



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006
Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

Contact: Ernest Ruben
515/281-5834

FOR RELEASE

April 25, 2023

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

FINANCIAL HIGHLIGHTS:

The City's receipts totaled \$8,701,868 for the year ended June 30, 2022, a 26.2% decrease from the prior year. Disbursements for the year ended June 30, 2022 totaled \$8,002,690, a 31.2% decrease from the prior year. The decrease in receipts and disbursements is due primarily to the City not issuing debt in the current year and therefore, no repayment of refunded debt.

AUDIT FINDINGS:

Sand reported four findings related to the receipt and disbursement of taxpayer funds. They are found on pages 50 through 55 of this report. The findings address a lack of segregation of duties, the lack of reconciliations of utility billings, disbursements exceeding budgeted amounts and a deficit fund balance. Sand provided the City with recommendations to address each of the findings.

Each of the four findings discussed above pertaining to the City are repeated from the prior year. The City Council has a fiduciary responsibility to provide oversight of the City'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 [Audit Reports – Auditor of State](#).

###

CITY OF HARLAN

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

JUNE 30, 2022

City of Harlan



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Rob Sand
Auditor of State

April 7, 2023

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, 2022. 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor’s Report	4-7
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 10-11
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 12-13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	C 14
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D 15
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position	E 17
Notes to Financial Statements	18-30
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Funds	32-33
Notes to Other Information – Budgetary Reporting	35
Schedule of the City’s Proportionate Share of the Net Pension Liability (Asset)	36-37
Schedule of City Contributions	38-39
Notes to Other Information – Pension Liability	40
Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1 42-43
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Internal Service Funds	2 45
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	3 46-47
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 <u>Government Auditing Standards</u>	48-49
Schedule of Findings	50-55
Staff	56

City of Harlan

Officials

(Before January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Kolbe	Mayor	Jan 2022
Jay Christensen	Council Member	Jan 2022
Sharon Kroger	Council Member	Jan 2022
Jeanna Rudolph	Council Member	Jan 2022
Greg Bladt	Council Member	Jan 2024
Richard Petersen	Council Member	Jan 2024
Troy Schaben	Council Member	Jan 2024
Gene Gettys	City Administrator	Indefinite
Jane Smith	City Clerk/Finance Director	Indefinite
Wava Bails	Treasurer	Indefinite
Todd Argotsinger	Attorney	Indefinite

(After January 2022)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Kolbe	Mayor	(Resigned Mar 2022)
Jay Christensen (Appointed Apr 2022)	Mayor	Nov 2023
Jay Christensen	Council Member	(Resigned Mar 2022)
Kyle Lindberg (Appointed May 2022)	Council Member	Nov 2023
Greg Bladt	Council Member	Jan 2024
Richard Petersen	Council Member	Jan 2024
Troy Schaben	Council Member	Jan 2024
Sharon Kroger	Council Member	Jan 2026
Jeanna Rudolph	Council Member	Jan 2026
Gene Gettys	City Administrator	Indefinite
Jane Smith	City Clerk/Finance Director	Indefinite
Wava Bails	Treasurer	Indefinite
Todd Argotsinger	Attorney	Indefinite



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Audit of the Financial Statements

Adverse and Unmodified Opinions

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, 2022, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Adverse Opinion on the Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse and Unmodified Opinion section on our report, the accompanying 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, 2022, 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 on Governmental Activities, Business Type Activities, Each Major Fund, and the Aggregate Remaining Fund Information

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, 2022, and the respective changes in cash basis financial position for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis for Adverse and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the City of Harlan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Matter Giving Rise to Adverse Opinion on 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 \$17,252,283, \$15,778,499 and \$12,632,187, respectively.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management 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, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Harlan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Harlan’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Harlan’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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 “Auditor’s Responsibilities for the Audit of the Financial Statements” section of this report, the financial statements for the five years ended June 30, 2021 (which are not presented herein) and expressed unmodified opinions on 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 four 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 were prepared in accordance with U.S. generally accepted accounting principles. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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 auditing standards generally accepted in the United States of America. 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.

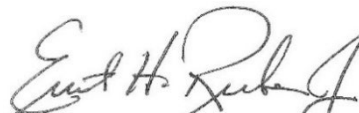
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) and the Schedule of City Contributions on pages 32 through 40 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 7, 2023 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.


Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

April 7, 2023

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, 2022

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 1,463,139	119,770	107,458	-
Public works	1,390,098	452,097	717,968	-
Culture and recreation	1,125,304	217,442	156,104	-
Community and economic development	254,887	4,655	-	-
General government	832,744	16,875	4,036	-
Debt service	981,480	-	-	-
Capital projects	919,304	-	-	799,298
Non-program	136,580	36,341	-	-
Total governmental activities	7,103,536	847,180	985,566	799,298
Business type activities:				
Sewer	899,154	1,275,838	-	-
Total Primary Government	\$ 8,002,690	2,123,018	985,566	799,298
Component Unit:				
Harlan Community Library Foundation	\$ 40,226	-	71,999	-
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
American Rescue Plan Act				
Hotel/motel tax				
Cable franchise fee				
Commercial/industrial tax replacement				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Streets				
Local option sales tax				
Debt service				
Capital projects				
Health plan trustee				
Library				
American Rescue Plan Act				
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
(1,235,911)	-	(1,235,911)	
(220,033)	-	(220,033)	
(751,758)	-	(751,758)	
(250,232)	-	(250,232)	
(811,833)	-	(811,833)	
(981,480)	-	(981,480)	
(120,006)	-	(120,006)	
(100,239)	-	(100,239)	
(4,471,492)	-	(4,471,492)	
-	376,684	376,684	
(4,471,492)	376,684	(4,094,808)	
			31,773
2,566,756	-	2,566,756	-
501,398	-	501,398	-
229,267	-	229,267	-
668,237	-	668,237	-
356,313	-	356,313	-
52,290	-	52,290	-
66,257	-	66,257	-
71,354	-	71,354	-
5,092	-	5,092	-
242,617	34,405	277,022	-
356,825	(356,825)	-	-
5,116,406	(322,420)	4,793,986	-
644,914	54,264	699,178	31,773
4,736,420	677,368	5,413,788	522,574
\$ 5,381,334	731,632	6,112,966	554,347
\$ 561,669	-	561,669	-
398,247	-	398,247	-
446,410	362,175	808,585	-
165,542	43,689	209,231	-
83,936	17,788	101,724	-
-	-	-	554,347
356,313	-	356,313	-
358,603	-	358,603	-
3,010,614	307,980	3,318,594	-
\$ 5,381,334	731,632	6,112,966	554,347

City of Harlan

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

As of and for the year ended June 30, 2022

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 1,888,300	-	667,472
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Other city tax	60,477	-	2,797
Licenses and permits	92,152	-	-
Use of money and property	83,565	-	-
Intergovernmental	747,660	681,688	16,412
Charges for service	482,166	-	-
Miscellaneous	326,612	31,683	-
Total receipts	<u>3,680,932</u>	<u>713,371</u>	<u>686,681</u>
Disbursements:			
Operating:			
Public safety	1,489,873	-	-
Public works	889,782	470,626	-
Culture and recreation	1,018,737	-	-
Community and economic development	209,316	-	-
General government	844,202	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>4,451,910</u>	<u>470,626</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(770,978)</u>	<u>242,745</u>	<u>686,681</u>
Other financing sources (uses):			
Sale of capital assets	62,550	-	-
Transfers in	1,325,313	-	-
Transfers out	-	-	(683,424)
Total other financing sources (uses)	<u>1,387,863</u>	<u>-</u>	<u>(683,424)</u>
Change in cash balances	616,885	242,745	3,257
Cash balances beginning of year	<u>2,094,812</u>	<u>329,817</u>	<u>191,671</u>
Cash balances end of year	<u>\$ 2,711,697</u>	<u>572,562</u>	<u>194,928</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ -	561,669	-
Local option sales tax	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Health plan trustee	73,043	10,893	-
American Rescue Plan Act	356,313	-	-
Other purposes	56,309	-	194,928
Unassigned	<u>2,226,032</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 2,711,697</u>	<u>572,562</u>	<u>194,928</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
499,306	-	-	3,055,078
-	-	229,267	229,267
-	-	668,237	668,237
2,092	-	-	65,366
-	-	-	92,152
-	-	86	83,651
11,825	799,298	7,770	2,264,653
-	-	-	482,166
-	-	58,262	416,557
513,223	799,298	963,622	7,357,127
-	-	25,602	1,515,475
-	25,366	-	1,385,774
-	-	55,500	1,074,237
-	-	45,571	254,887
-	-	-	844,202
981,480	-	-	981,480
-	919,304	-	919,304
981,480	944,670	126,673	6,975,359
(468,257)	(145,372)	836,949	381,768
-	-	-	62,550
482,825	9,940	13,716	1,831,794
-	(33,350)	(758,195)	(1,474,969)
482,825	(23,410)	(744,479)	419,375
14,568	(168,782)	92,470	801,143
309,197	334,324	533,730	3,793,551
323,765	165,542	626,200	4,594,694
-	-	-	561,669
-	-	398,247	398,247
323,765	-	122,645	446,410
-	165,542	-	165,542
-	-	-	83,936
-	-	-	356,313
-	-	107,366	358,603
-	-	(2,058)	2,223,974
323,765	165,542	626,200	4,594,694

