



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

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NEWS RELEASE

FOR RELEASE

March 26, 2020

Contact: Marlys Gaston
515/281-5834

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$7,354,256 for the year ended June 30, 2019, a 18.6% decrease from the prior year. Disbursements for the year ended June 30, 2019 totaled \$7,859,467, a 9.2% increase over the prior year. The significant decrease in receipts is due primarily to note proceeds received in the prior year, which were spent in the current year, accounting for the increase in disbursements.

AUDIT FINDINGS:

Sand reported six findings related to the receipt and disbursement of taxpayer funds and three findings related to the Harlan Firefighters Association, Inc., a component unit of the City. They are found on pages 52 through 58 of this report. The findings address issues such as a lack of segregation of duties, the lack of reconciliations of utility billings, collections and delinquent accounts, exclusion of the employee health plan account from the financial reporting entity and disbursements exceeding budgeted amounts. Sand provided the City with recommendations to address each of the findings.

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

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

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

JUNE 30, 2019

City of Harlan



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Rob Sand
Auditor of State

March 3, 2020

Officials of the City of Harlan
Harlan, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the financial and compliance audit report for the City of Harlan for the year ended June 30, 2019. The audit was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with U.S. auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

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

Sincerely,

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

Rob Sand
Auditor of State

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City of Harlan

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Kolbe	Mayor	Jan 2020
David H. Pedersen	Council Member	(Resigned Jul 2018)
Troy Schaben (Appointed Aug 2018)	Council Member	Nov 2019
Greg Bladt	Council Member	Jan 2020
Dave Miller	Council Member	Jan 2020
Jay Christensen	Council Member	Jan 2022
Sharon Kroger	Council Member	Jan 2022
Jeanna Rudolph	Council Member	Jan 2022
Gene 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, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for one of the City's legally separate component units because the Harlan Municipal Utilities reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. Accounting principles applicable to the cash basis of accounting require the financial data for all component units be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity which include the financial data for all component units. The City has not issued such reporting entity financial statements. The amounts for which this departure affects the receipts, disbursements and cash balance of the aggregate discretely presented component units, is \$15,418,913, \$16,300,301 and \$9,265,022, respectively.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the City of Harlan as of June 30, 2019, or the changes in its cash basis financial position thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan as of June 30, 2019, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters

Supplementary and Other Information

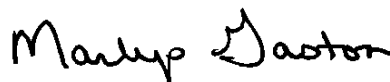
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harlan's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for two years ended June 30, 2018 (which are not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the Harlan Municipal Utilities. The financial statements for the seven 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 two years ended June 30, 2011 were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of the matter described in the “Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units” paragraph on the preceding page, it is inappropriate to, and we do not, express an opinion on the supplementary information.

The other information, the Budgetary Comparison Information, the Schedule of the City’s Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 32 through 38, 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 March 3, 2020 on our consideration of the City of Harlan’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Harlan’s internal control over financial reporting and compliance.



Marlys K. Gaston, CPA
Deputy Auditor of State

March 3, 2020

City of Harlan

Basic Financial Statements

City of Harlan

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2019

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 1,479,224	78,040	161,261	-
Public works	1,244,490	270,732	686,352	-
Culture and recreation	954,069	157,725	103,609	27,446
Community and economic development	109,951	-	9,214	-
General government	770,153	11,053	15,010	-
Debt service	1,064,531	-	-	-
Capital projects	1,087,076	-	-	114,986
Non-program	335,468	433,498	-	-
Total governmental activities	7,044,962	951,048	975,446	142,432
Business type activities:				
Sewer	814,505	1,126,464	10,231	-
Total Primary Government	\$ 7,859,467	2,077,512	985,677	142,432
Component Unit:				
Harlan Community Library Foundation	\$ 15,943	-	32,590	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Cable franchise fee				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year, as restated				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Nonexpendable:				
Permanent funds				
Expendable:				
Streets				
Debt service				
Capital projects				
Health plan trustee				
Library				
Other purposes				
Unrestricted				
Total cash basis net position				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Position			Component Unit
Governmental Activities	Business Type Activities	Total	Harlan Community Library Foundation
(1,239,923)	-	(1,239,923)	
(287,406)	-	(287,406)	
(665,289)	-	(665,289)	
(100,737)	-	(100,737)	
(744,090)	-	(744,090)	
(1,064,531)	-	(1,064,531)	
(972,090)	-	(972,090)	
98,030	-	98,030	
(4,976,036)	-	(4,976,036)	
-	322,190	322,190	
(4,976,036)	322,190	(4,653,846)	
			16,647
2,350,347	-	2,350,347	-
470,239	-	470,239	-
373,379	-	373,379	-
506,392	-	506,392	-
37,125	-	37,125	-
80,039	-	80,039	-
80,767	-	80,767	-
6,485	-	6,485	-
243,862	-	243,862	-
784,928	(784,928)	-	-
4,933,563	(784,928)	4,148,635	-
(42,473)	(462,738)	(505,211)	16,647
4,790,902	1,713,515	6,504,417	488,566
\$ 4,748,429	1,250,777	5,999,206	505,213
\$ 43,828	-	43,828	-
484,694	-	484,694	-
391,995	377,840	769,835	-
868,180	563,689	1,431,869	-
333,392	22,638	356,030	-
-	-	-	505,213
698,553	-	698,553	-
1,927,787	286,610	2,214,397	-
\$ 4,748,429	1,250,777	5,999,206	505,213

