



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

Rob Sand  
Auditor of State

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

**NEWS RELEASE**

Contact: Brian Brustkern  
515/281-5834

FOR RELEASE

March 28, 2024

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

**FINANCIAL HIGHLIGHTS:**

The City's receipts totaled \$8,932,821 for the year ended June 30, 2023, a 2.7% increase over the prior year. Disbursements for the year ended June 30, 2023 totaled \$8,503,653, a 6.3% increase over the prior year. The increase in disbursements is due primarily to new capital projects.

**AUDIT FINDINGS:**

Sand reported five findings related to the receipt and disbursement of taxpayer funds. They are found on pages 54 through 60 of this report. The findings include a lack of segregation of duties, disbursements exceeding budgeted amounts and a deficit fund balance. Sand provided the City with recommendations to address each of the findings.

All of the 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 website at [Audit Reports – Auditor of State](#).

###

**CITY OF HARLAN**

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

**JUNE 30, 2023**

**City of Harlan**



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**STATE OF IOWA**

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Rob Sand  
Auditor of State

March 22, 2024

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, 2023. 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", written in a cursive style.

Rob Sand  
Auditor of State

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**City of Harlan**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jay Christensen (Appointed Apr 2022)	Mayor	Nov 2023
Kyle Lindberg (Appointed May 2022)	Council Member	Nov 2023
RJ Bielenberg (Appointed Sep 2022)	Council Member	Nov 2023
Greg Bladt	Council Member	(Resigned Jul 2022)
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, 2023, 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, 2023, 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, 2023, 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 accounting principles generally accepted in the United States of America, 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 \$21,411,536, \$19,908,940 and \$14,134,783, 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 six years ended June 30, 2022 (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 three 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 accounting principles generally accepted in the United States of America. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), 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 GAAS. 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 this report. The other information comprises the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 32 through 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 March 22, 2024 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  
Chief Deputy Auditor of State

March 22, 2024

**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, 2023

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 1,496,276	93,090	135,204	-
Public works	1,679,774	375,481	716,999	-
Culture and recreation	1,149,875	142,956	109,631	-
Community and economic development	225,655	330	-	-
General government	940,856	6,125	15,355	-
Debt service	983,528	-	-	-
Capital projects	1,226,073	-	-	1,175,946
Total governmental activities	7,702,037	617,982	977,189	1,175,946
Business type activities:				
Sewer	801,616	1,313,236	-	-
<b>Total Primary Government</b>	<b>\$ 8,503,653</b>	<b>1,931,218</b>	<b>977,189</b>	<b>1,175,946</b>
<b>Component Unit:</b>				
Harlan Community Library Foundation	\$ 7,992	-	31,105	-
<b>General Receipts and Transfers:</b>				
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				
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				
<b>Cash Basis Net Position</b>				
Restricted:				
Streets				
Local option sales tax				
Debt service				
Capital projects				
Health plan trustee				
Library				
American Rescue Plan Act				
Other purposes				
Unrestricted				
<b>Total cash basis net position</b>				

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
(1,267,982)	-	(1,267,982)	
(587,294)	-	(587,294)	
(897,288)	-	(897,288)	
(225,325)	-	(225,325)	
(919,376)	-	(919,376)	
(983,528)	-	(983,528)	
(50,127)	-	(50,127)	
(4,930,920)	-	(4,930,920)	
-	511,620	511,620	
(4,930,920)	511,620	(4,419,300)	
			23,113
2,538,266	-	2,538,266	-
491,565	-	491,565	-
326,175	-	326,175	-
640,871	-	640,871	-
356,313	-	356,313	-
50,907	-	50,907	-
67,774	-	67,774	-
141,891	-	141,891	-
207,945	26,761	234,706	-
362,175	(362,175)	-	-
5,183,882	(335,414)	4,848,468	-
252,962	176,206	429,168	23,113
5,381,334	731,632	6,112,966	554,347
\$ 5,634,296	907,838	6,542,134	577,460
\$ 657,999	-	657,999	-
186,118	-	186,118	-
439,013	362,425	801,438	-
170,884	43,689	214,573	-
47,533	10,216	57,749	-
-	-	-	577,460
618,014	-	618,014	-
415,155	-	415,155	-
3,099,580	491,508	3,591,088	-
\$ 5,634,296	907,838	6,542,134	577,460