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, 2022

Total governmental funds cash balances (page 13) \$ 4,594,694

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

The Internal Service Fund is used by management to charge the costs of equipment replacement to individual funds. The cash balance of the Internal Service Funds is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

786,640

Cash basis net position of governmental activities (page 11) \$ 5,381,334

Change in cash balances (page 13) \$ 801,143

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.

(156,229)

Change in cash basis net position of governmental activities (page 11) \$ 644,914

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, 2022

	Enterprise	Internal Service
	Sewer	Total
Operating receipts:		
Charges for service	\$ 1,199,762	336,281
Miscellaneous	76,076	-
Total operating receipts	<u>1,275,838</u>	<u>336,281</u>
Operating disbursements:		
Governmental activities:		
Public safety	-	47,244
Public works	-	43,525
Culture and recreation	-	55,000
General government	-	-
Non-program	-	5,941
Business type activities	780,688	-
Total operating disbursements	<u>780,688</u>	<u>151,710</u>
Excess of operating receipts over operating disbursements	495,150	184,571
Non-operating receipts (disbursements):		
Miscellaneous	35,467	-
Capital outlay	(118,466)	-
Distribution to other funds	-	(211,223)
Elimination of Internal Service Fund	-	(130,639)
Net non-operating disbursements	<u>(82,999)</u>	<u>(341,862)</u>
Excess (deficiency) of receipts over (under) disbursements	412,151	(157,291)
Transfers out	<u>(356,825)</u>	-
Change in cash balances	55,326	(157,291)
Cash balances beginning of year	676,306	943,931
Cash balances end of year	<u>\$ 731,632</u>	<u>786,640</u>
Cash Basis Fund Balances		
Restricted for debt service	\$ 362,175	-
Restricted for capital projects	43,689	-
Restricted for health plan trustee	17,788	-
Unrestricted	<u>307,980</u>	<u>786,640</u>
Total cash basis fund balances	<u>\$ 731,632</u>	<u>786,640</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, 2022

Change in cash balances (page 15)	\$ 55,326
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***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.

(1,062)
<hr/>

Change in cash basis net position of governmental activities (page 11)	\$ <u>54,264</u>
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See notes to financial statements.

City of Harlan

Notes to Financial Statements

June 30, 2022

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

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

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. The Fund was discontinued during the year ended June 30, 2022.

C. Measurement Focus and Basis of Accounting

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

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

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

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

D. Property Taxes and Governmental Cash Basis Fund Balances

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

Property tax revenues recognized in the governmental funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2020 assessed property valuations; is for the tax accrual period July 1, 2021 through June 30, 2022 and reflects tax asking contained in the budget certified to the City Council in March 2021.

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

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

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2022, disbursements exceeded the amount budgeted in the business type activities function.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2022 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, 2022, the Harlan Community Library Foundation had the following investments:

Investment	Carrying Amount	Fair Value	Maturity
Mutual Funds	\$ 484,629	497,058	N/A
U.S. Equities	51,523	58,352	N/A
Municipal Bonds	5,000	5,013	N/A
Total	<u>\$ 541,152</u>	<u>560,423</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

A summary of changes in bonds and capital notes payable for the year ended June 30, 2022 is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,490,000	-	235,000	1,255,000	235,000
General obligation capital notes	5,075,000	-	630,000	4,445,000	645,000
Governmental activities total	<u>\$ 6,565,000</u>	<u>-</u>	<u>865,000</u>	<u>5,700,000</u>	<u>880,000</u>

General Obligation Bonds

A summary of the City’s June 30, 2022 general obligation bonds payable is as follows:

Year Ending June 30,	Bond Refunding Series 2013				Total
	Issued May 1, 2013				
	Interest Rates	Principal	Interest		
2023	1.90%	\$ 235,000	26,562		261,562
2024	2.00	245,000	22,098		267,098
2025	2.10	250,000	17,198		267,198
2026	2.20	260,000	11,948		271,948
2027	2.35	265,000	6,228		271,228
Total		\$ 1,255,000	84,034		1,339,034

On May 1, 2013, the City issued \$2,815,000 of general obligation refunding bonds with interest rates ranging from .75% to 2.35% per annum. The bonds were used for a crossover refunding of the 2007 general obligation bonds with a crossover date of May 2015. During the year ended June 30, 2022, the City paid \$235,000 of principal and \$30,675 of interest on the bonds. The outstanding principal balance on these bonds at June 30, 2022 is \$1,255,000.