City of Harlan

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

As of and for the year ended June 30, 2019

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 1,746,894	-	584,697
Tax increment financing	-	-	-
Other city tax	50,215	-	3,964
Licenses and permits	101,424	-	-
Use of money and property	69,034	-	-
Intergovernmental	326,836	659,622	17,060
Charges for service	265,184	-	-
Miscellaneous	398,969	-	-
Total receipts	2,958,556	659,622	605,721
Disbursements:			
Operating:			
Public safety	1,576,530	-	-
Public works	614,498	632,973	-
Culture and recreation	959,393	-	-
Community and economic development	97,615	-	-
General government	771,854	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	4,019,890	632,973	-
Excess (deficiency) of receipts over (under) disbursements	(1,061,334)	26,649	605,721
Other financing sources (uses):			
Sale of capital assets	2,000	-	-
Transfers in	1,094,138	-	-
Transfers out	-	-	(586,368)
Total other financing sources (uses)	1,096,138	-	(586,368)
Change in cash balances	34,804	26,649	19,353
Cash balances beginning of year, as restated	1,467,145	478,734	402,479
Cash balances end of year	\$ 1,501,949	505,383	421,832
Cash Basis Fund Balances			
Nonspendable	\$ -	-	-
Restricted for:			
Streets	-	484,694	-
Debt service	-	-	-
Capital projects	-	-	-
Health plan trustee	108,241	20,689	-
Other purposes	710	-	421,832
Unassigned	1,392,998	-	-
Total cash basis fund balances	\$ 1,501,949	505,383	421,832

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
470,239	-	-	2,801,830
-	-	373,379	373,379
2,976	-	506,392	563,547
-	-	-	101,424
-	-	290	69,324
12,815	54,986	39,106	1,110,425
-	-	-	265,184
-	60,000	37,981	496,950
486,030	114,986	957,148	5,782,063
-	-	18,407	1,594,937
-	-	-	1,247,471
-	-	28,632	988,025
-	-	12,336	109,951
-	-	-	771,854
1,064,531	-	-	1,064,531
-	813,412	273,664	1,087,076
1,064,531	813,412	333,039	6,863,845
(578,501)	(698,426)	624,109	(1,081,782)
-	-	-	2,000
563,428	483,994	37,703	2,179,263
-	-	(807,967)	(1,394,335)
563,428	483,994	(770,264)	786,928
(15,073)	(214,432)	(146,155)	(294,854)
315,831	1,082,612	557,231	4,304,032
300,758	868,180	411,076	4,009,178
-	-	43,828	43,828
-	-	-	484,694
300,758	-	91,237	391,995
-	868,180	-	868,180
-	-	-	128,930
-	-	276,011	698,553
-	-	-	1,392,998
300,758	868,180	411,076	4,009,178

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, 2019

Total governmental funds cash balances (page 13) \$ 4,009,178

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.

739,251

Cash basis net position of governmental activities (page 11) \$ 4,748,429

Change in cash balances (page 13) \$ (294,854)

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.