City of Harlan

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

As of and for the year ended June 30, 2023

	Special Revenue		
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 1,891,129	-	639,720
Tax increment financing	-	-	-
Local option sales tax	-	-	-
Other city tax	47,337	-	1,878
Licenses and permits	86,619	-	-
Use of money and property	98,644	-	-
Intergovernmental	786,789	673,332	29,110
Charges for service	492,467	-	-
Special Assessments	265	-	-
Miscellaneous	132,764	-	-
Total receipts	<u>3,536,014</u>	<u>673,332</u>	<u>670,708</u>
Disbursements:			
Operating:			
Public safety	1,578,672	-	-
Public works	1,190,340	578,934	-
Culture and recreation	1,142,724	-	-
Community and economic development	178,625	-	-
General government	943,356	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>5,033,717</u>	<u>578,934</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(1,497,703)</u>	<u>94,398</u>	<u>670,708</u>
Other financing sources (uses):			
Transfers in	1,640,313	-	-
Transfers out	-	-	(668,605)
Total other financing sources (uses)	<u>1,640,313</u>	<u>-</u>	<u>(668,605)</u>
Change in cash balances	142,610	94,398	2,103
Cash balances beginning of year	<u>2,711,697</u>	<u>572,562</u>	<u>194,928</u>
Cash balances end of year	<u>\$ 2,854,307</u>	<u>666,960</u>	<u>197,031</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Streets	\$ -	657,999	-
Local option sales tax	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Health plan trustee	38,572	8,961	-
American Rescue Plan Act	618,014	-	-
Other purposes	35,518	-	197,031
Unassigned	<u>2,162,203</u>	<u>-</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 2,854,307</u>	<u>666,960</u>	<u>197,031</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
490,203	-	-	3,021,052
-	-	326,175	326,175
-	-	640,871	640,871
1,362	9,109	-	59,686
-	-	-	86,619
-	-	890	99,534
22,460	1,158,717	21,206	2,691,614
-	-	-	492,467
-	-	-	265
-	17,229	24,548	174,541
<u>514,025</u>	<u>1,185,055</u>	<u>1,013,690</u>	<u>7,592,824</u>
-	-	20,524	1,599,196
-	-	-	1,769,274
-	-	12,056	1,154,780
-	-	47,030	225,655
-	-	-	943,356
983,528	-	-	983,528
-	1,226,073	-	1,226,073
<u>983,528</u>	<u>1,226,073</u>	<u>79,610</u>	<u>7,901,862</u>
<u>(469,503)</u>	<u>(41,018)</u>	<u>934,080</u>	<u>(309,038)</u>
481,975	76,360	70,807	2,269,455
-	(30,000)	(1,208,675)	(1,907,280)
<u>481,975</u>	<u>46,360</u>	<u>(1,137,868)</u>	<u>362,175</u>
12,472	5,342	(203,788)	53,137
<u>323,765</u>	<u>165,542</u>	<u>626,200</u>	<u>4,594,694</u>
<u>336,237</u>	<u>170,884</u>	<u>422,412</u>	<u>4,647,831</u>
-	-	-	657,999
-	-	186,118	186,118
336,237	-	102,776	439,013
-	170,884	-	170,884
-	-	-	47,533
-	-	-	618,014
-	-	182,606	415,155
-	-	(49,088)	2,113,115
<u>336,237</u>	<u>170,884</u>	<u>422,412</u>	<u>4,647,831</u>