General Obligation Capital Notes

A summary of the City’s June 30, 2022 general obligation capital notes payable is as follows:

Year Ending June 30,	Road Construction and Repair Series 2014			WWTP Improvement and Sewer Line Repair Series 2015		
	Issued Oct 9, 2014			Issued Oct 14, 2015		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2023	2.30%	\$ 80,000	18,900	2.50%	\$ 100,000	25,275
2024	2.65	70,000	17,060	2.50	100,000	22,775
2025	2.65	70,000	15,205	2.75	105,000	20,275
2026	3.00	70,000	13,350	2.75	105,000	17,387
2027	3.00	115,000	11,250	3.00	105,000	14,500
2028-2032	3.15-3.35	240,000	11,820	3.00-3.50	340,000	23,425
2033-2035		-	-		-	-
Total		\$ 645,000	87,585		\$ 855,000	123,637

Year Ending June 30,	Bond Refunding and Repairs Series 2020					
	Issued Sep 15, 2020			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
2023	1.00%	\$ 465,000	30,690	\$ 645,000	74,865	719,865
2024	1.00	490,000	26,040	660,000	65,875	725,875
2025	1.00	490,000	21,140	665,000	56,620	721,620
2026	1.00	510,000	16,240	685,000	46,977	731,977
2027	1.00	310,000	11,140	530,000	36,890	566,890
2028-2032	0.90-1.30	440,000	31,035	1,020,000	66,280	1,086,280
2033-2035	1.30-1.50	240,000	7,040	240,000	7,040	247,040
Total		\$ 2,945,000	143,325	\$ 4,445,000	354,547	4,799,547

On October 9, 2014, the City issued \$1,835,000 of general obligation capital notes with interest rates ranging from 1.85% to 3.35% per annum. The notes were used for road construction and repair, improvements to the City Airport and emergency services communication equipment for the Police and Fire Departments. During the year ended June 30, 2022, the City paid \$80,000 of principal and \$20,740 of interest on the notes. The outstanding principal balance on the notes at June 30, 2022 is \$645,000.

On October 14, 2015, the City issued \$1,555,000 of general obligation capital notes with interest rates ranging from 2.00% to 3.50% per annum. The notes were used for wastewater treatment plant improvement and sewer line repairs. During the year ended June 30, 2022, the City paid \$100,000 of principal and \$27,775 of interest on the notes. The outstanding principal balance on the notes at June 30, 2022 is \$855,000.

On September 15, 2020, the City issued \$3,850,000 of general obligation refunding capital loan notes with an interest rate of 1.00% to 1.50% per annum. The notes were used for street and sidewalk construction and repair, water and sewer line repair, equipping the Fire Department and a current refunding to retire the outstanding balances of \$465,000, Series 2011 general obligation bonds issued June 1, 2011, \$1,260,000 Series 2012 general obligation bonds issued June 27, 2012 and \$1,135,000, Series 2018 general obligation capital loan notes issued May 30, 2018. During the year ended June 30, 2022, the City paid \$450,000 of principal and \$35,190 of interest on the notes. The outstanding principal balance on the notes at June 30, 2022 is \$2,945,000.

(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 2022, 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 6.21% of covered payroll and the City contributed 9.31% of covered payroll, for a total rate of 15.52%.

169The City's contributions to IPERS for the year ended June 30, 2022 totaled \$169,639.

Net Pension Liability (Asset), Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2022, the City reported an asset of \$464,244 for its proportionate share of the overall plan net pension asset. The overall plan net pension asset was measured as of June 30, 2021 and the total pension liability used to calculate the overall plan net pension asset was determined by an actuarial valuation as of that date. The City's proportion of the overall plan net pension asset was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2021, the City's proportion of the overall plan net pension asset was 0.134475%, which was an increase of 0.118632% over its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the City's pension expense (reduction), deferred outflows of resources and deferred inflows of resources totaled \$(122,031), \$240,579 and \$1,372,277, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability (asset) in the June 30, 2021 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, 2021 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 2020 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	4.43%
International equity	17.5	6.01
Global smart beta equity	6.0	5.10
Core plus fixed income	26.0	0.29
Public credit	4.0	2.08
Cash	1.0	(0.25)
Private equity	13.0	9.51
Private real assets	7.5	4.63
Private credit	3.0	2.87
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 (asset).