252,381

Change in cash basis net position of governmental activities (page 11) \$ (42,473)

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, 2019

	Enterprise	Internal Service
	Sewer	Total
Operating receipts:		
Charges for service	\$ 1,043,022	623,402
Miscellaneous	83,442	-
Total operating receipts	<u>1,126,464</u>	<u>623,402</u>
Operating disbursements:		
Governmental activities:		
Public safety	-	11,683
Public works	-	11,221
Culture and recreation	-	2,586
General government	-	3,968
Non-program	-	335,468
Business type activities	815,420	5,180
Total operating disbursements	<u>815,420</u>	<u>370,106</u>
Excess of operating receipts over operating disbursements	311,044	253,296
Non-operating receipts:		
Miscellaneous	10,231	-
Excess of receipts over disbursements	321,275	253,296
Transfers out	(784,928)	-
Change in cash balances	(463,653)	253,296
Cash balances beginning of year, as restated	1,713,960	486,425
Cash balances end of year	<u>\$ 1,250,307</u>	<u>739,721</u>
Cash Basis Fund Balances		
Restricted for debt service	\$ 377,840	-
Restricted for capital projects	563,689	-
Restricted for health plan trustee	22,638	204,462
Unrestricted	286,140	535,259
Total cash basis fund balances	<u>\$ 1,250,307</u>	<u>739,721</u>

See notes to financial statements.

City of Harlan

City of Harlan

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

As of and for the year ended June 30, 2019

Total enterprise funds cash balances (page 15) \$ 1,250,307

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.

470

Cash basis net position of business type activities (page 11) \$ 1,250,777

Change in cash balances (page 15) \$ (463,653)

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.

915

Change in cash basis net position of business type activities (page 11) \$ (462,738)

See notes to financial statements.

City of Harlan

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Except as noted, these financial statements present the City of Harlan (the primary government) and its component units. The financial statements do not include financial data for the Harlan Municipal Utilities, a legally separate entity which should be reported as a discretely presented component unit. The component units, discussed below, are included in the City's reporting entity because of the significance of the operational or financial relationship with the City.

Discretely Presented Component Unit

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

Excluded Component Unit

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

Blended Component Units

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

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

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

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

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

The City reports the following major proprietary funds:

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

The City also reports the following proprietary funds:

The Internal Service, Equipment Revolving Fund, is utilized to account for the financing of goods or services purchased by one department of the

City and provided to other departments or agencies on a cost reimbursement basis.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. 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, 2019, disbursements exceeded the amount budgeted in the capital projects and business type activities functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

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

Component Unit

At June 30, 2019, the Harlan Community Library Foundation had the following investments:

Investment	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 400,493	432,667	N/A
U.S. Equities	71,627	72,688	N/A
Municipal Bonds	5,000	5,019	N/A
Total	<u>\$ 477,120</u>	<u>510,374</u>	

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

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

(3) Bonds and Notes Payable

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
2020	\$ 450,000	86,213	400,000	86,818	850,000	173,031
2021	465,000	78,138	370,000	79,245	835,000	157,383
2022	475,000	69,113	340,000	72,265	815,000	141,378
2023	485,000	59,325	345,000	64,325	830,000	123,650
2024	505,000	48,735	340,000	56,108	845,000	104,843
2025-2029	1,515,000	72,970	1,485,000	147,597	3,000,000	220,567
2030	-	-	115,000	4,025	115,000	4,025
Total	<u>\$ 3,895,000</u>	<u>414,494</u>	<u>3,395,000</u>	<u>510,383</u>	<u>7,290,000</u>	<u>924,877</u>

(4) Pension Plan

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

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

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

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

Protection occupation members may retire at normal retirement age, which is generally age 55 and may retire any time after reaching age 50 with 22 or more years of covered employment.

The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

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

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

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

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

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

In fiscal year 2019, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.81% of covered payroll and the City contributed 10.21% of covered payroll, for a total rate of 17.02%.

The City’s contributions to IPERS for the year ended June 30, 2019 totaled \$172,126.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2019, the City reported a liability of \$1,045,574 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 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, 2018, the City’s proportion was 0.016522%, which was a decrease of 0.000479% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$190,744, \$390,765 and \$254,740, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2018 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	6.01%
International equity	15.0	6.48
Global smart beta equity	3.0	6.23
Core plus fixed income	27.0	1.97
Public credit	3.5	3.93
Public real assets	7.0	2.91
Cash	1.0	(0.25)
Private equity	11.0	10.81
Private real assets	7.5	4.14
Private credit	3.0	3.11
Total	<u>100.0%</u>	

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 2,099,359	1,045,574	162,090

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

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2019, the City contributed \$371,586 and plan members eligible for benefits contributed \$40,754 to the plan. At June 30, 2019, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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