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, 2023

**Total governmental funds cash balances (page 13)** \$ 4,647,831

***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.

986,465

**Cash basis net position of governmental activities (page 11)**

\$ 5,634,296

**Change in cash balances (page 13)**

\$ 53,137

***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.

199,825

**Change in cash basis net position of governmental activities  
(page 11)**

\$ 252,962

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, 2023

	Enterprise	Internal Service
	Sewer	Total
Operating receipts:		
Charges for service	\$ 1,232,524	365,500
Miscellaneous	80,712	-
Total operating receipts	<u>1,313,236</u>	<u>365,500</u>
Operating disbursements:		
Governmental activities:		
Public safety	-	72,080
Culture and recreation	-	93,595
Business type activities	801,616	-
Total operating disbursements	<u>801,616</u>	<u>165,675</u>
Excess of operating receipts over operating disbursements	511,620	199,825
Non-operating receipts:		
Miscellaneous	26,761	-
Excess of receipts over disbursements	538,381	199,825
Transfers out	<u>(362,175)</u>	<u>-</u>
Change in cash balances	176,206	199,825
Cash balances beginning of year	731,632	786,640
Cash balances end of year	<u>\$ 907,838</u>	<u>986,465</u>
<b>Cash Basis Fund Balances</b>		
Restricted for debt service	\$ 362,425	-
Restricted for capital projects	43,689	-
Restricted for health plan trustee	10,216	-
Unrestricted	491,508	986,465
Total cash basis fund balances	<u>\$ 907,838</u>	<u>986,465</u>

See notes to financial statements.

City of Harlan

Notes to Financial Statements

June 30, 2023

**(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 fund:

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.

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, 2021 assessed property valuations; is for the tax accrual period July 1, 2022 through June 30, 2023 and reflects tax asking contained in the budget certified to the City Council in March 2022.

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, 2023, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

**(2) Cash and Pooled Investments**

The City’s deposits in banks at June 30, 2023 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, 2023, the Harlan Community Library Foundation had the following investments:

<u>Investment</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Mutual Funds	\$ 507,995	547,913	N/A
U.S. Equities	41,744	49,699	N/A
Municipal Bonds	5,000	5,003	N/A
Total	<u>\$ 554,739</u>	<u>602,615</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, Notes and Leases Payable**

A summary of changes in bonds, notes and leases payable for the year ended June 30, 2023 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 1,255,000	-	235,000	1,020,000	245,000
General obligation capital notes	4,445,000	-	645,000	3,800,000	660,000
Lease agreement	-	7,116	2,500	4,616	2,246
Governmental activities total	<u>5,700,000</u>	<u>7,116</u>	<u>882,500</u>	<u>4,824,616</u>	<u>907,246</u>

General Obligation Bonds

A summary of the City's June 30, 2023 general obligation bonds payable is as follows:

Year Ending June 30,	Bond Refunding Series 2013 Issued May 1, 2013			
	Interest Rates	Principal	Interest	Total
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		<u>\$ 1,020,000</u>	<u>57,472</u>	<u>1,077,472</u>

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, 2023, the City paid \$235,000 of principal and \$26,563 of interest on the bonds. The outstanding principal balance on these bonds at June 30, 2023 is \$1,020,000.

General Obligation Capital Notes

A summary of the City's June 30, 2023 general obligation capital notes payable is as follows:

Year Ending June 30,	Road Construction and Repair Series 2014 Issued Oct 9, 2014			WWTP Improvement and Sewer Line Repair Series 2015 Issued Oct 14, 2015		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
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	3.15	120,000	7,800	3.00	110,000	11,350
2029-2033	3.35	120,000	4,020	3.50	230,000	12,075
2034-2035		-	-		-	-
Total		<u>\$ 565,000</u>	<u>68,685</u>		<u>\$ 755,000</u>	<u>98,362</u>

Year Ending June 30,	Bond Refunding and Repairs Series 2020 Issued Sep 15, 2020				Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total	
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	0.90	125,000	8,040	355,000	27,190	382,190	
2029-2033	0.90-1.30	395,000	26,435	745,000	42,530	787,530	
2034-2035	1.50	160,000	3,600	160,000	3,600	163,600	
Total		<u>\$ 2,480,000</u>	<u>112,635</u>	<u>\$ 3,800,000</u>	<u>279,682</u>	<u>4,079,682</u>	



On October 9, 2014, the City issued \$1,835,000 of general obligation capital notes with interest rates ranging from 1.85% to 3.35% per annum. The notes were used for road construction and repair, improvements to the City Airport and emergency services communication equipment for the Police and Fire Departments. During the year ended June 30, 2023, the City paid \$80,000 of principal and \$18,900 of interest on the notes. The outstanding principal balance on the notes at June 30, 2023 is \$565,000.

