each process employees are responsible for.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Harlan

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

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

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

Response – The budget was amended in May 2017, but invoices paid in June 2017 should have been paid in July 2017. The City will be more diligent to not expend monies from functions that have exceeded the budget/amended budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Phil Miller, Father of Vets/Activity Center Superintendent, Owner of Phil M. Miller Construction	Construction	\$ 7,101
Randy Kroger, Husband of City Council Member, Part-owner of Kroger & Sons Hauling LLC	Garbage hauling	4,556
Jay Christensen, City Council Member, Owner of Dr. Jay’s Family Eye Care	Eye care services	3,883

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

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

City of Harlan

Schedule of Findings

Year ended June 30, 2017

Response – The City will consult with legal counsel in regards to the garbage hauling and request bids in the future. The City provides an allowance for safety glasses for employees. The employees are able to choose the vision center. To be reimbursed, the employee can either provide their paid receipt from the vision center or the vision center can invoice the City. The City is a small community and only has three optometrists and Dr. Christensen happens to be one of the three.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.
- (9) Local Option Sales Tax – Local Option Sales Tax (LOST) receipts were not expended in accordance with the provisions established in the LOST ballot. Money is to be used for property tax relief (50%) and infrastructure/buildings, parks and streets. The City properly transferred 50% of the LOST receipts to the General Fund for property tax relief. In addition, during the year ended June 30, 2017, the City disbursed \$182,500 for infrastructure, streets and parks. However, the remaining \$42,500 was disbursed for the City Administrator and City Clerk departments, which did not comply with the LOST ballot.

Recommendation – The Council should ensure local option sales tax collections are spent in accordance with the LOST ballot.

Response – The funds disbursed out of LOST to the City Administrator and City Clerk departments were used for expenses that were not Administrator/Clerk personnel related, but previous practice. Those general expense line items have been moved to a more appropriate general government expense code.

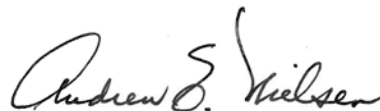
Conclusion – Response accepted.

City of Harlan

Staff

This audit was performed by:

Jennifer Campbell, CPA, Manager
Ryan T. Jelsma, Senior Auditor II
Adjoa S. Adanledji, Staff Auditor
Brett S. Gillen, CPA, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State