Retired participants must be age 55 or older at retirement. At June 30, 2019, there are 29 active and no inactive or retired members in the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, floating holiday and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave, floating holiday and compensatory time payable to employees at June 30, 2019, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 57,000
Sick leave	149,000
Floating holiday	4,000
Compensatory time	50,000
Total	<u>\$ 260,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2019.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2019 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 586,368
	Local Option Sales Tax	435,000
	Urban Renewal	<u>72,770</u>
		<u>1,094,138</u>
Special Revenue:	Special Revenue:	
Downtown Upper Story Façade	Urban Renewal	<u>34,287</u>
J J Jensen	Urban Renewal	<u>3,416</u>
Debt Service	Enterprise:	
	Sewer	384,928
	Special Revenue:	
	Urban Renewal	<u>178,500</u>
		<u>563,428</u>
Capital Projects	Enterprise:	
	Sewer	400,000
	Special Revenue:	
	Urban Renewal	<u>83,994</u>
		<u>483,994</u>
Total		<u>\$ 2,179,263</u>

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

(8) Risk Management

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

(9) Employee Health Insurance Plan

The City, including Harlan Municipal Utilities, self-funds a portion of health insurance deductibles for its employees. The plan is funded by both employee and City contributions and is administered by Employee Benefit Systems (EBS) under an agreement which is subject to automatic renewal. The City self-funds up to \$2,500 per individual or \$5,000 per family, with employees contributing the first \$400 to \$800, respectively. Administrative service fees and premiums are paid monthly from the City's operating funds to a separate account administered by EBS. During the year ended June 30, 2019, the City paid \$872,847 into the account. At June 30, 2019, the account balance was \$356,030. The activity for this account is recorded in the City's General, the Special Revenue, Road Use Tax, the Enterprise, Sewer and the Internal Service, Group Insurance Funds.

(10) Tax Abatements

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

City Tax Abatements

The City provides tax abatements for urban revitalization projects under Chapter 404 of the Code of Iowa. For these types of projects, the City will abate up to \$568,604 of assessed value of a property for the revitalized portion of taxes upon prior approval of the City Council. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2019, \$9,728 of property tax was diverted from the City under the urban revitalization projects.

(11) Restatements

The beginning cash balances on the Cash Basis Statement of Activities and Net Position and the Statement of Cash Receipts, Disbursements and Changes in Cash Balances increased for cash held by the Health Plan Trustee and the Harlan Firefighters Association not previously reported. The beginning cash balances were also restated to reflect corrections made between funds for previous years. The restatements are as follows:

	Governmental Funds						
	Governmental Activities	General Fund	Employee Benefits	Special Revenue Funds			Debt Service Fund
Urban Renewal				Road Use Tax	Harlan Firefighters Association		
Balances June 30, 2018, as previously reported	\$ 4,446,590	1,493,913	334,804	257,775	461,382	-	99,003
Correct for transfer not made in prior year	-	-	-	(166,950)	-	-	166,950
Correct coding of receipts between funds	-	(117,553)	67,675	-	-	-	49,878
Cash held by Harlan Firefighters Association	64,687	-	-	-	-	64,687	-
Cash held by Harlan Community Library Foundation	-	-	-	-	-	-	-
Cash held by Health Plan Trustee	279,625	90,785	-	-	17,352	-	-
Balances July 1, 2018, as restated	\$ 4,790,902	1,467,145	402,479	90,825	478,734	64,687	315,831

	Internal Service Funds		Enterprise Funds	Component Unit	
	Group Insurance	Total	Business Type Activities Sewer	Harlan Community Library Foundation	
Balances June 30, 2018, as previously reported	38,764	314,937	1,694,528	1,694,973	-
Correct for transfer not made in prior year	-	-	-	-	-
Correct coding of receipts between funds	-	-	-	-	-
Cash held by Harlan Firefighters Association	-	-	-	-	-
Cash held by Harlan Community Library Foundation	-	-	-	-	488,566
Cash held by Health Plan Trustee	171,488	171,488	18,987	18,987	-
Balances July 1, 2018, as restated	210,252	486,425	1,713,515	1,713,960	488,566

(12) Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 84, Fiduciary Activities. This statement will be implemented for the fiscal year ending June 30, 2020. The revised requirements of this statement will enhance the consistency and comparability of fiduciary activity reporting by state and local governments by establishing specific criteria for identifying fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities.