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, 2023, the City paid \$100,000 of principal and \$25,275 of interest on the notes. The outstanding principal balance on the notes at June 30, 2023 is \$755,000.

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, 2023, the City paid \$465,000 of principal and \$30,690 of interest on the notes. The outstanding principal balance on the notes at June 30, 2023 is \$2,480,000.

Lease Agreement

On March 1, 2023, the City entered into a lease agreement for waste management and disposal of wastewater sludge. An initial lease liability was recorded in the amount of \$7,500. The agreement requires annual payments of \$2,500 over 3 years, with an implicit rate of 5.5% and a final payment on March 1, 2025. During the year ended June 30, 2023, the City paid principal of \$2,500. Future principal and interest payments are as follows:

Year Ending June 30,	Hundt Sludge		
	Principal	Interest	Total
2024	\$ 2,246	254	2,500
2025	2,370	130	2,500
Total	\$ 4,616	384	5,000

**(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](http://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 2023, 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%.

The City's contributions to IPERS for the year ended June 30, 2023 totaled \$165,854.

Net Pension Liability, Pension Expense (Reduction), Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2023, the City reported a liability of \$417,792 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2022, the City's proportion of the net pension liability was 0.011058%, which was an decrease of 0.123417% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the City's pension expense (reduction), deferred outflows of resources and deferred inflows of resources totaled \$(17,731), \$942,202 and \$1,001,610, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability (asset) in the June 30, 2022 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, 2022 valuation were based on the results of a quadrennial experience study covering the period of July 1, 2017 through June 30, 2021.

Mortality rates used in the 2022 valuation were based on the PubG-2010 mortality tables with future mortality improvements modeled using Scale MP-2021.

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%	3.57%
International equity	17.5	4.79
Global smart beta equity	6.0	4.16
Core plus fixed income	20.0	1.66
Public credit	4.0	3.77
Cash	1.0	0.77
Private equity	13.0	7.57
Private real assets	8.5	3.55
Private credit	8.0	3.63
Total	<u>100.0%</u>	

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

Sensitivity of City's Proportionate Share of the Net Pension Liability (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	\$ 1,160,679	417,792	(235,771)

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](http://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, 2023, the City contributed \$377,802 and plan members eligible for benefits contributed \$47,440 to the plan. At June 30, 2023, 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, 2023, there are 19 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, 2023, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 50,000
Sick leave	98,000
Floating holiday	5,000
Compensatory time	<u>41,000</u>
Total	<u>\$ 194,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2023.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2023 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Employee Benefits	\$ 668,605
	Local Option Sales Tax	853,000
	Urban Renewal	88,708
	Capital Projects	<u>30,000</u>
		<u>1,640,313</u>
Special Revenue: JJ Jensen	Special Revenue: Urban Renewal	<u>70,807</u>
Debt Service	Enterprise:	
	Sewer	362,175
	Special Revenue: Urban Renewal	<u>119,800</u>
		<u>481,975</u>
Capital Projects	Special Revenue: Urban Renewal	<u>76,360</u>
Total		<u>\$ 2,269,455</u>

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

**(8) Lease Receivable**

On March 1, 2023, the City entered into a lease agreement for renting of the City's land for farming. The agreement requires annual payments of \$17,262 over 3 years, with an implicit rate of 5.5% and a final payment on March 1, 2025. During the year ended June 30, 2023, the City received principal of \$17,262.

<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 15,509	1,753	17,262
2025	<u>16,362</u>	<u>900</u>	<u>17,262</u>
Total	<u>\$ 31,871</u>	<u>2,653</u>	<u>34,524</u>

**(9) Risk Management**

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

**(10) Employee Health Insurance Plan**

The City 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, 2023, the City paid \$377,802 into the account. At June 30, 2023, the account balance for the City was \$57,749. The activity for this account is recorded in the City's General, the Special Revenue, Road Use Tax and the Enterprise, Sewer Funds.

**(11) 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 \$836,705 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, 2023, \$13,687 of property tax was diverted from the City under the urban revitalization projects.