Sensitivity of City’s Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate – The following presents the City’s proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, as well as what the City’s proportionate share of the net pension liability (asset) 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 (asset)	\$ 620,411	(464,244)	(1,372,769)

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, 2022, the City contributed \$401,787 and plan members eligible for benefits contributed \$42,695 to the plan. At June 30, 2022, 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, 2022, there are 25 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, 2022, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 79,000
Sick leave	154,000
Floating holiday	11,000
Compensatory time	50,000
Total	<u>\$ 294,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2022.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2022 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Employee Benefits	\$ 683,424
	Local Option Sales Tax	530,000
	Urban Renewal	92,255
	Capital Projects	<u>19,634</u>
		<u>1,325,313</u>
Special Revenue:		
JJ Jensen	Capital Projects	<u>13,716</u>
Debt Service	Enterprise:	
	Sewer	356,825
	Special Revenue:	
	Urban Renewal	<u>126,000</u>
		<u>482,825</u>
Capital Projects	Special Revenue:	
	Urban Renewal	<u>9,940</u>
Total		<u>\$ 1,831,794</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, 2022, the City paid \$401,787 into the account. At June 30, 2022, the account balance for the City was \$101,724. The portion related to Harlan Municipal Utilities is not included as the City has closed the Internal Service Group Insurance Fund as of June 30, 2022. The activity for this account is recorded in the City's General, the Special Revenue, Road Use Tax and the Enterprise, Sewer 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 \$765,875 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, 2022, \$12,892 of property tax was diverted from the City under the urban revitalization projects.

(11) Interfund Advances

The City has interfund advances from various funds for projects within the City's Urban Renewal Area Plan. In accordance with Chapter 403 of the Code of Iowa, the interfund advances are approved by the City Council to be repaid with tax increment financing (TIF) receipts and are subsequently certified to the County Auditor as TIF debt. The activity for these interfund advances as of June 30, 2022 is as follows:

	Advancing Fund			
	General	Special Revenue, Downtown Upper Story Façade	Capital Projects	Total Advances to the TIF Fund
Beginning balance	\$ 181,993	-	94,883	276,876
New advances	59,053	45,136	88,682	192,871
Payments	92,255	-	9,940	102,195
Ending balance	<u>\$ 148,791</u>	<u>45,136</u>	<u>173,625</u>	<u>367,552</u>

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

(12) Deficit Balance

At June 30, 2022, the Special Revenue, Downtown Upper Story Façade Fund had a deficit balance of \$2,058. The deficit will be eliminated through transfers from other funds.

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, 2022

	Governmental Funds Actual	Proprietary Funds Actual (Excluding Harlan Municipal Utilities)	Unaudited Harlan Municipal Utilities Actual	Less Funds not Required to be Budgeted
Receipts:				
Property tax	\$ 3,055,078	-	-	-
Tax increment financing	229,267	-	-	-
Other city tax	733,603	-	-	-
Licenses and permits	92,152	-	-	-
Use of money and property	83,651	-	55,051	86
Intergovernmental	2,264,653	-	-	-
Charges for service	482,166	1,536,043	14,085,277	336,281
Miscellaneous	416,557	111,543	3,111,955	12,777
Total receipts	<u>7,357,127</u>	<u>1,647,586</u>	<u>17,252,283</u>	<u>349,144</u>
Disbursements:				
Public safety	1,515,475	47,244	-	72,846
Public works	1,385,774	43,525	-	43,525
Culture and recreation	1,074,237	55,000	-	55,000
Community and economic development	254,887	-	-	-
General government	844,202	-	-	-
Debt service	981,480	-	-	-
Capital projects	919,304	-	-	-
Business type activities	-	1,241,016	15,778,499	341,862
Non-program	-	5,941	-	5,941
Total disbursements	<u>6,975,359</u>	<u>1,392,726</u>	<u>15,778,499</u>	<u>519,174</u>
Excess (deficiency) of receipts over (under) disbursements	381,768	254,860	1,473,784	(170,030)
Other financing sources (uses), net	419,375	(356,825)	-	-
Change in balances	801,143	(101,965)	1,473,784	(170,030)
Balances beginning of year	<u>3,793,551</u>	<u>1,620,237</u>	<u>11,158,403</u>	<u>1,016,812</u>
Balances end of year	<u>\$ 4,594,694</u>	<u>1,518,272</u>	<u>12,632,187</u>	<u>846,782</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
3,055,078	3,015,102	3,015,102	39,976
229,267	228,195	228,195	1,072
733,603	604,961	744,961	(11,358)
92,152	100,480	100,480	(8,328)
138,616	84,290	84,290	54,326
2,264,653	2,246,698	2,664,886	(400,233)
15,767,205	16,490,500	17,408,025	(1,640,820)
3,627,278	234,430	385,625	3,241,653
25,907,852	23,004,656	24,631,564	1,276,288
1,489,873	1,494,498	1,547,198	57,325
1,385,774	1,355,908	1,616,308	230,534
1,074,237	1,016,509	1,107,809	33,572
254,887	178,750	273,750	18,863
844,202	886,977	891,177	46,975
981,480	981,480	981,480	-
919,304	1,250,000	1,449,000	529,696
16,677,653	14,190,397	15,042,397	(1,635,256)
-	-	-	-
23,627,410	21,354,519	22,909,119	(718,291)
2,280,442	1,650,137	1,722,445	557,997
62,550	2,000	2,000	60,550
2,342,992	1,652,137	1,724,445	618,547
15,555,379	37,101,952	37,101,952	(21,546,573)
17,898,371	38,754,089	38,826,397	(20,928,026)