City of Harlan

Other Information

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

Other Information

Year ended June 30, 2019

	Governmental Funds Actual	Proprietary Funds		Less Funds not Required to be Budgeted
		Actual (Excluding Harlan Municipal Utilities)	Unaudited Harlan Municipal Utilities Actual	
Receipts:				
Property tax	\$ 2,801,830	-	-	-
Tax increment financing	373,379	-	-	-
Other city tax	563,547	-	-	-
Licenses and permits	101,424	-	-	-
Use of money and property	69,324	-	123,014	290
Intergovernmental	1,110,425	-	-	-
Charges for service	265,184	1,666,424	13,626,286	623,402
Miscellaneous	496,950	93,673	1,669,613	15,878
Total receipts	5,782,063	1,760,097	15,418,913	639,570
Disbursements:				
Public safety	1,594,937	11,683	-	29,390
Public works	1,247,471	11,221	-	11,221
Culture and recreation	988,025	2,586	-	2,586
Community and economic development	109,951	-	-	-
General government	771,854	3,968	-	3,968
Debt service	1,064,531	-	-	-
Capital projects	1,087,076	-	-	-
Business type activities	-	820,600	16,300,301	5,180
Non-program	-	335,468	-	335,468
Total disbursements	6,863,845	1,185,526	16,300,301	387,813
Excess (deficiency) of receipts over (under) disbursements	(1,081,782)	574,571	(881,388)	251,757
Other financing sources (uses), net	786,928	(784,928)	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(294,854)	(210,357)	(881,388)	251,757
Balances beginning of year, as restated	4,304,032	2,200,385	10,146,410	551,112
Balances end of year	\$ 4,009,178	1,990,028	9,265,022	802,869

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,801,830	2,776,765	2,776,765	25,065
373,379	373,217	373,217	162
563,547	587,374	587,374	(23,827)
101,424	21,650	21,650	79,774
192,048	75,290	75,290	116,758
1,110,425	1,231,509	789,056	321,369
14,934,492	15,919,755	15,938,385	(1,003,893)
2,244,358	104,600	251,224	1,993,134
<u>22,321,503</u>	<u>21,090,160</u>	<u>20,812,961</u>	<u>1,508,542</u>
1,577,230	1,749,926	1,659,699	82,469
1,247,471	1,180,498	1,269,143	21,672
988,025	1,017,947	1,062,547	74,522
109,951	122,500	122,500	12,549
771,854	744,545	851,016	79,162
1,064,531	978,691	1,064,534	3
1,087,076	860,250	689,745	(397,331)
17,115,721	12,568,644	13,146,420	(3,969,301)
-	-	-	-
<u>23,961,859</u>	<u>19,223,001</u>	<u>19,865,604</u>	<u>(4,096,255)</u>
(1,640,356)	1,867,159	947,357	(2,587,713)
2,000	1,345,250	588,647	(586,647)
(1,638,356)	3,212,409	1,536,004	(3,174,360)
<u>16,099,715</u>	<u>26,534,357</u>	<u>26,534,357</u>	<u>(10,434,642)</u>
<u>14,461,359</u>	<u>29,746,766</u>	<u>28,070,361</u>	<u>(13,609,002)</u>

City of Harlan

Notes to Other Information – Budgetary Reporting

June 30, 2019

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, 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 \$642,603. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2019, disbursements exceeded the amounts budgeted in the capital projects and business type activities functions.

City of Harlan

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

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

Other Information

	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.016522%	0.017001%	0.018390%	0.016001%	0.0147603%
City's proportionate share of the net pension liability	\$ 1,046	1,133	1,157	790	585
City's covered payroll	\$ 1,771	1,771	1,750	1,670	1,713
City's proportionate share of the net pension liability as a percentage of its covered payroll	59.06%	63.98%	66.11%	47.31%	34.15%
IPERS' net position as a percentage of the total pension liability	83.62%	82.21%	81.82%	85.19%	87.61%

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

See accompanying independent auditor's report.

City of Harlan

Schedule of City Contributions

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

Other Information

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 172	163	163	167
Contributions in relation to the statutorily required contribution	<u>(172)</u>	<u>(163)</u>	<u>(163)</u>	<u>(167)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 1,779	1,771	1,771	1,750
Contributions as a percentage of covered payroll	9.67%	9.20%	9.20%	9.54%

See accompanying independent auditor's report.