**(12) 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, 2023 is as follows:

	Advancing Fund				
	Special Revenue				
			Downtown	Capital	Total Advances
	General	JJ Jensen	Upper Story Façade	Projects	to the TIF Fund
Beginning balance	\$ 148,791	70,807	45,136	173,625	438,359
New advances	38,102	-	46,594	2,478	87,174
Payments	88,708	70,807	-	76,360	235,875
Ending balance	\$ 98,185	-	91,730	99,743	289,658

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

**(13) Deficit Balance**

At June 30, 2023, the Special Revenue, Downtown Upper Story Façade Fund had a deficit balance of \$49,088. The deficit will be eliminated through transfers from other funds.



**City of Harlan**

## **Other Information**

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

Other Information

Year ended June 30, 2023

	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	\$ 3,021,052	-	-	-
Tax increment financing	326,175	-	-	-
Other city tax	700,557	-	-	-
Licenses and permits	86,619	-	-	-
Use of money and property	99,534	-	161,462	890
Intergovernmental	2,691,614	-	-	-
Charges for service	492,467	1,598,024	16,419,858	365,500
Special Assessments	265	-	-	-
Miscellaneous	174,541	107,473	4,830,216	16,940
Total receipts	<u>7,592,824</u>	<u>1,705,497</u>	<u>21,411,536</u>	<u>383,330</u>
Disbursements:				
Public safety	1,599,196	72,080	-	85,004
Public works	1,769,274	-	-	-
Culture and recreation	1,154,780	93,595	-	93,595
Community and economic development	225,655	-	-	-
General government	943,356	-	-	-
Debt service	983,528	-	-	-
Capital projects	1,226,073	-	-	-
Business type activities	-	801,616	19,908,940	-
Total disbursements	<u>7,901,862</u>	<u>967,291</u>	<u>19,908,940</u>	<u>178,599</u>
Excess (deficiency) of receipts over (under) disbursements	(309,038)	738,206	1,502,596	204,731
Other financing sources (uses), net	<u>362,175</u>	<u>(362,175)</u>	-	-
Change in balances	53,137	376,031	1,502,596	204,731
Balances beginning of year	<u>4,594,694</u>	<u>1,518,272</u>	<u>12,632,187</u>	<u>846,782</u>
Balances end of year	<u>\$ 4,647,831</u>	<u>1,894,303</u>	<u>14,134,783</u>	<u>1,051,513</u>

See accompanying independent auditor's report.

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Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
3,021,052	3,058,179	3,058,179	(37,127)
326,175	355,675	355,675	(29,500)
700,557	930,960	737,960	(37,403)
86,619	94,480	94,480	(7,861)
260,106	74,990	92,482	167,624
2,691,614	2,227,614	2,335,085	356,529
18,144,849	18,316,279	18,392,324	(247,475)
265	-	-	265
5,095,290	242,020	209,949	4,885,341
<u>30,326,527</u>	<u>25,300,197</u>	<u>25,276,134</u>	<u>5,050,393</u>
1,586,272	1,583,973	1,588,973	2,701
1,769,274	1,701,624	1,833,924	64,650
1,154,780	1,085,141	1,162,381	7,601
225,655	137,750	137,750	(87,905)
943,356	933,293	1,053,193	109,837
983,528	983,528	983,528	-
1,226,073	1,633,863	2,144,665	918,592
<u>20,710,556</u>	<u>14,300,084</u>	<u>16,393,503</u>	<u>(4,317,053)</u>
<u>28,599,494</u>	<u>22,359,256</u>	<u>25,297,917</u>	<u>(3,301,577)</u>
1,727,033	2,940,941	(21,783)	1,748,816
-	2,000	2,000	(2,000)
1,727,033	2,942,941	(19,783)	1,746,816
<u>17,898,371</u>	<u>39,152,319</u>	<u>76,254,271</u>	<u>(58,355,900)</u>
<u>19,625,404</u>	<u>42,095,260</u>	<u>76,234,488</u>	<u>(56,609,084)</u>

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**City of Harlan**

City of Harlan

Notes to Other Information – Budgetary Reporting

June 30, 2023

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 Fund. 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 \$2,938,661. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2023, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

City of Harlan

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

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

Other Information

	2023	2022	2021	2020
City's proportion of the net pension liability/asset	0.011058%	0.134475% **	0.015843%	0.015400%
City's proportionate share of the net pension liability (asset)	\$ 418	(464)	1,113	892
City's covered payroll	\$ 1,804	1,798	1,773	1,779
City's proportionate share of the net pension liability/asset as a percentage of its covered payroll	23.17%	(25.81)%	62.77%	50.14%
IPERS' net position as a percentage of the total pension liability/asset	91.40%	100.81%	82.90%	85.45%

\* 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.