City of Harlan

City of Harlan

Notes to Other Information – Budgetary Reporting

June 30, 2022

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.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,554,600. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2022, disbursements exceeded the amounts budgeted in the business type activities function.

City of Harlan

Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)

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

Other Information

	2022	2021	2020	2019
City's proportion of the net pension liability/asset	0.134475% **	0.015843%	0.015400%	0.016522%
City's proportionate share of the net pension liability (asset)	\$ (464)	1,113	892	1,046
City's covered payroll	\$ 1,798	1,773	1,779	1,771
City's proportionate share of the net pension liability/asset as a percentage of its covered payroll	(25.81)%	62.77%	50.14%	59.06%
IPERS' net position as a percentage of the total pension liability/asset	100.81%	82.90%	85.45%	83.62%

* 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.

** Overall plan net pension asset.

See accompanying independent auditor's report.

2018	2017	2016	2015
0.017001%	0.018390%	0.016001%	0.0147603%
1,133	1,157	790	585
1,771	1,750	1,670	1,713
63.98%	66.11%	47.31%	34.15%
82.21%	81.82%	85.19%	87.61%

City of Harlan

Schedule of City Contributions

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

Other Information

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutorily required contribution	\$ 170	171	170	172
Contributions in relation to the statutorily required contribution	<u>(170)</u>	<u>(171)</u>	<u>(170)</u>	<u>(172)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 1,804	1,798	1,773	1,779
Contributions as a percentage of covered payroll	9.42%	9.51%	9.59%	9.67%

See accompanying independent auditor's report.

2018	2017	2016	2015	2014	2013
163	163	167	155	159	148
(163)	(163)	(167)	(155)	(159)	(148)
-	-	-	-	-	-
1,771	1,771	1,750	1,670	1,713	1,610
9.20%	9.20%	9.54%	9.28%	9.28%	9.19%

City of Harlan

Notes to Other Information – Pension Liability

Year ended June 30, 2022

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

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

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

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

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

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

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

Supplementary Information

City of Harlan

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

As of and for the year ended June 30, 2022

	Local Option Sales Tax	Urban Renewal	Downtown Upper Story Façade	Special JJ Jensen
Receipts:				
Tax increment financing	\$ -	229,267	-	-
Local option sales tax	668,237	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	668,237	229,267	-	-
Disbursements:				
Operating:				
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	45,571	-
Total disbursements	-	-	45,571	-
Excess (deficiency) of receipts over (under) disbursements	668,237	229,267	(45,571)	-
Other financing sources (uses):				
Transfers in	-	-	-	13,716
Transfers out	(530,000)	(228,195)	-	-
Total other financing source (uses)	(530,000)	(228,195)	-	13,716
Change in cash balances	138,237	1,072	(45,571)	13,716
Cash balances beginning of year	260,010	121,573	43,513	(13,716)
Cash balances end of year	\$ 398,247	122,645	(2,058)	-
Cash Basis Fund Balances				
Restricted for:				
Local option sales tax	\$ 398,247	-	-	-
Debt service	-	122,645	-	-
Other purposes	-	-	-	-
Unassigned	-	-	(2,058)	-
Total cash basis fund balances	\$ 398,247	122,645	(2,058)	-

See accompanying independent auditor's report.