2015	2014	2013	2012	2011	2010
155	159	148	138	127	110
(155)	(159)	(148)	(138)	(127)	(110)
-	-	-	-	-	-
1,670	1,713	1,610	1,555	1,540	1,500
9.28%	9.28%	9.19%	8.87%	8.24%	7.33%

City of Harlan

Notes to Other Information – Pension Liability

Year ended June 30, 2019

Changes of benefit terms:

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

Changes of assumptions:

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

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

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

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

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- 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, 2019

	Special Revenue				
	Local Option Sales Tax	Urban Renewal	Downtown Upper Story Façade	JJ Jensen	Harlan Firefighters Association
Receipts:					
Tax increment financing	\$ -	373,379	-	-	-
Other city tax	506,392	-	-	-	-
Use of money and property	-	-	-	-	290
Intergovernmental	-	-	-	27,256	-
Miscellaneous	-	-	-	190	15,878
Total receipts	506,392	373,379	-	27,446	16,168
Disbursements:					
Operating:					
Public safety	-	-	-	-	17,707
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	12,336	-	-
Capital projects	-	-	-	273,664	-
Total disbursements	-	-	12,336	273,664	17,707
Excess (deficiency) of receipts over (under) disbursements	506,392	373,379	(12,336)	(246,218)	(1,539)
Other financing sources (uses):					
Transfers in	-	-	34,287	3,416	-
Transfers out	(435,000)	(372,967)	-	-	-
Total other financing source (uses)	(435,000)	(372,967)	34,287	3,416	-
Change in cash balances	71,392	412	21,951	(242,802)	(1,539)
Cash balances beginning of year, as restated	12,263	90,825	61,413	288,646	64,687
Cash balances end of year	\$ 83,655	91,237	83,364	45,844	63,148
Cash Basis Fund Balances					
Nonspendable	\$ -	-	-	-	-
Restricted for debt service	-	91,237	-	-	-
Restricted for other purposes	83,655	-	83,364	45,844	63,148
Total cash basis fund balances	\$ 83,655	91,237	83,364	45,844	63,148

See accompanying independent auditor's report.

Permanent					
C. Hansen Schildberg Trusts	Library Trust	Beebe Trust	Police Trust	Loree Allen Poynter Trusts	Total
-	-	-	-	-	373,379
-	-	-	-	-	506,392
-	-	-	-	-	290
-	11,850	-	-	-	39,106
-	21,913	-	-	-	37,981
-	33,763	-	-	-	957,148
-	-	-	700	-	18,407
-	28,632	-	-	-	28,632
-	-	-	-	-	12,336
-	-	-	-	-	273,664
-	28,632	-	700	-	333,039
-	5,131	-	(700)	-	624,109
-	-	-	-	-	37,703
-	-	-	-	-	(807,967)
-	-	-	-	-	(770,264)
-	5,131	-	(700)	-	(146,155)
271	16,016	10,515	10,512	2,083	557,231
271	21,147	10,515	9,812	2,083	411,076
271	21,147	10,515	9,812	2,083	43,828
-	-	-	-	-	91,237
-	-	-	-	-	276,011
271	21,147	10,515	9,812	2,083	411,076

City of Harlan

City of Harlan

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

Year ended June 30, 2019

	Internal Service		
	Equipment Revolving	Group Insurance	Total
Operating receipts:			
Charges for service	\$ 149,150	474,252	623,402
Operating disbursements:			
Governmental activities:			
Public safety	-	11,683	11,683
Public works	-	11,221	11,221
Culture and recreation	-	2,586	2,586
General government	-	3,968	3,968
Non-program	-	335,468	335,468
Business type activities	-	5,180	5,180
Total operating disbursements	-	370,106	370,106
Change in cash balances	149,150	104,146	253,296
Cash balances beginning of year, as restated	276,173	210,252	486,425
Cash balances end of year	\$ 425,323	314,398	739,721
Cash Basis Fund Balances			
Restricted for health plan trustee	\$ -	204,462	204,462
Unrestricted	425,323	109,936	535,259
Total cash basis fund balances	\$ 425,323	314,398	739,721

See accompanying independent auditor's report.