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2019	2018	2017	2016	2015
0.016522%	0.017001%	0.018390%	0.016001%	0.0147603%
1,046	1,133	1,157	790	585
1,771	1,771	1,750	1,670	1,713
59.06%	63.98%	66.11%	47.31%	34.15%
83.62%	82.21%	81.82%	85.19%	87.61%



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City of Harlan

Schedule of City Contributions

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

Other Information

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Statutorily required contribution	\$ 166	170	171	170
Contributions in relation to the statutorily required contribution	<u>(166)</u>	<u>(170)</u>	<u>(171)</u>	<u>(170)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 1,765	1,804	1,798	1,773
Contributions as a percentage of covered payroll	9.41%	9.42%	9.51%	9.59%

See accompanying independent auditor's report.

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2019	2018	2017	2016	2015	2014
172	163	163	167	155	159
(172)	(163)	(163)	(167)	(155)	(159)
-	-	-	-	-	-
1,779	1,771	1,771	1,750	1,670	1,713
9.67%	9.20%	9.20%	9.54%	9.28%	9.28%

City of Harlan

Notes to Other Information – Pension Liability

Year ended June 30, 2023

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2022 valuation incorporated the following refinements after a quadrennial experience study:

- Changed mortality assumptions to the PubG-2010 mortality tables with mortality improvements modeled using Scale MP-2021.
- Adjusted retirement rates for Regular members.
- Lowered disability rates for Regular members.
- Adjusted termination rates for all membership groups.

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, 2023

	Local Option Sales Tax	Urban Renewal	Downtown Upper Story Façade	Special JJ Jensen
Receipts:				
Tax increment financing	\$ -	326,175	-	-
Local option sales tax	640,871	-	-	-
Use of money and property	-	-	-	-
Intergovernmental	-	9,631	-	-
Miscellaneous	-	-	-	-
Total receipts	640,871	335,806	-	-
Disbursements:				
Operating:				
Public safety	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	47,030	-
Total disbursements	-	-	47,030	-
Excess (deficiency) of receipts over (under) disbursements	640,871	335,806	(47,030)	-
Other financing sources (uses):				
Transfers in	-	-	-	70,807
Transfers out	(853,000)	(355,675)	-	-
Total other financing source (uses)	(853,000)	(355,675)	-	70,807
Change in cash balances	(212,129)	(19,869)	(47,030)	70,807
Cash balances beginning of year	398,247	122,645	(2,058)	-
Cash balances end of year	\$ 186,118	102,776	(49,088)	70,807
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Local option sales tax	\$ 186,118	-	-	-
Debt service	-	102,776	-	-
Other purposes	-	-	-	70,807
Unassigned	-	-	(49,088)	-
Total cash basis fund balances	\$ 186,118	102,776	(49,088)	70,807

See accompanying independent auditor's report.

Revenue			
Harlan Firefighters Association	Library Fund	Police Fund	Total
-	-	-	326,175
-	-	-	640,871
890	-	-	890
-	11,575	-	21,206
16,940	6,797	811	24,548
17,830	18,372	811	1,013,690
12,924	-	7,600	20,524
-	12,056	-	12,056
-	-	-	47,030
12,924	12,056	7,600	79,610
4,906	6,316	(6,789)	934,080
-	-	-	70,807
-	-	-	(1,208,675)
-	-	-	(1,137,868)
4,906	6,316	(6,789)	(203,788)
60,142	32,116	15,108	626,200
65,048	38,432	8,319	422,412
-	-	-	186,118
-	-	-	102,776
65,048	38,432	8,319	182,606
-	-	-	(49,088)
65,048	38,432	8,319	422,412