Revenue			
Harlan Firefighters Association	Library Fund	Police Fund	Total
-	-	-	229,267
-	-	-	668,237
86	-	-	86
-	7,770	-	7,770
12,777	39,689	5,796	58,262
12,863	47,459	5,796	963,622
25,602	-	-	25,602
-	55,500	-	55,500
-	-	-	45,571
25,602	55,500	-	126,673
(12,739)	(8,041)	5,796	836,949
-	-	-	13,716
-	-	-	(758,195)
-	-	-	(744,479)
(12,739)	(8,041)	5,796	92,470
72,881	40,157	9,312	533,730
60,142	32,116	15,108	626,200
-	-	-	398,247
-	-	-	122,645
60,142	32,116	15,108	107,366
-	-	-	(2,058)
60,142	32,116	15,108	626,200

City of Harlan

City of Harlan

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

Year ended June 30, 2022

	Internal Service		
	Equipment Revolving	Group Insurance	Total
Operating receipts:			
Charges for service	\$ 268,365	67,916	336,281
Operating disbursements:			
Governmental activities:			
Public safety	47,244	-	47,244
Public works	43,525	-	43,525
Culture and recreation	55,000	-	55,000
Non-program	-	5,941	5,941
Total operating disbursements	145,769	5,941	151,710
Non-operating disbursements:			
Distribution to other funds	-	(211,223)	(211,223)
Elimination of the health plan trustee balance related to the Harlan Municipal Utilities	-	(130,639)	(130,639)
Total non-operating disbursements	-	(341,862)	(341,862)
Change in cash balances	122,596	(279,887)	(157,291)
Cash balances beginning of year	664,044	279,887	943,931
Cash balances end of year	\$ 786,640	-	786,640
Cash Basis Fund Balances			
Unrestricted	\$ 786,640	-	786,640

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

	<u>Cash</u>			
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Receipts:				
Property tax	\$ 3,055,078	3,022,902	2,793,038	2,801,830
Tax increment financing	229,267	237,914	396,688	373,379
Local option sales tax	668,237	595,055	541,300	506,392
Other city tax	65,366	54,864	60,217	57,155
Licenses and permits	92,152	88,788	101,882	101,424
Use of money and property	83,651	72,377	69,812	69,324
Intergovernmental	2,264,653	1,500,328	1,362,962	1,110,425
Charges for service	482,166	363,488	222,033	265,184
Special assessments	-	-	-	-
Miscellaneous	416,557	272,524	480,911	496,950
Note proceeds	-	3,901,117	-	-
Sale of capital assets	62,550	28,606	26,000	2,000
Payment in lieu of taxes	-	-	-	-
Fines and forfeits	-	-	-	-
Contributions	-	-	-	-
Refunds/reimbursements	-	-	-	-
Interest on investments	-	-	-	-
Total	<u>\$ 7,419,677</u>	<u>10,137,963</u>	<u>6,054,843</u>	<u>5,784,063</u>
Disbursements:				
Operating:				
Public safety	\$ 1,515,475	2,303,982	1,441,494	1,594,937
Public works	1,385,774	1,587,799	1,680,593	1,247,471
Culture and recreation	1,074,237	1,114,139	1,013,165	988,025
Community and economic development	254,887	143,070	142,742	109,951
General government	844,202	829,270	788,911	771,854
Debt service	981,480	1,031,482	1,026,530	1,064,531
Capital projects	919,304	533,430	978,272	1,087,076
Total	<u>\$ 6,975,359</u>	<u>7,543,172</u>	<u>7,071,707</u>	<u>6,863,845</u>

See accompanying independent auditor's report.

Basis		Modified			Accrual Basis
2018	2017	2016	2015	2014	2013
2,708,576	2,625,733	3,321,898	3,692,769	3,602,340	3,501,013
374,728	560,322	-	-	-	-
440,560	502,618	-	-	-	-
223,761	178,880	-	-	-	-
95,873	125,790	93,942	117,764	83,400	79,534
72,611	79,135	75,347	74,847	23,916	72,819
1,318,837	1,570,287	3,263,260	1,139,194	812,099	860,312
249,507	267,866	410,583	459,827	488,505	464,063
-	-	110	1,411	2,603	1,639
512,444	536,970	227,362	27,330	100,426	74,685
1,395,000	-	-	-	-	-
137,478	-	-	-	-	-
-	-	-	-	289,583	301,452
160	-	19,072	14,177	22,091	18,999
-	-	28,347	83,566	151,617	37,786
-	-	-	-	246,964	8,934
-	-	4,590	10,352	12,230	7,834
<u>7,529,535</u>	<u>6,447,601</u>	<u>7,444,511</u>	<u>5,621,237</u>	<u>5,835,774</u>	<u>5,429,070</u>
1,413,770	1,290,240	1,340,642	1,368,959	1,204,545	1,162,720
1,054,361	961,444	1,118,978	1,339,224	1,243,686	1,132,058
944,155	946,252	918,171	1,218,455	921,867	823,835
104,798	176,089	181,826	352,533	616,639	415,685
809,432	832,081	724,957	764,998	843,228	771,706
983,382	920,033	611,630	320,809	605,313	773,963
811,527	1,279,855	2,452,677	867,437	616,635	121,235
<u>6,121,425</u>	<u>6,405,994</u>	<u>7,348,881</u>	<u>6,232,415</u>	<u>6,051,913</u>	<u>5,201,202</u>