City of Harlan
 Schedule of Indebtedness
 Year ended June 30, 2019

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

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
600,000	-	70,000	530,000	20,485
1,580,000	-	160,000	1,420,000	33,978
2,165,000	-	220,000	1,945,000	39,360
\$ 4,345,000	-	450,000	3,895,000	93,823
1,160,000	-	270,000	890,000	29,193
1,255,000	-	100,000	1,155,000	33,175
1,395,000	-	45,000	1,350,000	32,796
\$ 3,810,000	-	415,000	3,395,000	95,163

City of Harlan

City of Harlan
Bond and Note Maturities
June 30, 2019

General Obligation Bonds								
Year Ending June 30,	Series 2011 Issued Jun 1, 2011		Series 2012 Issued Jun 27, 2012		Series 2013 Issued May 1, 2013		Total	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
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>\$ 530,000</u>		<u>\$ 1,420,000</u>		<u>\$ 1,945,000</u>	<u>3,895,000</u>	

General Obligation Capital Notes								
Year Ending June 30,	Series 2014 Issued Oct 9, 2014		Series 2015 Issued Oct 14, 2015		Series 2018 Issued May 30, 2018		Total	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2020	1.85%	\$ 85,000	1.70%	\$ 100,000	2.00%	\$ 215,000	400,000	
2021	1.85	80,000	1.70	100,000	2.00	190,000	370,000	
2022	2.30	80,000	2.50	100,000	2.25	160,000	340,000	
2023	2.30	80,000	2.50	100,000	2.35	165,000	345,000	
2024	2.65	70,000	2.50	100,000	2.50	170,000	340,000	
2025	2.65	70,000	2.75	105,000	2.55	170,000	345,000	
2026	3.00	70,000	2.75	105,000	2.65	175,000	350,000	
2027	3.00	115,000	3.00	105,000	2.80	50,000	270,000	
2028	3.15	120,000	3.00	110,000	3.00	55,000	285,000	
2029	3.35	120,000	3.50	115,000		-	235,000	
2030		-	3.50	115,000		-	115,000	
Total		<u>\$ 890,000</u>		<u>\$ 1,155,000</u>		<u>\$ 1,350,000</u>	<u>3,395,000</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		
	2019	2018	2017	2016	2015	2014
Receipts:						
Property tax	2,801,830	2,708,576	2,625,733	3,321,898	3,692,769	3,602,340
Tax increment financing	373,379	374,728	560,322	-	-	-
Other city tax	563,547	664,321	681,498	-	-	-
Licenses and permits	101,424	95,873	125,790	93,942	117,764	83,400
Use of money and property	69,324	72,611	79,135	75,347	74,847	23,916
Intergovernmental	1,110,425	1,318,837	1,570,287	3,263,260	1,139,194	812,099
Charges for service	265,184	249,507	267,866	410,583	459,827	488,505
Special assessments	-	-	-	110	1,411	2,603
Miscellaneous	496,950	512,444	536,970	227,362	27,330	100,426
Note proceeds	-	1,395,000	-	-	-	-
Sale of capital assets	2,000	137,478	-	-	-	-
Payment in lieu of taxes	-	-	-	-	-	289,583
Fines and forfeits	-	160	-	19,072	14,177	22,091
Contributions	-	-	-	28,347	83,566	151,617
Refunds/reimbursements	-	-	-	-	-	246,964
Interest on investments	-	-	-	4,590	10,352	12,230
Total	\$ 5,784,063	7,529,535	6,447,601	7,444,511	5,621,237	5,835,774
Disbursements:						
Operating:						
Public safety	1,594,937	1,413,770	1,290,240	1,340,642	1,368,959	1,204,545
Public works	1,247,471	1,054,361	961,444	1,118,978	1,339,224	1,243,686
Culture and recreation	988,025	944,155	946,252	918,171	1,218,455	921,867
Community and economic development	109,951	104,798	176,089	181,826	352,533	616,639
General government	771,854	809,432	832,081	724,957	764,998	843,228
Debt service	1,064,531	983,382	920,033	611,630	320,809	605,313
Capital projects	1,087,076	811,527	1,279,855	2,452,677	867,437	616,635
Total	\$ 6,863,845	6,121,425	6,405,994	7,348,881	6,232,415	6,051,913

See accompanying independent auditor's report.

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



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

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa, as of and for the year ended June 30, 2019, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 3, 2020. Our report expressed unmodified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Harlan, Iowa as of June 30, 2019, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the Harlan Municipal Utilities.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2019 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

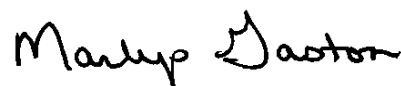
The City of Harlan's Responses to the Findings

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

Purpose of this Report

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

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



Marlys K. Gaston, CPA
Deputy Auditor of State

March 3, 2020

City of Harlan

Schedule of Findings

Year ended June 30, 2019

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

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

Condition – Those collecting cash have control over the cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal.