City of Harlan

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

For the Last Ten Years

	Cash			
	2023	2022	2021	2020
<b>Receipts:</b>				
Property tax	\$ 3,021,052	3,055,078	3,022,902	2,793,038
Tax increment financing	326,175	229,267	237,914	396,688
Local option sales tax	640,871	668,237	595,055	541,300
Other city tax	59,686	65,366	54,864	60,217
Licenses and permits	86,619	92,152	88,788	101,882
Use of money and property	99,534	83,651	72,377	69,812
Intergovernmental	2,691,614	2,264,653	1,500,328	1,362,962
Charges for service	492,467	482,166	363,488	222,033
Special assessments	265	-	-	-
Miscellaneous	174,541	416,557	272,524	480,911
Note proceeds	-	-	3,901,117	-
Sale of capital assets	-	62,550	28,606	26,000
Payment in lieu of taxes	-	-	-	-
Fines and forfeits	-	-	-	-
Contributions	-	-	-	-
Refunds/reimbursements	-	-	-	-
Interest on investments	-	-	-	-
<b>Total</b>	<b>\$ 7,592,824</b>	<b>7,419,677</b>	<b>10,137,963</b>	<b>6,054,843</b>
<b>Disbursements:</b>				
<b>Operating:</b>				
Public safety	\$ 1,599,196	1,515,475	2,303,982	1,441,494
Public works	1,769,274	1,385,774	1,587,799	1,680,593
Culture and recreation	1,154,780	1,074,237	1,114,139	1,013,165
Community and economic development	225,655	254,887	143,070	142,742
General government	943,356	844,202	829,270	788,911
Debt service	983,528	981,480	1,031,482	1,026,530
Capital projects	1,226,073	919,304	533,430	978,272
<b>Total</b>	<b>\$ 7,901,862</b>	<b>6,975,359</b>	<b>7,543,172</b>	<b>7,071,707</b>

See accompanying independent auditor's report.

Basis			Modified		
2019	2018	2017	2016	2015	2014
2,801,830	2,708,576	2,625,733	3,321,898	3,692,769	3,602,340
373,379	374,728	560,322	-	-	-
506,392	440,560	502,618	-	-	-
57,155	223,761	178,880	-	-	-
101,424	95,873	125,790	93,942	117,764	83,400
69,324	72,611	79,135	75,347	74,847	23,916
1,110,425	1,318,837	1,570,287	3,263,260	1,139,194	812,099
265,184	249,507	267,866	410,583	459,827	488,505
-	-	-	110	1,411	2,603
496,950	512,444	536,970	227,362	27,330	100,426
-	1,395,000	-	-	-	-
2,000	137,478	-	-	-	-
-	-	-	-	-	289,583
-	160	-	19,072	14,177	22,091
-	-	-	28,347	83,566	151,617
-	-	-	-	-	246,964
-	-	-	4,590	10,352	12,230
<b>5,784,063</b>	<b>7,529,535</b>	<b>6,447,601</b>	<b>7,444,511</b>	<b>5,621,237</b>	<b>5,835,774</b>
1,594,937	1,413,770	1,290,240	1,340,642	1,368,959	1,204,545
1,247,471	1,054,361	961,444	1,118,978	1,339,224	1,243,686
988,025	944,155	946,252	918,171	1,218,455	921,867
109,951	104,798	176,089	181,826	352,533	616,639
771,854	809,432	832,081	724,957	764,998	843,228
1,064,531	983,382	920,033	611,630	320,809	605,313
1,087,076	811,527	1,279,855	2,452,677	867,437	616,635
<b>6,863,845</b>	<b>6,121,425</b>	<b>6,405,994</b>	<b>7,348,881</b>	<b>6,232,415</b>	<b>6,051,913</b>