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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 auditing standards generally accepted in the United States of America 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 Harlan, Iowa, as of and for the year ended June 30, 2022, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 7, 2023. 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, 2022, 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.

Report on 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 (internal control) as a basis for designing audit procedures that are 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 were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that 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 that a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-001 and 2022-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-003 and 2022-004 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harlan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 noncompliance 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, 2022 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.

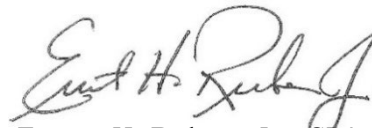
City of Harlan's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Harlan's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The City of Harlan's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

April 7, 2023

City of Harlan

Schedule of Findings

Year ended June 30, 2022

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

2022-001 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, to provide additional controls through review of financial transactions, reconciliations and financial reports. The reviews should be documented by the signature or initials of the reviewer and the date of the review.

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

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

City of Harlan

Schedule of Findings

Year ended June 30, 2022

2022-002 Reconciliation of Utility Billings, Collections and Delinquent Accounts

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

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

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

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

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

Response – Starting July 1, 2022, HMU is providing reconciliation reports as well as the necessary information to prepare a proper utility reconciliation.

Conclusion – Response acknowledged. The City and the HMU should also modify the written agreement to address the allocation methodology to be used for payments received.

City of Harlan

Schedule of Findings

Year ended June 30, 2022

2022-003 Segregation of Duties for Harlan Firefighters Association, Inc. and Harlan Community Library Foundation

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

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

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

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

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

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

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

Conclusion – Response accepted.

2022-004 General Ledger and Bank Reconciliations

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

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

City of Harlan

Schedule of Findings

Year ended June 30, 2022

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

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

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

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

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Harlan

Schedule of Findings

Year ended June 30, 2022

Other Findings Related to Required Statutory Reporting:

2022-A Certified Budget – Disbursements during the year ended June 30, 2022 exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City relies on HMU to provide electric, gas, water and telecommunication utility financial information for budget and amendment purposes. The HMU disbursement amounts reported to the City exceeded the budgeted and amended amounts recorded, thus disbursements in the business type services function exceeded the budget. The City will work with HMU to obtain more accurate budget and amendment numbers in the future.

Conclusion – Response accepted.

2022-B Questionable Disbursements – No disbursements we believe may not met the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

2022-C Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2022-D 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 Gettys, City Administrator, wife is Office Manager of Leinen Construction	Construction, bid	\$ 69,791
Sharon Kroger, Council Member, Husband is Part-owner of Kroger & Sons Hauling, LLC	Garbage hauling, bid	5,274

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

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

City of Harlan

Schedule of Findings

Year ended June 30, 2022

- 2022-E Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- 2022-F 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.
- 2022-G City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- 2022-H 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.
- 2022-I Annual Urban Renewal Report – The Annual Urban Renewal Report was properly approved and certified to the Iowa Department of Management on or before December 1, 2021.
- 2022-J Tax Increment Financing – The Special Revenue, Tax Increment Financing (TIF) Fund properly disbursed payments for TIF loans and rebates. Also, the City of Harlan properly completed the Tax Increment Debt Certificate Forms to request TIF properly taxes.
- 2022-K Financial Condition – The Special Revenue, Downtown Upper Story Façade Fund had a deficit of \$2,058 at June 30, 2022.

Recommendation – The City should investigate alternatives to eliminate the deficit to return the fund to a sound financial position.

Response – The Downtown Upper Story Façade Fund will be returned to a sound financial position.

Conclusion – Response accepted.

City of Harlan

Staff

This audit was performed by:

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Pamela J. Bormann, CPA, Manager
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