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

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

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

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

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

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

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

City of Harlan

Schedule of Findings

Year ended June 30, 2019

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

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

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

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

Response – The City has worked with legal counsel and HMU to establish an agreement identifying procedures to follow to reconcile sewer and landfill utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. This agreement was passed and approved by the City Council on December 17, 2019.

Conclusion – Response accepted.

(C) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

City of Harlan

Schedule of Findings

Year ended June 30, 2019

Condition – Amounts held by the employee health plan were not properly recorded in the City’s financial statements. In addition, other adjustments were necessary to correct the financial statements. Adjustments were subsequently made by the City to properly record these amounts and transactions in the financial statements.

Cause – City policies do not require and procedures have not been established to require independent review of transactions to ensure the City’s financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City’s financial statements were necessary.

Recommendation – The City should implement procedures to ensure accurate financial reporting.

Response – The City will continue to work with our auditors to implement procedures to ensure accurate reporting.

Conclusion – Response accepted.

(D) Segregation of Duties for Harlan Firefighters Association, Inc.

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

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

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

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

City of Harlan

Schedule of Findings

Year ended June 30, 2019

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

Response – The Fire Association will try our best to segregate duties in the future.

Conclusion – Response accepted.

(E) General Ledger and Bank Reconciliations

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

Condition – The Harlan Firefighters Association maintains spreadsheets to document receipts and disbursements; however, transactions were noted which were not included on the monthly spreadsheets. Therefore, an adequate book balance is not maintained. In addition, bank reconciliations were not performed on a monthly basis and were not subsequently independently reviewed.

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

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

Recommendation – To improve financial accountability and control, all receipt and disbursement transactions should be properly accounted for and a complete and accurate book balance should be maintained. Monthly bank reconciliations should be performed and variances between book and bank balances investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review.

Response – The Fire Association has updated our processes.

Conclusion – Response accepted.

(F) Debit Card

Criteria – Internal controls over safeguarding assets constitutes a process, effected by an entity's governing body, management and other personnel designated to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper asset use and proper supporting documentation.

City of Harlan

Schedule of Findings

Year ended June 30, 2019

Condition – The Harlan Firefighters Association has a debit card available for use by firefighters. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

Cause – Officials have been unaware of the repercussions of allowing the use of debit cards.

Effect – Allowing the use of debit cards could result in unauthorized transactions and the opportunity for misappropriations.

Recommendation – The Harlan Firefighters Association should prohibit the use of debit cards.

Response – The Fire Association no longer has a debit card.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Harlan

Schedule of Findings

Year ended June 30, 2019

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the capital projects and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City will be more diligent to not make disbursements from functions which will exceed the budget or amended budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements – In accordance with Article III, Section 31 of the Iowa Constitution and an Attorney General’s opinion dated April 25, 1979, public funds may only be spent for public benefit. One disbursement of \$190 for fresh flowers paid to Floral Elegance and Unique Gifts was noted which we believe may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979, since the public benefits to be derived have not been clearly documented.

According to the opinion, it is possible for certain disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by this type of disbursement prior to authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirement for proper public purpose documentation.

Response – The flowers were purchased in an emergency situation to temporarily remedy the appearance at a reception hall due to a defective floor. City staff will continue to be cognizant of disbursements and how they meet a public purpose and will seek prior authorization when warranted.

Conclusion – Response accepted.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Harlan

Schedule of Findings

Year ended June 30, 2019

- (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
Gene Getty Jr., City Administrator, Wife is Office Manager of Leinen Construction	Construction, Bid	\$ 248,741
Sharon Kroger, Council Member, Husband is Part-owner of Kroger & Sons Hauling, LLC	Garbage hauling	4,423

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Wife of the City Administrator do not appear to represent a conflict of interest since they were entered through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa. The transactions with the husband of the City Council Member may represent a conflict of interest since total transaction exceeded \$1,500 during the fiscal year and were not entered into through competitive bidding.

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

Response – The City has solicited bids for garbage pick-up service for the time period July 1, 2019 to June 30, 2022.

Conclusion – Response accepted.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- (8) Annual Urban Renewal Report – The Annual Urban Renewal Report was not properly approved and certified to the Iowa Department of Management on or before December 1; however, the City received an extension from the Iowa Department of Management to December 19, which was met.

City of Harlan

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
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