**City of Harlan**

City of Harlan  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2023

Grantor/Program	Assistance Listing Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. Department of Agriculture:			
Community Facilities Loans and Grants	10.766		\$ 413,895
Total U.S. Department of Agriculture			<u>413,895</u>
U.S. Department of Housing and Urban Development:			
Passed through Iowa Economic Development Authority:			
Community Development Block Grants/ Entitlement Grants	14.218	19-HSG-011	48,420
Total U.S. Department of Housing and Urban Development			<u>48,420</u>
U.S. Department of Transportation:			
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	3-19-0042-013-2021	32,346
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	3-19-0042-016-2022	523,090
Airport Improvement Program, COVID-19 Airports Programs, and Infrastructure Investment and Jobs Act Programs	20.106	3-19-0042-017-2023	5,000
Total U.S. Department of Transportation			<u>560,436</u>
U.S. Department of Treasury:			
COVID-19, CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027		94,613
Total U.S. Department of Treasury			<u>94,613</u>
Total			<u>\$ 1,117,364</u>

**Basis of Presentation** – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the City of Harlan under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City of Harlan, it is not intended to and does not present the financial position, changes in financial position or cash flows of the City of Harlan.

**Summary of Significant Accounting Policies** – Expenditures reported in the Schedule are reported on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Cost Rate** – The City of Harlan has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.



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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, 2023, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 22, 2024. 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, 2023, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than accounting principles generally accepted in the United States of America. 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 Part II of the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be a material weakness 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 deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item 2023-001 to be a material weakness.

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 Part II of the accompanying Schedule of Findings and Questioned Costs as items 2023-002 and 2023-003 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2023 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.

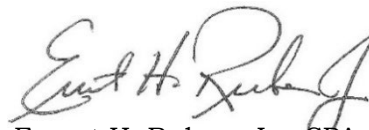
## City of Harlan's Responses to Findings

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 and Questioned Costs. 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  
Chief Deputy Auditor of State

March 22, 2024

**City of Harlan**



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Independent Auditor's Report on Compliance  
for Each Major Federal Program and on Internal Control over Compliance  
Required by the Uniform Guidance

To the Honorable Mayor and Members of the City Council:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Harlan, Iowa's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the City of Harlan's major federal program for the year ended June 30, 2023. The City of Harlan's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City of Harlan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance 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 relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Harlan's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City of Harlan's federal programs.

## Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Harlan's compliance based on our audit. 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, Government Auditing Standards and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence judgement made by a reasonable user of the report on compliance about the City of Harlan's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City of Harlan's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Harlan's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Harlan's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

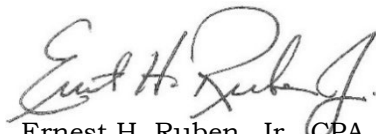
## Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

March 22, 2024



City of Harlan

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinions were issued on the government activities, the business type activities, each major fund and the aggregate remaining fund information which were 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. An adverse opinion was issued on the financial statements of the aggregate discretely presented component units due to the omission of the Harlan Municipal Utilities.
- (b) Significant deficiencies and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516.
- (g) The major program was Assistance Listing Number 20.106 Airport Improvement Program, COVID-19, Airports Program, Infrastructure Investment and Jobs Act Programs.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Harlan did not qualify as a low-risk auditee.

City of Harlan

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

2023-001 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 and Questioned Costs

Year ended June 30, 2023

2023-002 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.

City of Harlan

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

2023-003 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.

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 and Questioned Costs

Year ended June 30, 2023

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCE OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No material weaknesses in internal control over the major program were noted.

City of Harlan

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

**Part IV: Other Findings Related to Required Statutory Reporting:**

2023-A Certified Budget – Disbursements during the year ended June 30, 2023 exceeded the amounts budgeted in the community and economic development and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City 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 and amend as needed.

Conclusion – Response accepted.

2023-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.

2023-C Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2023-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
Sharon Kroger, Council Member, Husband is Part-owner of Kroger & Sons Hauling, LLC	Garbage hauling, bid	6,695

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

2023-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.

City of Harlan

Schedule of Findings and Questioned Costs

Year ended June 30, 2023

- 2023-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.
- 2023-G City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- 2023-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.
- 2023-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, 2022.
- 2023-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.
- 2023-K Financial Condition – The Special Revenue, Downtown Upper Story Façade Fund had a deficit of \$49,088 at June 30, 2023.

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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Tristan J. Swiggum, Senior Auditor  
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Jared M. Ernst, CPA, Staff Auditor  
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